

ESID Working Paper No. 36

Ideas, interests and the politics of development change in India: capitalism, inclusion and the state

Pratap Bhanu Mehta* and Michael Walton**

July, 2014

* Centre for Policy Research, New Delhi.

** Kennedy School of Government, Harvard University and the Centre for
Policy Research, New Delhi.
Corresponding author

Email correspondence: Michael.Walton@hks.harvard.edu

ISBN: 978-1-908749-36-9

email: esid@manchester.ac.uk

Effective States and Inclusive Development Research Centre (ESID)

School of Environment and Development, The University of Manchester, Oxford Road, Manchester M13
9PL, UK

www.effective-states.org

Abstract

This paper offers an interpretation of India's recent political economy in relation to the longer-term history since independence. It argues that an understanding of both ideas and interests is required for this interpretation. While politics and policy are often portrayed in terms of a tussle between market-based reform and populist social provisioning, the interpretation here sees more continuity, and the coexistence of such seemingly competing narratives, that reflect the "cognitive maps" of the major actors. The performance of the state, and ideas around the state, remain central to India's politics. While the theme of a "corrupt state" is a longstanding one, India's future development will depend crucially on improving state functioning, through both the deepening of democracy and administrative reform. The cognitive maps of political, bureaucratic and business elites will continue to play an important role in policy and institutional designs, and in particular over whether there will be the kinds of transformational changes that are being demanded by an increasingly aspirational electorate.

Keywords:

India, politics, ideas, cognitive map, interests, markets, state

Acknowledgements

Thanks to Aditi Gandhi and Pranav Sidhwani for excellent research assistance, and to comments from, and discussions with, Yamini Aiyar, Patrick Heller, Niraja Jayal, Ashoka Mody, Kunal Sen, two anonymous referees and participants in a seminar at Brown University. This paper was prepared as part of the project on Effective States for Inclusive Development, financed by the UK's Department for International Development.

Pratap Bhanu Mehta and Michael Walton (2014), Ideas, interests and the politics of development change in India: capitalism, inclusion and the state. ESID Working Paper No. 36. Manchester, UK: University of Manchester. Available at www.effective-states.org

This document is an output from a project funded by the UK Aid from the UK Department for International Development (DFID) for the benefit of developing countries. However, the views expressed and information contained in it are not necessarily those of, or endorsed by, DFID, which can accept no responsibility for such views or information or for any reliance placed on them.

Introduction: change and continuity

India's democracy often seems caught between widespread demands for change and resilience to rapid change, for good or ill. Yet some elections seem to mark major transitions. Many observers saw the national elections in 2014 as such a case, potentially ushering in a "new era" of electoral politics (Vaishnav and Smogard, 2014). The Congress party suffered a crushing defeat. The Bharatiya Janata Party (BJP) obtained a large simple majority of seats for the first time ever (albeit from a vote share of 31 percent). Many voters said they chose the BJP only because of its leader, Narendra Modi, with his mantra of strong leadership for development, backed by a personal, presidential-style campaign. Issues of development and governance were the most important expressed concerns, as opposed to identity politics. Some argued that the socio-economic changes of recent years had made old-style promises ineffective for an increasingly aspirational electorate. This seemed to be changing India's "master narratives", as one of us has suggested (Mehta, 2014).

Two months after the drama of the election, a distinctly old-style budget was introduced by Finance Minister Arun Jaitley. While many – especially market reform types – anticipated a major statement of intent, the budget was typified by a long list of projects and even a few protectionist supports for specific industries. It contrasted sharply with then Finance Minister Manmohan Singh's budget of 1991.

It will be some time before we understand the consequences of the 2014 election, and whether it was a marker of deep change or of continuity. This paper seeks to put electoral markers of change into a broader perspective, with a central frame around the interaction between ideas and interests. Rather than seeing the 2014 election as representing an abrupt transition, we see it as a crystallisation of longer-brewing features of India's political economy and society, and in particular, as one manifestation of conflicting narratives that remain unresolved in Indian politics and society. We especially focus on different views on the role of the state as the key prism for political behaviour, for societal activism and for policy designs. We suggest that what has been unfolding represents a particular moment around three narratives, or what we call cognitive maps, concerning the state – narratives that both shape and reflect interests. Here are positive versions of these narratives:

- a) The state as provider from above, of services to both citizens and businesses, especially from the national level down to lower levels of government, with one strand in its role as supporter or protector of historically disadvantaged groups.
- b) The state as (potentially) a modern, citizen-oriented, social welfare state in an emerging market, based around the rights of citizens over state action.
- c) The state as the handmaiden for the unleashing of capitalism as the route to both the economic benefits of growth and the nationalist project of a great nation.

These have coexisted, in varying forms, over the past quarter of a century, with longer histories in varying forms since independence. Different political and bureaucratic elites – and different parts of the state in any moment – have embraced one or more of these, with varying degrees of vigour.

Now, what is interesting is that each of these narratives has what could be called a dark side, reflected in counter-narratives of failings. Consider the following mapping from the above three categories:

- a) The state not as service provider, but as a mechanism for allocating, by legal or illegal means, preferred privileges to individuals and groups, or conversely to extract favours through financial or symbolic rewards, for both those inside the state, and citizens petitioning from outside.
- b) The rights-based project as a distortion of government priorities and bureaucratic behaviour, owing to its legalistic designs, inconsistencies with real state behaviour, and capture by populist strategies in a new guise.
- c) State-mediated Indian capitalism as a site of collusive, rent-extracting deals between business and politicians, often abetted by bureaucrats, and of state-supported predation on the environment and social groups.

Especially in the past 25 years, these competing narratives and counter-narratives have typically been present and fought over at the same time, articulated by different groups in and outside the state itself – or, indeed, by the same individual and group! Elections, and other political and social moments, reflect particular configurations of the mobilisation of citizens, ideas and political party action. A classic division is between the social welfare and rights-based view, and the pro-market view – that is between the “good” versions of (b) and (c) above.¹ On this interpretation, the 1991 budget saw the turn to markets, and the 2004 to 2014 period of the two Congress-led UPA governments marked the rise of the welfare state.

We take a somewhat different view here. It is certainly the case that the tussle between market-based capitalism and social provisioning has been present for many decades—even under the License Raj Indian businesses played a central role. Indeed this interpreted as a manifestation of Polanyi’s “double movement” between markets and social regulation, albeit occurring simultaneously rather than sequentially. However, both have been present throughout the period, and this reflects the joint influence of ideas and the heterogeneous collection of interests that all Indian governments depend upon for electoral support.² And equally important is the set of both narratives and associated interests present in the second “dark” interpretations of state behaviour. Thus the 2014 election was clearly an expression

¹ In the domain of economic, this was the ascribed contrast between the views expressed in Drèze and Sen (2013) and Bhagwati and Panagariya (2013), though this undoubtedly oversimplifies the contrast.

² An early formulation of this is in KN Raj’s (1973) interpretation of India’s political economy as an “intermediate regime”.

of the counter-narrative of the corrupt state. The second UPA government (the Congress-led coalition of 2009-2014) helped fuel this with their action in office, and the associated revelations through the formal accountability mechanisms of the Indian state. To some degree, the ground for the 2014 election had been prepared by the insurgent Aam Aadmi Party, which formally “politicised” (in party political terms) the anti-corruption social movement of 2011-12. But this was a crystallisation of the longer-term (counter-) narrative of the corrupt state.

Some see the 2014 election as demonstrating societal support for a shift back to a more systematically pro-market stance, but that is not at all clear, as we discuss later.

What is striking is that neither the narrative of the state as provider, nor the rights-based project, helped Congress’ election performance in the 2013 state-level or 2014 national elections. These themes were apparently rendered impotent by the dominant theme of the corrupt state, in addition to issues around the perceived leadership qualities of Modi and the rising effectiveness of more “aspirational” election narratives. The jury is out on whether this was in any way a rejection of the rights-based programmes (that, after all, the BJP systematically voted for) or indeed a vote for a more untrammelled capitalism, as opposed to a more diffuse demand for more growth and less inflation. We suggest that these often conflicting narratives around the state and associated development trajectories remain very much within the cognitive maps of elites and citizens, and that cognitive dissonance will continue to be an important factor.

This paper develops an interpretation of India’s past development trajectory and the present conjuncture that links underlying political economy drivers with policy choices. This is framed around the idea of an evolving political settlement that is constituted both by cognitive maps, especially of state elites, and perceived interests. It thus seeks to combine two interpretative approaches: around interactions between different interest- or identity-based groups; and over the role of ideas in development. The eventual concern is to understand the strategic dilemmas around the present political and economic conjuncture, and to begin to draw lessons for policy and institutional designs. To understand this, we place current concerns in a historical perspective.

To do this, we do the following. First, in the next section, we sketch a conceptual framing, in which we seek to bring narratives, ideas, and what we call “cognitive maps” into the centre of the interpretation, seeing these as shaping as well as reflecting how interests are constructed and perceived. We briefly review themes that emerged in the post-independence decades that remain salient today. Then we offer an interpretation of the transition from the mid-1980s to the present, that is often associated with the theme of “economic liberalisation” as well as the countervailing emergence of the rights-based welfare project. The final section characterises a set of issues for the future that flow from this interpretation, focusing on the nature of the state, capitalist designs and social provisioning.

A central substantive thesis is that a failure to integrate the distinct perspectives, and especially develop a coherent narrative and substantive policy agenda to manage the “dark” side of state behaviour, will lead to stalled development and future conflict. This goes way beyond either the issue of enforcing better governance from the top-down (and the centre-out), or that of reducing red tape to unleash the power of markets and business. It will require genuine deepening of democracy, including both administrative reform and strengthening of state-societal relations, to make the state actors more responsive and accountable to both the direct claims of citizens and the demands from elected governments.

Framework – the political settlement and cognitive maps in an Indian context

Our approach to the interpretation of India’s development trajectory draws on three features of conceptual work in this area: the idea that a sustainable political settlement is based around credible deals between political elites and major societal actors; the characterisation of a political settlement in relation to whether it is based on impersonal or personalised processes and on dominant party or competitive politics; and explicit treatment of the role of cognitive maps, and associated narratives, in shaping interests and options for development strategy.

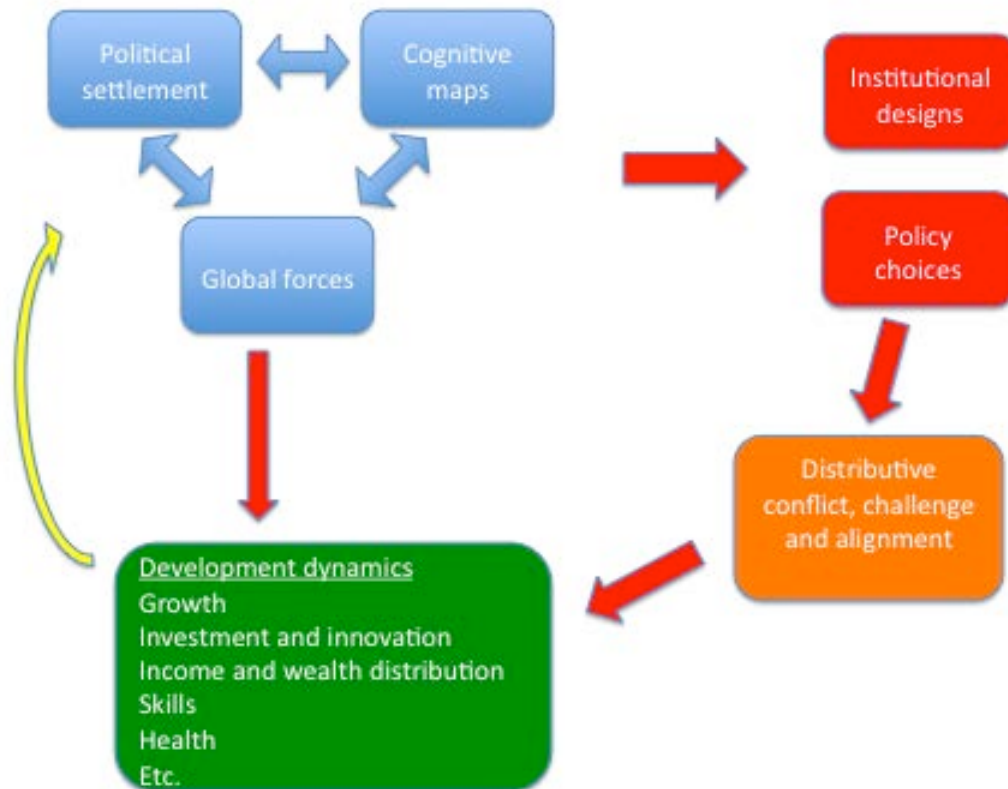
The first two are common features of past work on the political economy of development. The third also builds on traditions of work on the role of ideas in development, but has been less frequently incorporated explicitly in political economy approaches (though see Rodrik, 2014, for a recent discussion). As indicated in the introduction on our assessment of the role of narratives around the state, we see this as integral to both political processes and to developmental choices. Cognitive maps exert influence, both in providing maps of alternative strategies for political and bureaucratic elites, and also in the deeper sense of the structuring of interests and providing the normative underpinning for different behaviours, whether of state actors or other social groups.

The state is a central protagonist throughout this interpretation. This occurs through the role of political and bureaucratic elites in policy design and through the actual behaviour of state actors, in the bureaucracy, legislatures and judicial and other accountability structures, as both interest groups and “implementers” of policy. The state is a core domain in which interactions occur, whether in the form of deals between politicians, bureaucrats and business, the exercise of patronage, the management or exercise of violence, or the “delivery” of basic services. The theme of a “corrupt state”, high on the public agenda in recent years, including for the 2014 election, is one that emerged some decades ago, and has shaped the behaviour of state actors, the electorate and civil society for some time.

Let us frame the issues in terms of various layers of relationships; these are summarised in Figure 1. It is a schematic account, as opposed to a structured model; an indicative map of the various elements of an account. Actual structure – from

different disciplines – comes in the various parts of the map. What follows now is an initial discussion of issues.

Figure 1. The political settlement and development dynamics



Source: Authors.

Political settlements, cognitive maps and global interactions

The *political settlement* characterises the political arrangements between the various socio-economic groups in a society – between political and business elites, and between elites and middle and lower social groups – when these are stable, in the sense of resilient to systemic threats. As Khan (2011) emphasises, resilience in particular means a situation in which the distribution of benefits from the institutional arrangements is consistent with the underlying distribution of power. (This is also broadly consistent with the historical and game theoretic-inspired approaches of, for example, Bates et al. (1998), and North et al. (2009). The distribution of power, in the sense of the capacity to challenge arrangements, will be a function of the distribution of wealth, of the capacity for collective action, and of patterns of aspirations. There can be plenty of conflict, distributive and otherwise, within the arrangements, but if there is not a systemic threat then we can say that there is a functioning political settlement.

In this sense, India has had a political settlement since independence, albeit one that has been thick with specific conflicts. It is also one that has notably evolved over

time, as the generation of wealth, education and aspirations, has co-evolved with institutional structures.

It is generally useful to characterise the political settlement in terms of group-based interactions, especially between political and business elites, other state actors, notably in the bureaucracy, and various middle and poorer social groups. A classic account is that of Bardhan (1984), who characterised India's political settlement around the early 1980s (albeit with differing language) as essentially a functioning deal between business interests, middle farmers and the state bureaucracy.

In addition to these class interests, there are also fissures on identity-based lines that have done important work in shaping the evolving settlement in India, notably on lines of caste, the religious Hindu-Muslim divide, and regional-linguistic (Tamilian, Marathi, Kannada, etc.). These cross-cutting groupings matter, both because of differing interests and aspirations, and because they are often the means of resolving collective action issues, or of mobilising (or manipulating) support by political elites. Elections are also a formal mechanism for solving collective action challenges, albeit a highly imperfect one, and one that is often interlaced with other group-based identities and mobilisations (including of the business sector through legal and illegal election finance).

A central prism on underlying mechanisms that we use is one of "rent-sharing". By this we mean institutionalised mechanisms that create, appropriate and share "rents". This is based on the economic concept of a rent, that is, a return to a factor of production (a worker, the capital owned by a firm) in excess of what would be earned in a purely competitive alternative use. A classic source is the "excess" returns that flow from a protected or monopolistic position, created through economic power, bureaucratic regulation, or political discretion. However, there are also rents that are integral to the process of economic restructuring, through the discovery of new activities, in the Schumpeterian creative-destructive process, and learning about production techniques, economic organisation and markets (see Khan, 2000, Walton, 2011). In addition to economic rents, there can be the symbolic rents of preferred social position for a group, or the political rents of entrenched power, where these are sustained by the institutional arrangements of a society.

Rents matter to the stability of institutional arrangements where they provide incentives for institutional persistence, including through third-party enforcement: those who benefit have an interest in the continuance of arrangements, and third party beneficiaries have an incentive to punish opportunistic behaviour (Haber et al. 2003). This is fundamental to the credibility of institutional arrangements. This can be considered in the specific sense that there is effective punishment to deter the kinds of opportunistic behaviour that would threaten the arrangements. Such opportunistic behaviour could include: expropriation by political elites – that would deter investment; levels of predation by elites (including the state) that become intolerable to middle and lower groups; or expropriation by subordinate groups, whether directly, or via governmental populist strategies. India has in most periods done well on the

overall credibility of the business environment; it has typically done poorly on the credibility of the state to deliver services, limit corruption, etc., with some important exceptions across both organisations and states (the Election Commission, the railways are not bad, service delivery in Tamil Nadu and Kerala is generally effective, and perhaps increasingly effective public administration in Gujarat).

Categorising political settlements

It can be useful to categorise political settlements and to place India within commonly used categories. We can organise existing thinking on this in terms of two dimensions – the extent of political dominance, and the degree to which a polity is based on personalised relations (Levy and Fukuyama, 2010; Levy, 2014).

The first dimension concerns the extent to which a polity is typified by a dominant political grouping or is politically competitive. This is related to the classic dichotomy between authoritarian and democratic regimes. However, it is broader than this, recognising both that there are many gradations along this axis (as recognised, for example, in the Polity IV categorisation scheme³), and also that formal democracies can have extended periods with one dominant party – South Africa under the African National Congress is a notably contemporary example. This also relates to Acemoglu and Robinson's (2012) argument that the primary driver of how economic institutions are structured is whether political institutions are "inclusive" as opposed to "extractive", and consequentially, how far an economy follows a dynamic path of creative-destruction and long-term growth, as opposed to an ultimately self-limiting "extractive" growth path. And it can be reflected in the extent to which political and bureaucratic relations are essentially hierarchical, or are negotiated amongst competing groups.⁴

India clearly falls into the politically competitive group. In party political terms it had a period of hegemony of the Congress party from independence to the mid-1960s (in almost all the states) and mid-1970s (at the national level), and has been vigorously competitive since, both at the national level and in almost all the states (West Bengal under the Communist Party of India was an exception – the CPI(M), ruled for 34 years until it lost the 2011 election). And while hierarchy is undoubtedly a pervasive feature of Indian society, reflected in the internal structures of most political parties and bureaucracies, in most domains there are multiple interest groups in play, and negotiation amongst various stakeholders is typical. How far these political and state structures have led to institutionalised "inclusive" and dynamic economic institutions is a central question that we discuss later in this paper.

The second dimension concerns the degree to which arrangements are based on personalised relations, as opposed to formal rules – on "deals" versus "rules" (Hallward-Driemeier, Khun-Jush, Pritchett, 2010). This is also a classic focus of

³ Polity IV provides the results of an assessment by political scientists of regime characteristics and changes. See Polity IV Project (2014).

⁴ See also Levy and Walton (2013), for discussion of what this can imply for the ways in which state organisations function.

attention. It is reflected in the question of how far bureaucracies are “Weberian”, in the sense of being based around the following of rules, and ultimately governed by the goals set by the polity. It is also central to the interpretations in North et al. (2009) and Levy and Fukuyama (2010) on the evolution of the societies in the development process.

Along this dimension India is clearly a hybrid. In the central area of accountability, elections, the judiciary (including in particular the Supreme Court), the office of the Comptroller and Auditor General (CAG) are effective, in large part because of formal structures and powers. The Supreme Court and CAG indeed often use their formal powers to go beyond their mandate, but that’s a different issue from informality. Indian bureaucracies often embody both legalistic processes and varieties of informal mechanisms, from informal payments for preferred positions, to petty bribes that are a pervasive feature of everyday relations with citizens.

In this context, Khan (2011) suggests an overall contrast between “capitalist political settlements”, in which formal institutional arrangements, consistent with the centrality of the capitalist production and profits, provide the accepted bounds on behaviour, and “clientelistic political settlements”, in which the settlement is based on informal interactions and institutions. This may be useful heuristically, and there is an important insight that informality is functional to sustaining unequal distributions that are inconsistent with formal structures. However, for our analysis, we do not find this a useful distinction. India is clearly a mixed economy with a central role for capitalism. It has a range of functional capitalist institutions, notably the Securities and Exchange Board of India (SEBI). But there are also a wide range of informal, rent-sharing arrangements, especially between politicians and businesses.

By *cognitive maps*, we mean both the underlying interpretation of how the world works, and the more specific question of the range of possibilities for action that an individual or group recognises. This is germane for political and bureaucratic elites, as well as for the other groups that matter for the political settlement and development change: business groups, the various societal groups, the middle and front-line bureaucracy, judges and so on.

The first part of this idea – the underlying interpretation of how the world works – has deeper consequences, since this can be constitutive of how interests are structured, their perceived scope for action and the recognised legitimacy of behaviours and positions. We can illustrate with a couple of examples.

Take the question of identity. The dominant cognitive map – of elites and others – in independent India is that social identity is a major, and normatively unjustifiable, domain of discrimination and relative disadvantage. This is, of course, empirically well supported. But what is of interest here is how this has led to both the use of social categories as an axis of government intervention, that has continued to do work in the construction and reification of social categories, political strategies, and

the ways in which groups organise to gain advantage from the state (the “demand for disadvantage” in Rohini Somanathan’s (2007) phrase).

Or consider again the central question of the functioning of the bureaucracy. A common elite perspective on the middle and front-line bureaucrats is lack of trust: the dominant cognitive map is that India’s government workers are corrupt, unresponsive and caught up in distortionary local political and social networks. Teachers and nurses do not turn up to work, police officers insist on bribes, office bureaucrats push paper with no regard to real effects. This can lead to a self-enforcing arrangement in which front-line bureaucrats remain disempowered, and it becomes normative for them to follow these behaviours. The fact that there are exceptions – as explored in Akshay Mangla’s work on the very different professional norms in the Himachal Pradesh’ education bureaucracy – only illustrates how things could be different (see Mangla, 2014).

A parallel account could be developed on the extent to which the dominant cognitive map on state-business interactions (over contracts, regulations, etc.) is around rent-sharing deals: this then can led to businesses to organise in this way – as opposed to organising around lobby-based business associations – and for this behaviour to become normative.

Cognitive maps in this sense can structure interests, in the sense of how individuals or groups see themselves, who they identify with, and the courses of action considered “legitimate” within the recognised societal norms.

The second sense in which we use the term cognitive maps – that of the array of options for action, and expected responses of economic actors – is also relevant (this is the sense emphasised in Rodrik, 2014). For example, high modernist state-led industrialisation and city development was a salient part of the cognitive map of post-independence political and intellectual elites around Nehru. They did not need to choose it, but it was one of the options available for a coherent narrative of developmental transformation, aligned with the ideology and professed interests of the political leadership group. As we discuss below, a change in the cognitive map over how businesses would respond to internal and external market opening was important to the liberalising policies of the 1980s and 1990s.

Cognitive maps apply at many levels. There can be counter-narratives that question central narratives of elites. And there is a link here to the idea of aspiration maps, which people from different parts of society may have – including Appadurai’s culturally shaped “capacity to aspire” (Appadurai, 2004). These provide alternative, imaginable paths for social and economic navigation – whether of a country, business, social group, community or individual. They thus shape choices over whether to engage in major, and costly, projects of personal or social change, whether these are in the form of private investing (in schooling or machines), social mobilisation or the policy choices of political and bureaucratic elites.

Finally, note that dissonant cognitive maps can be held over the same domain. This is the implication of the theme of alternative narratives of the state outlined in the introduction. And this has implications for specific areas of policy. Public private partnerships (PPPS), that have become very popular in infrastructure, may be viewed as an effective technical solution to risk-sharing, finance and mobilisation of business capabilities, or as a new means for rent-extraction and sharing between political and economic elites – or both. The array of government social schemes, such as the MGNREGA, the RSBY, etc., can be viewed as the emergence of a modern welfare state or the democratisation of collusive corruption via the creation of new rent networks – or both.

Global interactions

Global interactions influence resolutions through a number of channels. Here are three that map to the above structuring.

Global forces can shape the political settlement itself, through providing support for particular groups (capital inflows to private groups, or military support for local allies), or, conversely, through specific punishments where interests are not aligned, and, perhaps more benignly, through providing mechanisms for solving credibility problems over punishing opportunistic behaviour (WTO sanctions over trade, EU rules, or the “informal” mechanism of capital flight when macro-financial conditions go sour).

Global conditions provide varying degrees of economic opportunity via trade in goods, import of technology (for India the green revolution in the 1960s or the reverse flow of IT connectivity in the 1990s and 2000s) and migration opportunities – that can be crucial to economic dynamics and thus the consistency of the political economy over time.

There are finally global sources of cognitive maps – as in the influence of the Soviet economic model (if not the political model) on India in the post-independence period, the spread of “neo-liberal” ideas in the 1980s, or the more specific sharing of ideas within “epistemic communities” (including over global development fads – micro-credit, conditional cash transfers, privatisation of infrastructure with regulation; see Murillo (2002), on the sharing of views on privatisation amongst Latin America leaders of highly varied political persuasion in the 1980s and 1990s).

Design of institutions and choice of policies

The underlying political settlement leads to, and co-evolves with, design “choices” over institutions and policies. Choice is in inverted commas, because action is partly, but not fully, endogenous.

Formal and informal institutions are both domains of design choice and part of the historical legacy. They shape the opportunities, punishment mechanisms and cognitive maps of the various political groups. At a point of time the institutional

heritage influences the set of options considered by policymakers, and the choices they actually make. But it still makes sense to assess how institutional designs are made, whether incrementally or in critical junctures, and then to explore how they influence subsequent paths. A central example for India is the Constitution, in its original formation and subsequent debates and changes – for example over the right to property, the interpretation of the Right to Life, or political decentralisation embodied in the 73rd and 74th amendment.

“Policy choices” typically have a greater degree of discretion and changeability, even though they are both shaped by cognitive maps and influenced by interest group considerations. The opening up to green revolution technologies, the sequence of liberalisations of licensing and opening to trade and foreign investment since the 1980s, the series of measures designed to improve social insurance – MGNREGA, health insurance; all these are examples of policy choices that did have substantial effects.

Intended and unintended consequences for economic and social dynamics

Institutional and policy choices interact with the underlying political settlement, and sets of capabilities – industrial, state-bureaucratic, worker and farming skills, social mobilisation – to create change, in social and economic dynamics. There is a bridge here from the overall political economy to the “politics of what works” on the ground. The politics of what works can only be understood in terms of the overall political and institutional context.

This brings us to the more conventional world of interpreting development change: how proximate policies, “state implementation capacity”, household and firm objectives and constraints, business traditions and capabilities, civil society practices and so on, lead to patterns of investment, innovation, schooling, provision of water supply, agricultural services, road constructions and all the other elements of development change. These in turn determine the level and distribution of human opportunities (or “capabilities” in Amartya Sen’s terminology) over time.

So this is the bridge both to: (i) traditional normative assessments, in relation to average income growth, poverty, inequality, health status, the capacity to engage in public life or “go about without shame”; and (ii) positive economic interpretations of change, from growth theory to the behavioural bases of schooling outcomes, of households, teachers, etc.

Development dynamics feed back into the underlying drivers of the interests and cognitive maps that constitute the political settlement. For example, in political economy accounts of trade liberalisation, advocates typically hope that new exporting groups will become valuable lobbyists for change. In India’s political economic history, the emergence of the largely Other Backward Caste (OBC) farming class became a central political factor. The rising wealth and organisational capacity of the business sector of the past 20 years led to a re-shaping of the underlying distribution

of economic and political influence, with potential consequences for the evolution of the settlement. An example where there was some specific intention is National Rural Employment Guarantee Act: if it really worked as its creators hoped, it would both lead to political support for consolidating this form of social provisioning and shift local power relations; but this is often subverted by other established institutional arrangements and groups (Aiyar and Walton, 2014). Social patronage policies embedded in subsidies create new interest groups for their continuance—whether in reservations or the fertiliser-food subsidies.

India's development patterns

This section provides a largely graphical summary of development patterns for India: these are the developmental highlights of what the political economy interpretation has to explain. We look at overall economic indicators, at measures of human development, and we comment on inequality.

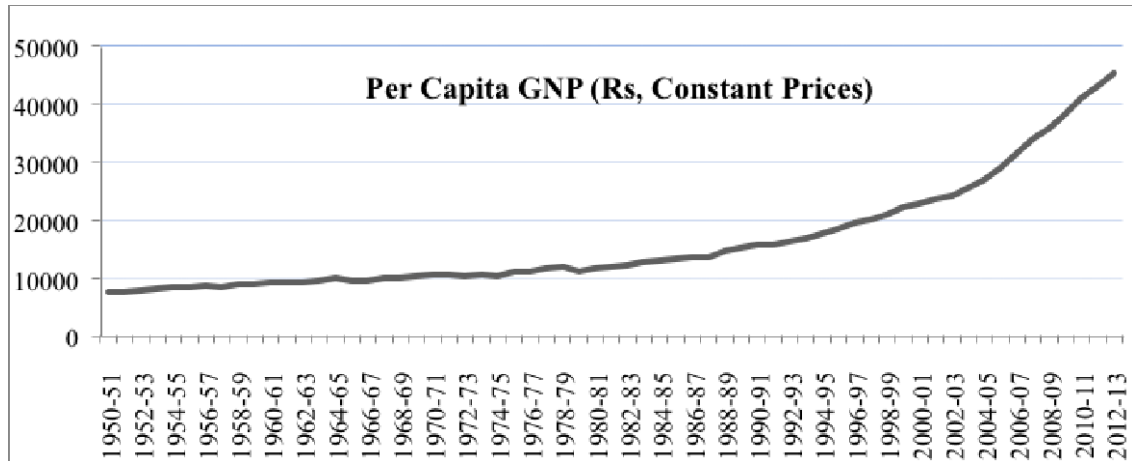
Aggregate economic patterns

India has experienced steady advances in income per person in the 60 years since independence. There have been sharp annual changes, largely driven by the monsoon, but there has been no five-year period (nor a three-year period) of negative growth – Figures 1 and 2. This alone is significant: India has avoided the sharp volatility and real declines that were features of many African, Latin American and some East Asian countries (including China and Indonesia), in this period. This is in spite of a birth as an independent nation that was characterised by intense conflict around the Partition, an often unruly democracy, and a brief period of authoritarian rule under the Emergency period declared by Prime Minister Indira Gandhi in the 1970s.

As discussed in the literature analysing India's growth, there appear to have been two growth accelerations: one around the mid-1980s; and a second one starting in the early 2000s, that took India to rates of growth in the range of 7 to 9 percent per annum. This was followed by a marked deceleration to around 5 percent in 2012/13.

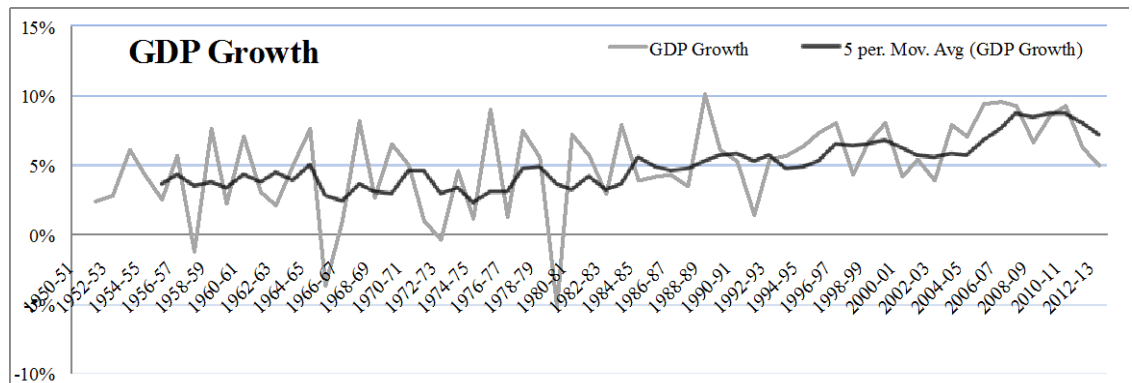
This aggregate growth was associated with an impressive rise in the overall ratio of investment to GDP (Figure 4). As we see below, a particularly fast-growing component has been investment by the corporate sector, until the recent slowdown. This is an indicator that there was sufficient credibility in the overall settlement – especially between political and business elites – to underpin private investment.

Figure 2. India's per capita national income, 1951-52 to 2012-13



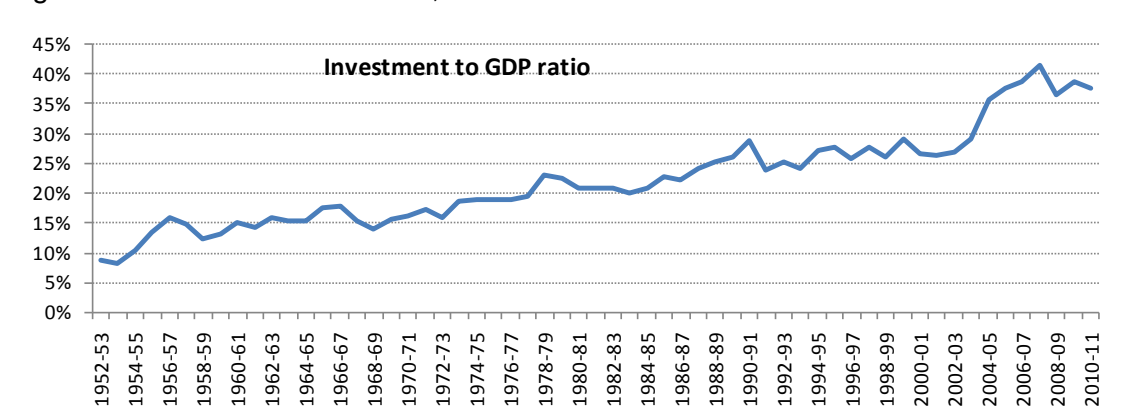
Source: Central Statistical Organisation.

Figure 3. India's annual and average growth rate, 1951-52 to 2012-13



Source: Central Statistical Organisation.

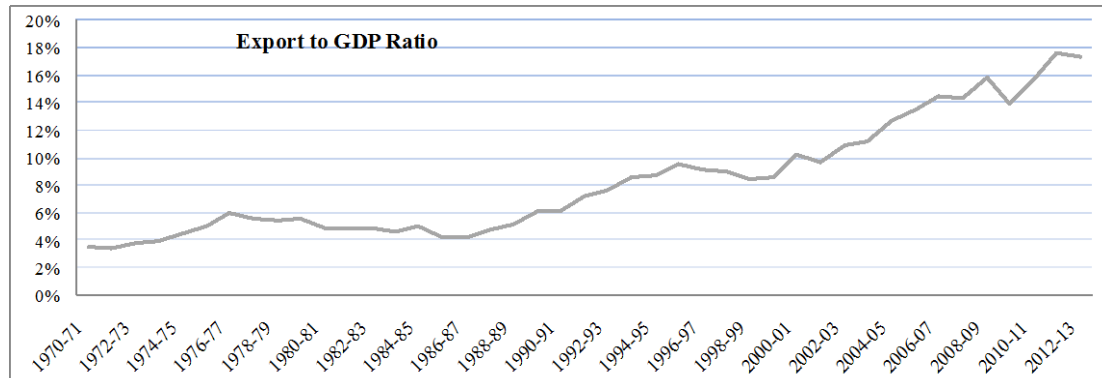
Figure 4. India's investment ratio, 1952-53 to 2010-11



Source: Central Statistical Organisation.

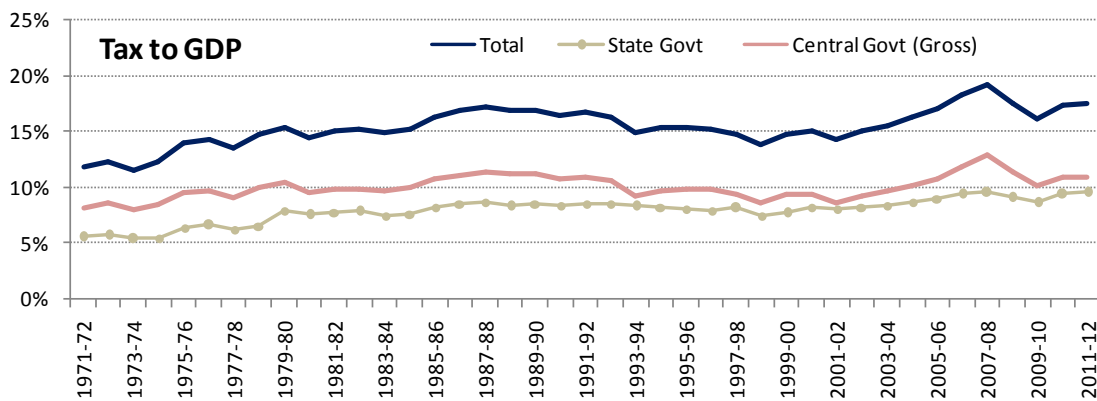
Even more dramatic has been the rise in India's export share, albeit from a strikingly low level in the 1970s. Here again, there appear to be two episodes of substantial increase, one starting in the late 1980s (prior to the 1991 liberalisation) and a further increase starting in the early 2000s.

Figure 5. India's ratio of exports to GDP, 1970-71 to 2012-13



Source: Central Statistical Organisation.

Figure 6. India's tax effort



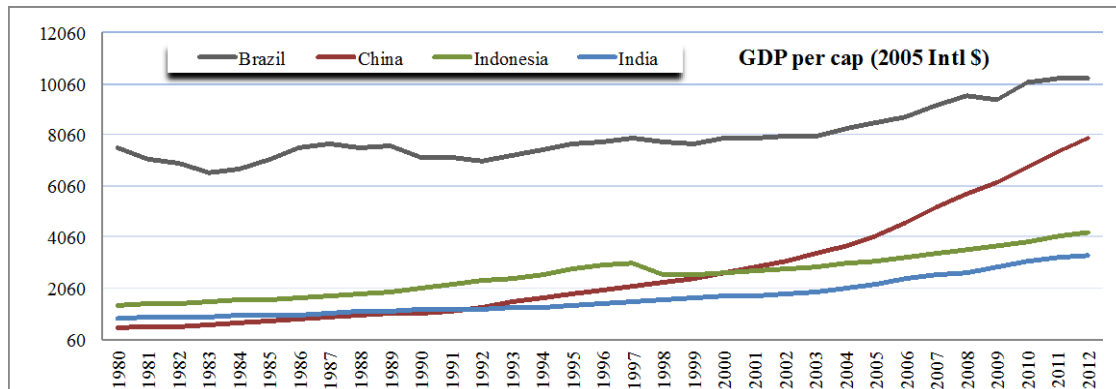
Source: Central Statistical Organisation.

Our final highlight from the macroeconomy is a steady, if less spectacular, growth in the tax ratio, that rose from the low teens in the early 1970s to almost 20 percent of GDP in the late 2000s (Figure 6). Since GDP was growing very rapidly in the 2000s, this was associated with a large real increase in resources available to the government. This suggests a combination of an adequate “tax contract” between the state and society, and reasonable administrative tax capacity.

Let us put this into international context. For this we focus on other large countries, Brazil, China and Indonesia, and look at just two indicators – overall GDP per person and the investment ratio (Figures 7 and 8). In 1980 Brazil had already gone through its “miracle” growth phase, and got stuck in a mix of economic crisis and slow growth – an important sign of the difficulties that many middle-income countries run into, sometimes known as “middle income trap”. In comparison with the other initially low-income countries of China and Indonesia, India did relatively poorly, until its growth acceleration of the 2000s. Indonesia faltered around the 1997 East Asian crisis, and the subsequent democratic transition. China has continued to surge ahead, and is at about twice India’s per capita income level. A sharper contrast is seen in investment ratios: Indonesia was at Chinese levels till the crisis, and then dropped; India has

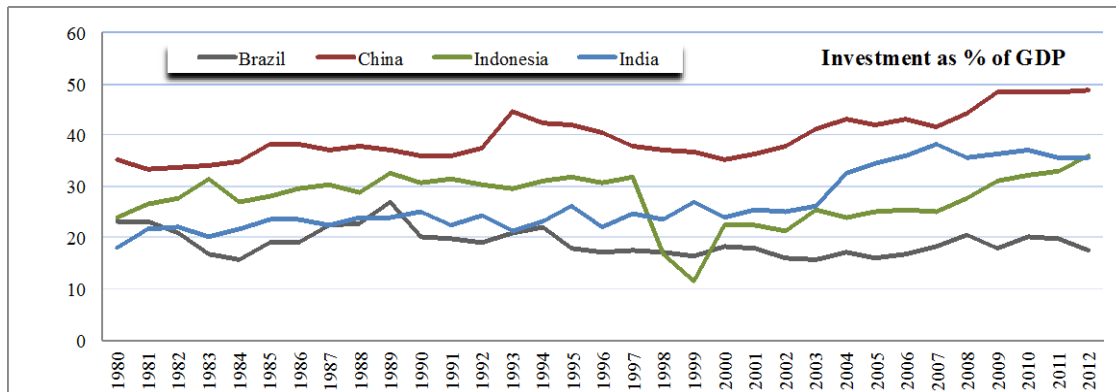
now overtaken Indonesia and has a near “East Asian miracle” investment ratio (if still less than China); Brazil has languished at a much lower rate of investment.

Figure 7. India's per capita GDP in international perspective, 1981-2012



Source: World Bank, *World Development Indicators* (2013).

Figure 8. India's investment ratio in international perspective, 1980-2012

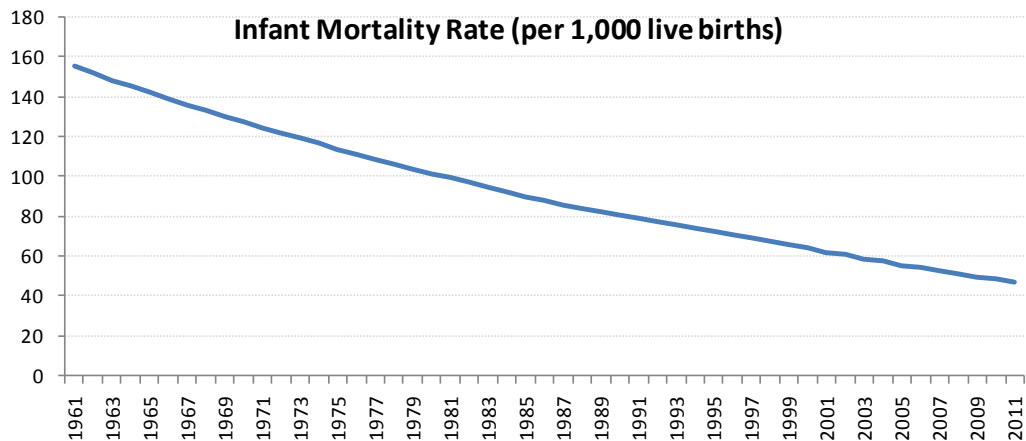


Source: World Bank, *World Development Indicators* (2013)

Human development

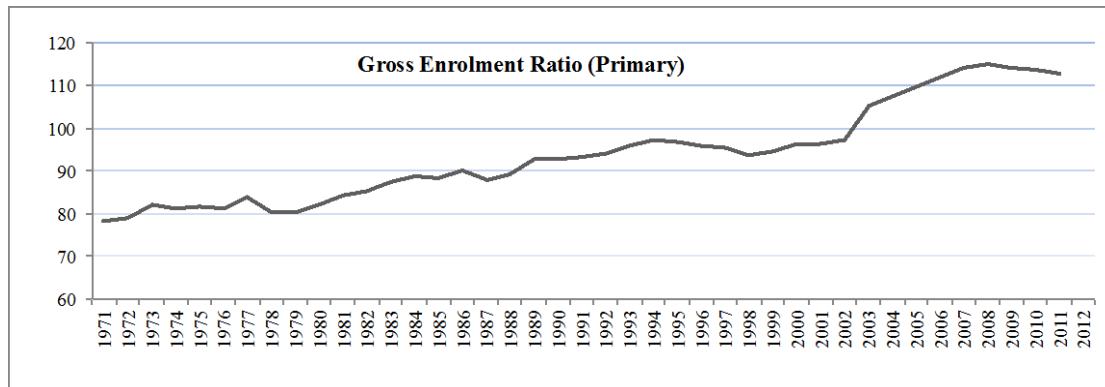
We use just two areas of measurement for the complex realm of human development: the infant mortality rate as an indicator of health status; and primary and secondary enrolment rates for schooling. In both areas there has been steady progress. Infant mortality has fallen from a strikingly high rate of 160 deaths per 1,000 live births in 1960 to less than 50 by 2011 (Figure 9). Gross primary enrolment also improved steadily, with a big jump in the early 2000s: a rate of over 100 percent is possible, because this includes over and under-age children, as often occurs when there is a substantial push on basic schooling (Figure 10). Secondary enrolment also experienced steady growth (Figure 11).

Figure 9. India's infant mortality rate, 1960-2011



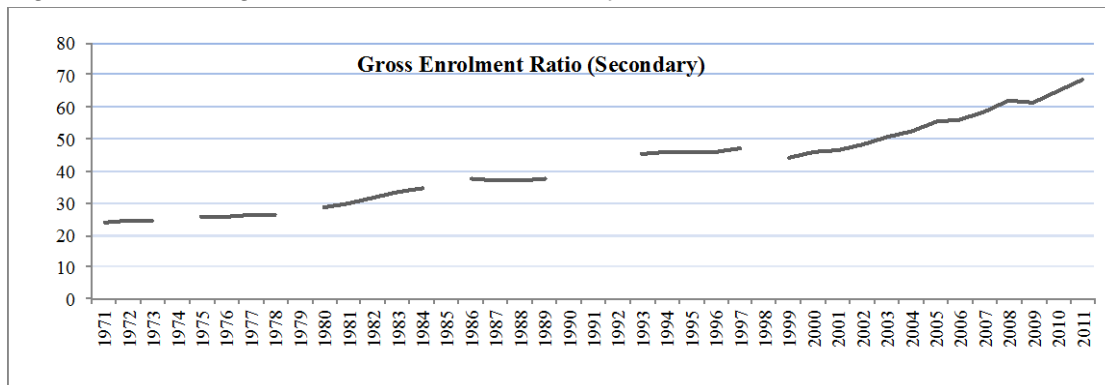
Source: Central Statistical Organisation.

Figure 10. India's gross enrolment in primary schools, 1971-2012



Source: Central Statistical Organisation.

Figure 11. India's gross enrolment in secondary schools, 1971-2011

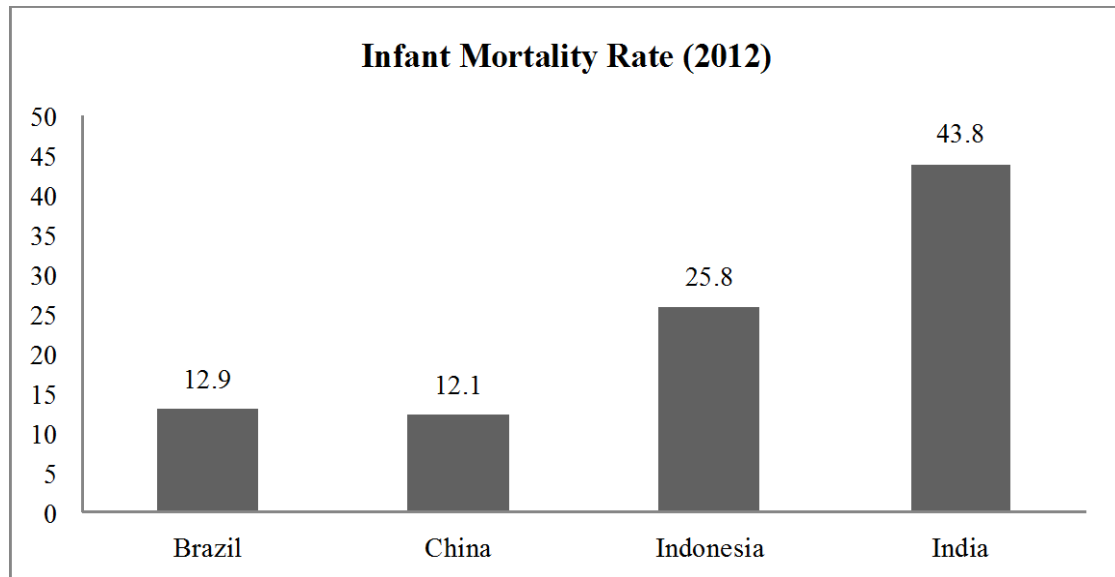


Source: Central Statistical Organisation.

However, the situation looks much less good from an international perspective. India has a much higher infant mortality rate and a significantly lower secondary enrolment rate than the comparators we are using, including Indonesia, whose per capita income is only slightly above that of India (Figures 12 and 13). This relatively weak

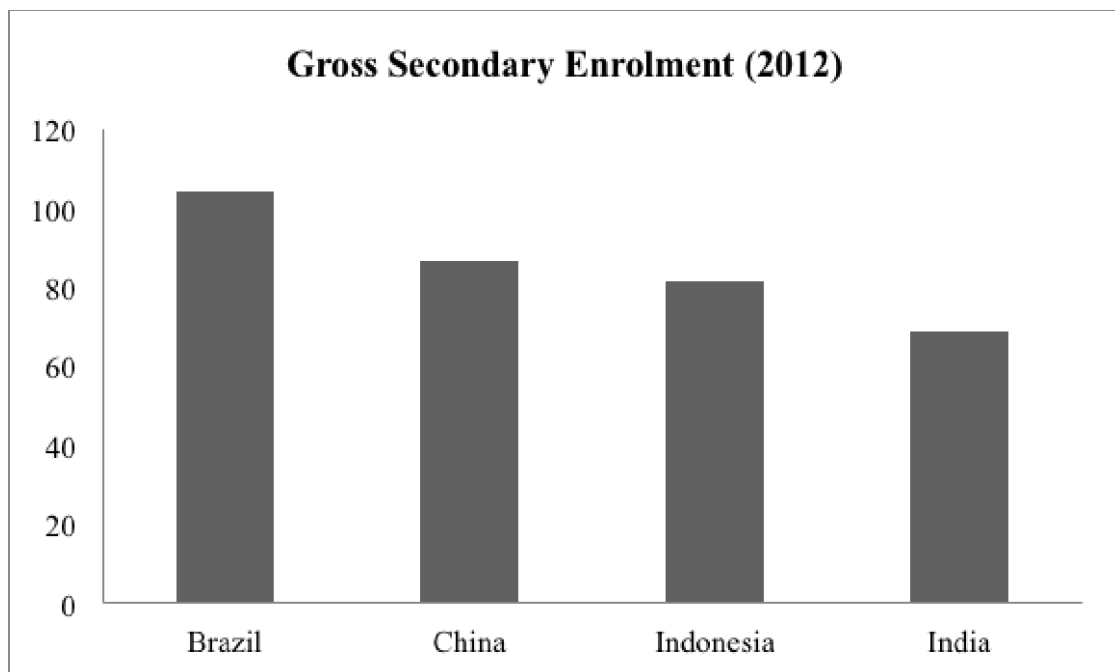
human development performance holds up when more extensive comparisons are undertaken, and is an important issue for interpretation here.

Figure 12. Infant mortality in Brazil, China, India and Indonesia, 2012



Source: World Bank, *World Development Indicators* (2013).

Figure 13. Gross secondary enrolment in Brazil, China, India and Indonesia, 2012



Source: World Bank, *World Development Indicators* (2013).

Poverty and inequality

Both poverty and inequality are of intense interest in public discourse in India. They also play important roles in the functioning of the political settlement, both through

the relationship between pacts between groups, and also through the ways in which narratives around poverty and inequality influence policy design and the perceived legitimisation of the state by political elites.

The channels of influence within politics are manifold, and often operate through group-based attributes and relationships, and across different dimensions – wealth, influence, social status and so on. By contrast, the main empirical focus, in academic work and public discourse, has traditionally been on measures of income poverty and inequality across individual households (with the actual unit of observation from one of the most important sources – the National Sample Survey, NSS – being per capita household consumption). This is nevertheless of great interest and we summarise recent trends here. We later provide information on profit shares, when we look at the business sector in more recent development.

First, on poverty, the NSS survey finds significant gains in the past two decades. Particularly striking is the acceleration in poverty reduction between 2004-05 and 2011-12 (Table 1). For the first time, this brought a large reduction in in the numbers of the people living below India's very parsimonious poverty line. These gains, which roughly coincide with the two governments of the Congress-led UPA, clearly did not lead to electoral support in 2014, as we have seen.

Table 1. Rural and urban poverty, 1993-94, 2004-05 and 2011-12

	Poverty ratio (%)			Number of poor (million)		
	Rural	Urban	Total	Rural	Urban	Total
1993-94	50.1	31.8	45.3	328.6	74.5	403.7
2004-05	42.0	25.5	37.2	325.8	81.4	407.2
2011-12	25.7	13.7	21.9	216.5	52.8	269.3

Note: based on the Tendulkar poverty lines and the mixed reference period.
Source: Planning commission.

Using the same source, the data indicates only a modest level of consumption inequality, by international standards, with little long-run trend – see Table 2 for rural and urban inequalities – the World Bank's measure of national inequality from the NSS is also around 0.34 for 2010, with only a mild increase in the previous decade. As Figure 14 illustrates, this overall measure is lower than for other large countries, including Indonesia and China.

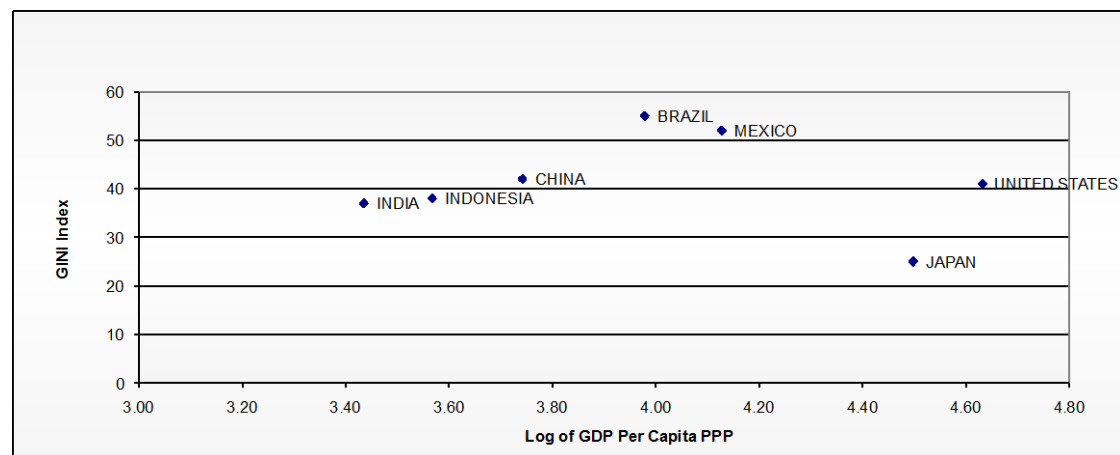
However, there is evidence from other sources (for example from an income-based survey from the reported in Desai et al., 2010) that true inequality is much higher. More fundamentally, the inequalities that matter are those that affect group-based interactions, the distribution between capital and other factors, and other types of structural inequalities. There is a strong case that these “structural” inequalities are large and salient in India (see Walton, 2011, for a review, and also Mehta, 2003, for a broader discussion).

Table 2. Evolution of the Gini coefficient in household surveys, 1973-74 to 2009-10

	1973-74	1977-78	1983	1993-94	1999-2000	2004-05	2009-10
Rural	0.281	0.336	0.297	0.282	0.26	0.266	0.276
Urban	0.302	0.345	0.325	0.34	0.342	0.348	0.371

Source: Planning Commission.

Figure 14. India’s Gini coefficient across households, compared with selected other countries

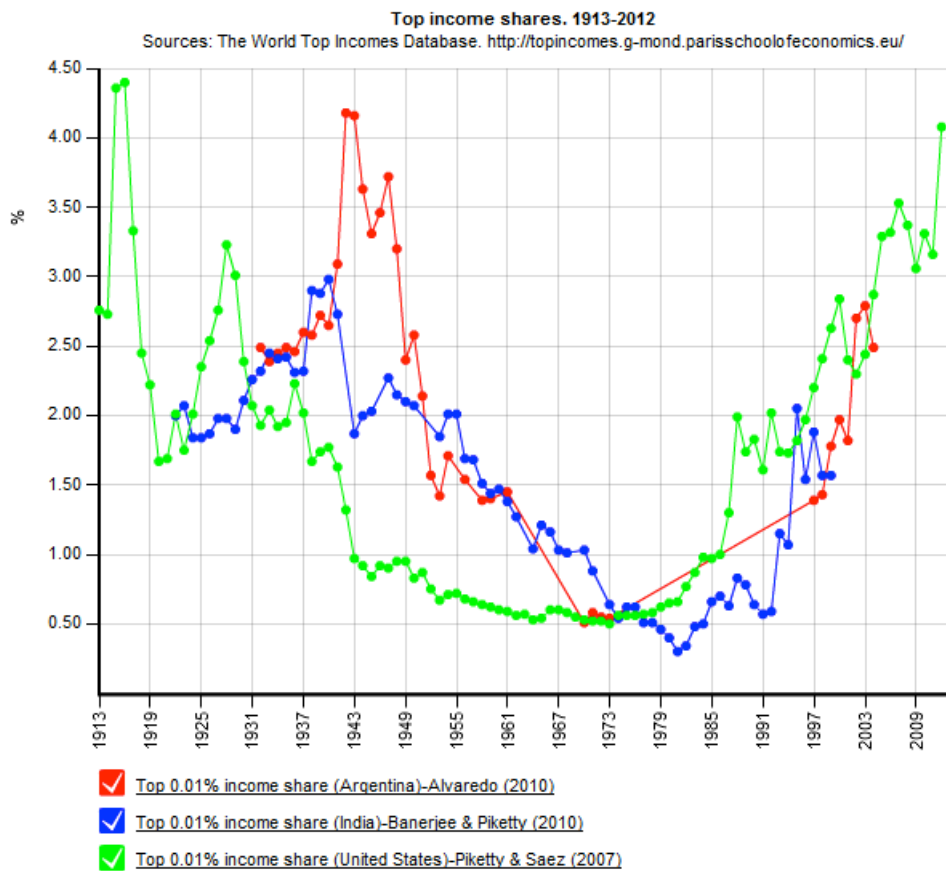


Note: The Gini Index is for the mid-2000s, per capita GDP figures are for 2007.

Source: World Bank, *World Development Indicators* (2011).

Of particular interest – in Indian public debate and for a focus on political and economic elites – is the evolution of inequality at the top of the distribution. This has also been emphatically brought into international debates through the work of Piketty (2014) and others. This is poorly measured for India, but there are indicators of substantial increase. Figure 15 illustrates the long-term fall and rise – in the 1990s – in the share of top incomes amongst tax payers (from Banerjee and Piketty, 2005 and the World Top Incomes Database). While this is only for a small fraction of the population, there is a notable parallel with the trajectories of the United States (that has had a well-established rise in top income inequality) and Argentina (that is traditionally one of the less unequal Latin American societies).

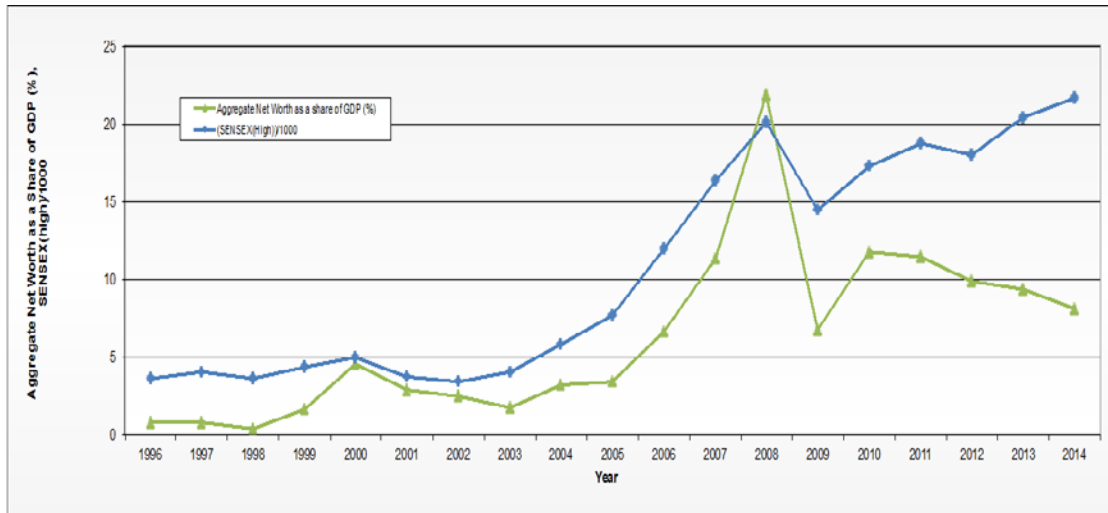
Figure 15. Long-term fall and rise of top income shares, India, Argentina and USA



Source: The World Top Incomes Database.

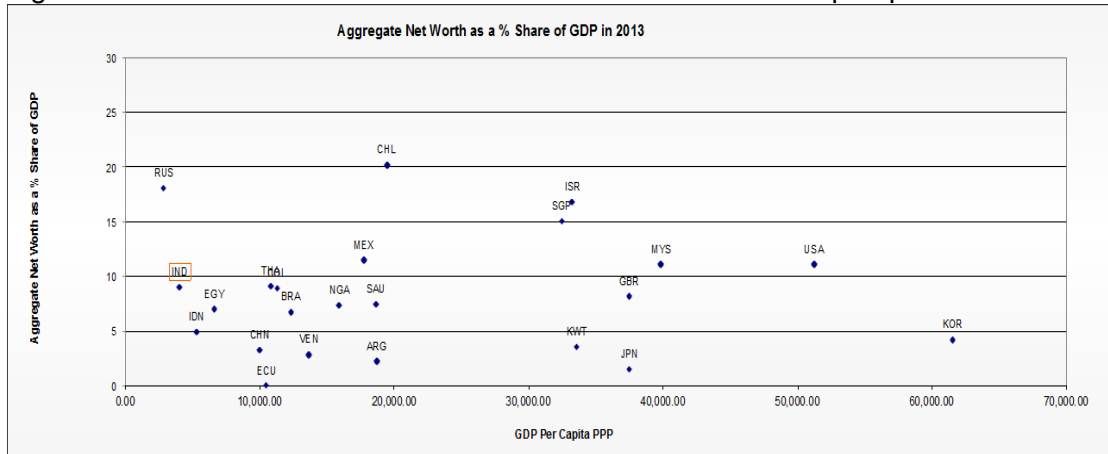
An additional source of the richest individuals and families is the Forbes database on billionaires. As Gandhi and Walton (2012) discuss for India (and Piketty, 2014, discusses for global analysis), this data source has many weaknesses, but at least seeks to provide comprehensive, and comparable data on the very richest. India had almost no billionaires in the mid-1990s, and then saw a huge expansion in both the number of billionaires and their wealth, peaking in the late-2000s boom. Since the Lehman crisis and the subsequent slowdown, measured billionaire wealth has fallen (Figure 16), but still to levels that are very high, in relation to GDP, for a country of India's income level (Figure 17). Total billionaire wealth, in relation to GDP, is comparable to the USA and the UK, and above countries such as Brazil that are known for their inequality – and in some recent years has exceeded Mexico, which is renowned for its billionaires, as well as its overall inequality. This provides some context for the discussion of state-business relations below.

Figure 16. The large rise and partial fall of India's billionaire wealth in relation to GDP, in comparison with the Sensex Index



Source: Forbes.com and Central Statistical Organisation.

Figure 17. India's billionaire wealth to GDP ratio in international perspective

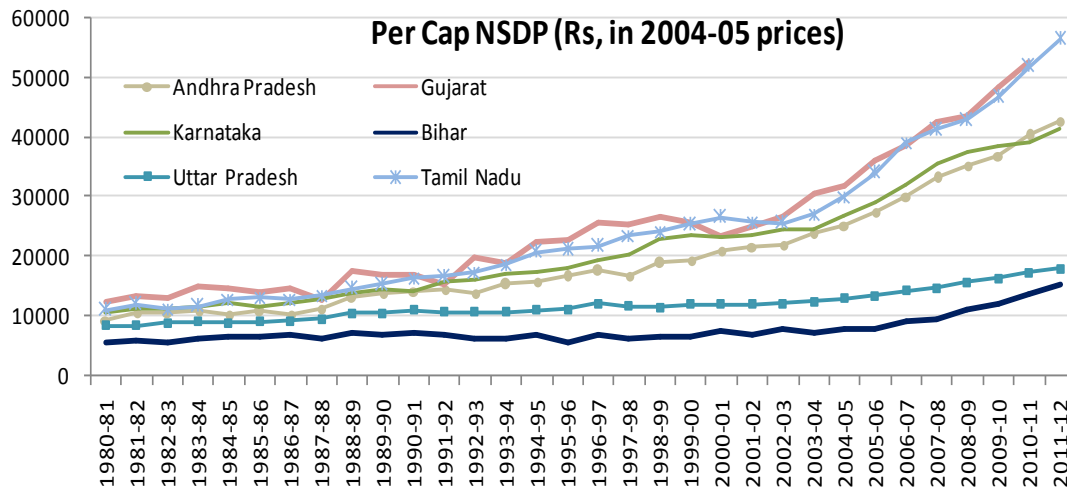


Source: Forbes.com and World Development Indicators.

Regional variation

Largely unexplored here is the regional dimension: federalism is a central part of the post-independence political settlement, and there are immensely interesting contrasts between states. Given the scope of the paper, this is not discussed here, but it is of great interest for future work. As Figure 18 indicates, there has been substantial divergence in economic growth performance over the past 30 years, and there are important contrasts between the nature of the political settlement between states.

Figure 18. Variation in per capita net state domestic product across six Indian states, 1980-81 to 2011-12



Source: Central Statistical Organisation.

India's political settlement in post-independence history – themes from earlier decades

While a major goal of this paper is to interpret the current conjuncture, this is put in the context of the historical evolution of the political settlement and associated institutions. This is both of intrinsic interest and helps our understanding of the present situation. In this section, we focus on themes that emerged from two periods: the post-independence period – the Nehruvian phase; and the period of transition around the late 1960s and 1970s, highlighting the emergence of the political economy of farmers. The following section turns to the transition to a more market-oriented economy, which started in the mid-1980s. There are of course many other phases of interest and importance in India's political economic history, but these were chosen as being of most relevance and interest to the interpretation of the present.

In applying the schematic framework (of Figure 1), we look at the mapping of the set of issues around the underlying settlement (including cognitive maps and global interactions), with a particular focus on conceptions of state-society relations. The more specific institutional arrangements – the fields in which the settlement is applied, fought over and, to some degree, resolved – in three domains:

- a) state-business relations and capitalist dynamics;
- b) social provisioning – education and health, social transfers, insurance;
- c) the rural political economy.

The Nehruvian phase

Let us provide a stylised characterisation of the post-independent “Nehruvian” phase in relation to the structure of Figure 1.

Interests

With respect to capitalist dynamics, India had a long-standing tradition of business families, typically associated with specific groups or caste categories. The business community had been broadly allied with the independence movement, lending greater political weight to their position. India, was, of course, predominantly a rural society, and an unequal one. But the large-scale landowning class, especially those associated with the *zamindari* system (of revenue-collecting landlords), were in a relatively weak political position, especially in light of the strong Gandhian tradition of support for the rural poor in the independence movement. This was even more true in those parts of the country in which the *zamindars* were Muslim in the wake of the Partition and formation of Pakistan. Similarly, the many princely states were not an effective collective force, though it still required an act of impressive statesmanship to bring them into the Indian polity (Guha, 2007a). Thus the stage was set for the political elite to provide a favourable arrangement with business, harness the support of the peasantry, and undertake some land reform. However, in most of the country this did not amount to a rural mobilisation with sufficient power to undertake more radical reforms. By contrast, in the South in particular, there were structured mobilisations against historical elites (especially anti-Brahmin), for example around Tamilian nationalism in Tamil Nadu and alliances on lower caste and class grounds in Kerala.

Cognitive maps

We have argued that ideas matter as well as interests. This is clearly the case in the post-independence period, not least because of the stature – and so relative autonomy – of the group of political leaders that had emerged from the independence struggle. There were both external ideas and a very important role for Indian development thinking. From abroad came the Soviet inspiration of rapid, state-led industrialisation, with the rural areas a source of food, workers and surplus. This could be adapted to a mixed, but state-led economy. This was also the era of big push development thinking, of significant state presence in production in the European recoveries, and of a central role for the state in Japan's economy recovery.

Add to this the important set of ideas articulated by the economic planner, P. C. Mahalanobis, which provided an intellectual rationale for what has often been characterised as the Nehruvian development path (Mahalanobis, 1955). Here are some of the key precepts:

- The need for a big push in capital investment, supported by a rise in domestic savings;
- Pessimism over the potential of the private sector to provide the savings, supplemented by a belief in the inefficiencies of private capital;
- Capital goods production as playing a leading role in the industrialisation, and a need for the public sector to be the central actor in this;
- Export pessimism;

- The agriculture sector, and more broadly the rural sector, as a source of unskilled labour and wage goods for the modern economy;
- Education as an intermediate activity required to provide sufficient skills for the production process.

These formed the justification for a strongly modernising, industrialisation strategy, with the state playing a leading role, but nevertheless within a mixed economy.

There were also complementary strands in the available cognitive map. There was the ideological emphasis on tackling historically entrenched inequalities, that led to a largely “social” constitution (shaped in particular by B. R. Ambedkar), with reservations for Scheduled Castes and Tribes, as well as a right to education in the so-called Directive Principles in the Constitution – that were intended to guide democratic decisions over central societal aspirations – as resources allowed. And there was, of course, the Gandhian tradition of support for village production, which led, amongst other developments, to the principle of support for traditional artisanal production in cottage industries.

Here then we already see the emergence of the three narratives of the state outlined in the introduction, albeit in particular manifestations: the state as provider had a decidedly high-modernist, top-down bent; social rights were articulated in the Constitution but muted in both implementation and practical narratives; and the state was a handmaiden to growth, but in a leading and partnership role with capitalism.

Global influences.

India was a major actor in the non-aligned international movement in the post-independence period. This positioning was ideologically aligned with the domestic strategy of a planned but mixed economy. It was also associated with resistance to foreign direct investment from the West, but was consistent with US food aid and substantial support from US-based aid-related organisations, such as the Ford Foundation.

Politics and the legitimisation of the state

The Congress party was hegemonic, if not internally coherent. This, along with the stature of Nehru and other leaders, meant the state was unusually autonomous. Relative to the (very low) income level of the country, the state almost certainly had high levels of capacity, flowing from the inherited bureaucratic traditions, but still had low capacity in absolute terms. The legitimisation of the state was constructed around its role as leading the modernisation drive and (at least in principle) addressing historical inequities and providing for inclusion.

Policy and institutional change

How did this mix of interests, ideas and state manifest itself in policies and institutions? Some of the central features of development strategy that are relevant to the story are as follows.

- Agrarian reform, including action to get rid of the *zamindari* system. A seminal example was the Uttar Pradesh Zamindari Abolition and Land Reforms Act. However, actual land reform was limited in terms of land redistribution, effective land ceilings or tenancy rights.⁵ West Bengal did go significantly further in its land reforms.
- A high modernist approach to agriculture via irrigation.
- State ownership of strategic industries, plus the development of the License Raj of regulation of industrial activities, supported by high levels of external protection. While licensing was burdensome, business houses undoubtedly benefited from the rent-sharing system, especially given the high levels of domestic and international protection.
- Competition and anti-monopoly policy was officially important, though this was offset by the protective features of the licensing system. Some activities were reserved for cottage industries, leading to some preservation of employment and artisanal capabilities, but often in activities that were economically inefficient
- Despite inefficiencies, there was substantial creation of industrial capabilities in both state and business house firms. This was complemented by creation of the Indian Institutes of Technology, which was part of the overall support for elite educational institutions as inputs to the modernisation drive.
- A big expansion of the state apparatus – that became an order of magnitude greater than the colonial inheritance. This was again aligned with the modernisation process, but also became a fruitful source of political patronage. On the other hand, the combination of reservations in higher education and public jobs became a mechanism for the formation of new elites from disadvantaged groups, especially from dalits, or “scheduled castes”.
- Despite the essentially “social” constitution, only slow progress on basic social provisioning, not least in education. The contrast is particularly striking in relation to East Asian developing countries. This is an apparent puzzle, given the explicit social commitments. There are several reasons. An important factor was the unintended consequence of the constitutional allocation of most basic social services to the subnational states. In much of India, deep historical inequities over education provision (notably on caste lines), reduced the interest of state-level political elites in universal provisioning. There was rarely the combination of political entrepreneurship with social movements that are central to basic education expansions

⁵ See Brass (2011) for discussion of the experience in Uttar Pradesh through the lens of the life of Charan Singh, one of the leading political figures in the state.

(Kosack, 2012). And there was the very practical problem of the states suffering tight fiscal constraints.

Subnational variety

State-level interactions were highly varied and will be left for future analysis. There was a notable tension between the official approach of spreading industrial production equitably and the variation in local business-state links and relations with the central government. Thus, Sinha (2005) argues that Gujarat had a long history of relations between the local business and the national state, which also allowed more effective extraction of licensing from the centre. West Bengal had both more conflictive local state-business and local-centre relations – and suffered substantial relative industrial decline. Tamil Nadu fell in between.

In other domains, southern states, especially Kerala and Tamil Nadu, developed an equilibrium in which public good provision, including in social domains, was part of the local political settlement. These cases are the most exceptional in relation to broader Indian patterns, and exemplify how the alignment between political entrepreneurship at the state level interacted with either social movements (Kerala) or Tamilian nationalism (Tamil Nadu) to support a much more extensive programme of social provisioning, including in education. (Himachal Pradesh has an analogous story in a later period, as argued in PROBE, 1999 and Mangla, 2014.)

The 1960s and 1970s: three themes

The years after the initial “Nehruvian” phase were thick with both change and drama, including Nehru’s death, the opening associated with the Green Revolution, Indira Gandhi’s introduction of the Emergency, and the equally remarkable 1977 return to democracy. This paper does not seek to describe these. We rather highlight three themes that came into especial prominence in this period and remain salient through the contemporary period.

First, there is the emergence of a specific political economy of agriculture, that was fundamentally organised around a combination of the state-mediated provision of inputs – seeds, fertiliser, credit, water (and electricity for pumping) – and guaranteed markets. This was associated with the emergence of middle farmers as a major political constituency in the political logic of the democratic system.

Second, there is the heightened emphasis on the theme of a “corrupt state” – a major counter-narrative on the role of the state. This was present already in the 1950s, but became even more important in response to the awareness of the problems of state functioning, the pervasive corruption, and the dramatic over-reach of the state in the Emergency period.

Third, there is increased awareness and political salience of social deficits, in rural poverty, education and health in particular, and its counterpart of social provisioning as a political strategy (at least for the Congress party). Since this intrinsically

emphasised government provisioning of social services and safety nets (consistent with the dominant cognitive map of development actors around the world in this period), this interacted, typically with problematic consequences, with the weak state capacity and unequal institutional structures – the “corrupt state” – with rather limited consequences for the improvement of human capabilities.

Transition of the 1980s-1990s to the present: liberalising the corporate sector, persistence of patronage and rise of the rights-based movement

Our third transition concerns the period best known for the shift from License Raj to the embrace of markets. This shift, both market-liberalising and pro-corporate business, was accompanied, especially in the 2000s, by a complementary move to extend social provisioning. This was increasingly embedded in a narrative, and associated laws, around a variety of social rights. It is as if India moved with real speed through Polanyi’s “double movement”, favouring markets and then moving to manage the political and social consequences through seeking to develop a welfare state (See Polanyi, 2001/1944 and also Stewart, 2010). This latter shift was greatly facilitated – substantively and cognitively – by an acceleration in aggregate growth towards double figures, close to Chinese levels, in the 2000s, prior to the Lehman crisis. But we argue that this was not the product of a structural break, so much as an unusual “sweet spot” of external and internal conditions. From a policy perspective, it had the adverse effect of contributing to hubris over the Indian economy, and failure to recognise and manage the policy challenges and conflicts that would be necessary to sustain long-term growth, and indeed inclusive development.

The symbolic moment of the transition was the budget speech of then-Finance Minister Manmohan Singh on 24 July, 1991 (Singh, 1991). The deregulation and external opening announced in this speech was indeed of great economic and symbolic significance, but is only part of the story. Here we seek to enrich the usual story in three ways.

- First, we cast the shift in terms of the changing cognitive maps of different groups amongst state elites, and the continuing protagonist role of the state throughout the period.
- Second, we discuss why there were initially much more modest changes in the two other fields of focus of this paper – that of the rural economy and social provisioning – followed in the 2000s with the emergence of a central narrative around a rights-based welfare state. We argue that this was complementary to the first development, and can be seen both in terms of the goal of softening the burden of market transition and in light of the electoral salience of the groups more directly affected.
- And, third, we link these to parallel developments in the more directly political arena, including the continued role of identity as a locus of political and social mobilisation, and the emergence of the era of coalition politics.

The policy changes on de-licensing and trade liberalisation can be seen as a product of the confluence of a changing cognitive map of state elites, and an evolving, rather than a radical, shift in the relationship with business interests. By contrast, the input-driven political economy of farming was consolidated rather than changed, a product of the lack of alternatives in the cognitive map, plus, importantly, the central role of this approach to perceived electoral fortunes and the legitimisation of the state. This was thus a *complement* to the pro-market shifts, as opposed to an aberration or dissonant domain of state behaviour. Public provision of social services was also the dominant form of behaviour in the cognitive map of state elites; lagging performance here was because of the combination of continued resource constraints (especially in the states, that were only substantially eased from the late 1990s on) and the weak performance of the state system. The rising politicisation of identity diluted class-based political resistance to pro-market reform and opened space for policy change. It also further underwrote social demands for the perpetuation of the rent-sharing system.

While these developments are inter-linked in important ways, it is useful to discuss each area in turn. Furthermore, these four areas of interaction between state and social actors played out as much at the state as at central government level, with substantial variation across states. We will refer to this selectively.

State and business

Let us start with the pivotal moment in the story of pro-market policy change, the budget speech by Finance Minister Manmohan Singh on 24 July, 1991. He says:

“We have been at the edge of a precipice since December 1990 and more so since April 1991. The foreign exchange crisis constitutes a serious threat to the sustainability of growth processes and orderly implementation of our development programmes. Due to the combination of unfavourable internal and external factors, the inflationary pressures on the price level have increased very substantially since mid-1990. The people of India have to face double digit inflation, which hurts most of the poorer sections of our society. In sum, the crisis in the economy is both acute and deep. We have not experienced anything similar in the history of independent India.”

(Singh, 1991, p.1)

So this was framed as a major crisis requiring action, that was linked both to issues of growth and to concerns for the “poorer sections” of society. Industrial performance is central:

“Thanks to the efforts of Pandit Jawaharlal Nehru, Indira Gandhi and Rajiv Gandhi, we have developed a well diversified industrial structure. This constitutes a great asset as we begin to implement various structural reforms. However, barriers to entry and limits on growth in the size of firms have often led to a proliferation of licensing and an increase in the degree of

monopoly. This has put shackles on segments of Indian industry and made them serve the interests of producers but not pay adequate attention to the interests of consumers.” (Singh, 1991, p 3)

Two ideas are important here: the argument that the nurturing of India’s “infant” industries has developed an industrial base; and the need to deregulate, to liberate industrial growth, and tackle monopolies (that is monopoly economic rents).

Now, while a crisis can also create opportunities, this depends on both the underlying political economy and the cognitive maps available to state elites.

Underlying political economy

By the 1980s and early 1990s, the overall political economy was already supportive of pro-business policies. The large-scale business sector was always part of the overall political equilibrium, as discussed above, and emphasised in Bardhan (1984). The traditional business houses had largely worked out how to manage the Licence Raj system: they suffered burdens of regulation and entry restrictions, but also enjoyed economic rents from the system of licensing and external protection. In addition, there were changes in the business sector, presaging a deepening of capitalist institutions. Dhirubhai Ambani had broken into the economic system, through business acumen and the exercise of influence over state actors. He had symbolically launched an Initial Public Offering for Reliance Industries as early as 1977. Between 1980 and 1985 there was an increase in the number of Indians owning shares, from one to four million, of which a million held shares in Reliance alone (McDonald, 2010, 72). These largely came from three groups – the urban middle classes, non-resident Indians, who had prospered in the UK, the US and parts of Asia (thanks to changed regulations) and richer farmers (McDonald, 2010). This central capitalist institution was both deepening and broadening its role in the economy and society.

A parallel development was the diversification of business ownership. Damodaran (2008) has documented new patterns of entry into business, often from traditionally non-business castes or groups, especially in Southern and Western India. These took various forms: from “Bazaar to Factory”, the route of traditional business groups, Banias and Vaishya in the caste system (Dhirubhai Ambani was from a Bania caste); from “Office to Factory”, the route taken by Brahmins and other upper castes who had traditionally dominated the bureaucracy and professions; and from “Field to Factory”, from communities traditional classified as Shudras, largely from land-owning peasant castes. The latter included the Kammas and Reddys in Andhra Pradesh, Gounders in Tamil Nadu and Marathas in Maharashtra. Amongst lower castes, the Nadars, traditionally ritually impure toddy-tappers, had also developed highly successful business communities, initially based in Tamil Nadu. But very few Dalit corporate businesses had emerged at the time of Damodaran’s review in the mid-2000s.

This entry had two implications. It brought substantial deepening of business capabilities, at least in Southern and Western India. Equally important, it led to a broadening of the political connectivity of the business sector. Dhirubhai Ambani was considered a hero in Gujarat (thus the name of the “fictional” film on his career, “The Hero”). The “Field to Factory” business communities are perhaps of particular political salience, given their connectivity with the middle farming groups that were so central to political dynamics in most states. Regional business and political elite connections were allied with the emergence of regional parties and the era of coalition politics. As Damodaran says, “The Congress at the centre was seen as favouring ‘monopoly big-business capital’ over ‘non-monopoly regional capital’, which did not enjoy as much leverage in New Delhi to secure industrial licences and related concessions.” (ibid, p. 317)

There was thus a propitious context for a shift into a more explicitly pro-business strategy, and one that had been unfolding for decades. Let us now turn to the role of ideas, and of shifting cognitive maps of state elite actors.

Evolving cognitive map

The post-independence framing for business was never purely socialist, as noted above. It rather involved three lines of thought: to build industrial capabilities in strategic areas in the public sector (coal, steel, IT etc.); to work with the large business houses within the state-managed license regulation system behind high trade barriers; and to support the very small-scale informal, cottage industry sector. As discussed above, in the Nehru-Mahalanobis conceptualisation, this was associated with export pessimism, a leading role for the public sector in the production of capital-intensive capital goods for industry, and concerns to restrict the consumer goods sector. The support and protection for cottage industries was a distinct addition to this framing in the Second Five Year Plan.

By the late 1970s, both the overall results in growth and these underlying precepts looked shaky. Meanwhile the global context was shifting. There was the remarkable international takeoff by the East Asian countries, involving rapid integration into the international economy and booming exports, typically led by private business groups (albeit with considerable government engagement).⁶ By the 1980s this had even extended to the populous, poor country of Indonesia. Meanwhile Soviet growth performance looked increasingly weak, and culminated in the collapse of the system throughout the Soviet bloc between 1989 and 1991.

Within India, the exploration of alternatives started in the late 1970s, after the end of the Emergency. This was initiated under the Janata government (with a series of commissions on issues related to growth) and continued under the governments of

⁶ The role of business groups varied by country: dominant for Japan and Korea, also present in Malaysia, Thailand and Indonesia, but with a larger role for foreign capital; and a bigger role for small-scale business in Taiwan.

both Indira Gandhi and Rajiv Gandhi. In the case of Rajiv Gandhi, this also involved a narrative of technological upgrading.

This search for growth alternatives connected with two intellectual narratives that provided a basis for the policy changes. First, there was the general argument for reliance on markets in the productive sphere, which was spreading around the world in different forms in the 1980s. For India this had existed as a politically peripheral “counter-narrative” amongst a few economists (for example, Jagdish Bhagwati and T. N. Srinivasan) and in work by the Delhi-based think tank, the Indian Council for Research on International Economic Relations (ICRIER). The difficulties with the existing strategy had got more detailed empirical support from analysis of the problems of low productivity, and low productivity growth within Indian industry (Ahluwalia, 1991). Second, the narrative of the “corrupt state” that had already emerged as a theme in the 1970s bolstered the liberal-market critique of the distortions created by external protection and domestic licensing.

There was thus an articulated cognitive map available to political and bureaucratic elites. This was based on analysis, debates and narratives developed within India, whilst also resonating with the global context. The large and well-documented shifts that did occur in licensing and the initiation of trade opening in 1991 were implemented in a crisis, but emerged from a political economy and evolution of ideas that had been unfolding for many years.

Business would have been expected to be in favour of deregulation but unenthusiastic about trade opening. However, many observers argue business already knew in the 1980s that opening was coming, and were preparing for it. For example, Kohli (2006a, b) argues that there was effectively a deal between the government and business – to reduce the regulatory burden in return for their undertaking the efficiency changes that trade opening would induce. Moreover, the opening was distinctly gradual. There continued to be restrictions on competition from Foreign Direct Investment, and exchange rate depreciation in the wake of the crisis provided additional support for both exporting and import-competing activities.

A final issue of interest in the evolution of ideas is illustrated by the closing phrases of Finance Minister Singh’s budget speech. He cites Victor Hugo: “no power on earth can stop an idea whose time has come.” Now the “idea” is *not* that of the role of markets or open trade. He rather continues, “I suggest to this august House that the emergence of India as a major economic power in the world happens to be one such idea”. This is an important part of the evolving cognitive map, and especially of that part of the map that relates to legitimisation of the state. In particular it bridges to a crucial sequel: the evolution of thinking within the BJP-led coalition that came to power in 1998. The BJP’s ideology and political base had little relation to pro-business market engagement. They in fact had support for small shopkeepers as part of their campaign. This changed in office: there was in effect an absorption of the idea of a business-led economic power into the BJP’s core ideology of a rising India.

The state as protagonist

A common debate over the Indian reforms is whether they were primarily “pro-market” or “pro-business”, that is, whether the growth acceleration was driven by the move towards greater reliance on the market, or by the shift towards a more pro-business overall stance.⁷ We do not see this as an interesting contrast.

There was clearly a political economy of state-business relations at work. Longstanding relations became consolidated, not least in terms of close connections between business leaders and state elites at the level of the state. This was clearly the case in Gujarat, Tamil Nadu, Andhra Pradesh, Karnataka and Maharashtra – if less so in the poorer northern states, such as Bihar and Uttar Pradesh. Politicians and high-level bureaucrats had other constituencies and concerns to pay attention to, of course, but in general these did not jeopardise the credibility of commitments towards business activity. There is also extensive anecdotal evidence of the mingling of political and business activity – for example, in the widespread business interests of the family of the ex-Chief Minister Karunanidhi in Tamil Nadu (Mohan, 2011), or, in the late 2000s, the emergence of the Reddy brothers in the Bellary district of Karnataka as an influential economic and political force, based on their mining wealth.

On the other hand, there is also careful empirical evidence that market-liberalising reforms made a difference to industrial productivity, both with respect to the de-licensing (Aghion et al., 2008) and to the trade opening (Topalova and Khandewal, 2010). Support for business and market opening were both important ingredients of state policy.

We rather highlight here that the state was an active protagonist throughout the period, beyond its role in managing the liberalisation of licensing and trade opening. First, the state continued (and continues) to control a significant part of the corporate sector through ownership. Take the firms quoted on the Bombay Stock Exchange, which includes the major business houses and other large firms in India. With respect to sales, the share taken by government commercial enterprises only fell from 45 percent in 1989 to 37 percent in 2008, a period of enormous expansion in the overall capitalisation of the stock market (see Table 3). The share of assets is even higher, since the government enterprises are typically more capital intensive.

⁷ See Rodrik and Subramanian (2004), Kohli (2006a,b), and Panagariya (2008) for various perspectives.

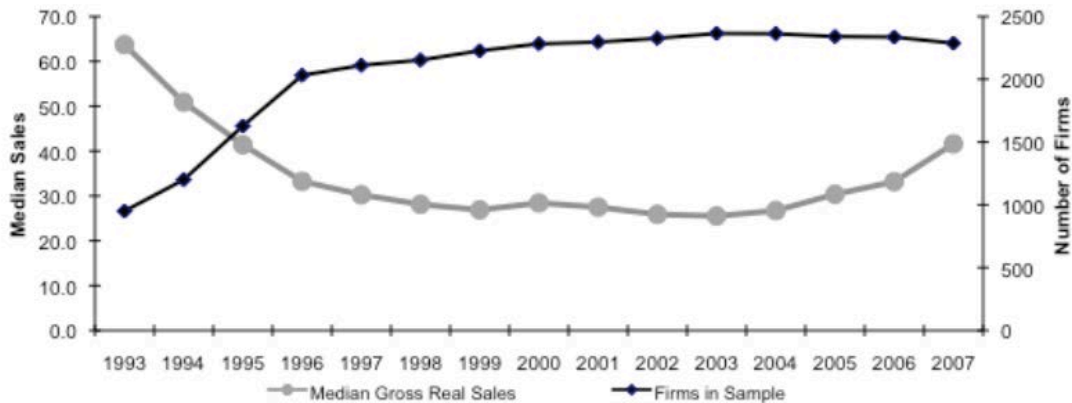
Table 3. Share of sales on the Bombay Stock Exchange by category of ownership

Ownership Type	1989	2000	2008
Government Commercial Enterprises	44.6	39.4	36.9
Indian Business Houses	40.8	40.1	42.4
Indian Private Stand-Alones	3.6	9.4	11.9
Foreign Firms	9.3	9.5	7.4
NRI Business Houses	0.8	1.0	1.0

Source: CMIE.

Second, the state played a role as a handmaiden of the institutionalisation of capitalism. This had already started in the 1980s with the reforms that fostered the expansion of equity ownership on the stock exchanges. In the 1990s there was a flurry of regulatory law-making, with the iconic law involving the creation of the Securities and Exchange Board of India (SEBI), the regulator of India’s security markets. SEBI presided over an impressive burst of Initial Public Offerings – some genuine, some premature (that would be more appropriate for angel or venture capital financing in other countries) and some fly-by-night. The number of established firms on the BSE more than doubled between 1993 and 1996 (see Figure 19, which only includes those firms that report profit data). It then settled down, after the economic shakeout of the late 1990s and the tightening of SEBI regulations.

Figure 19. Number of firms on the BSE reporting profit data



Source: CMIE, as calculated in Mody, Nath and Walton, 2011.

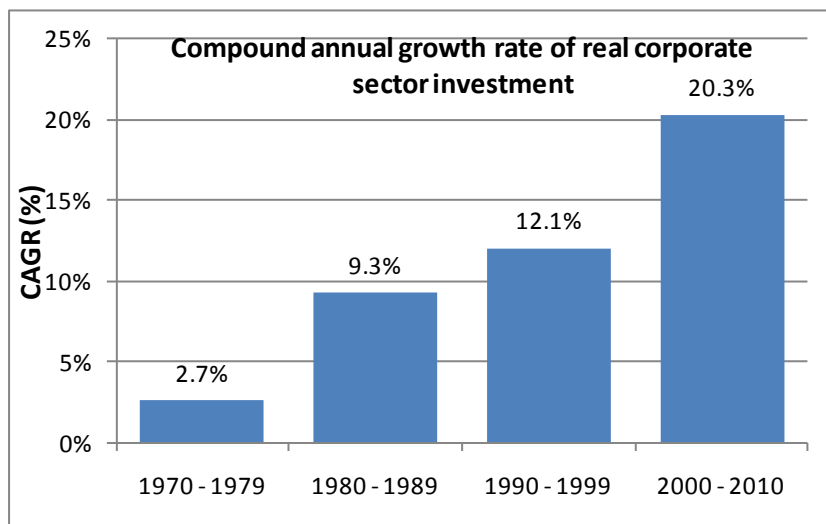
Third, the state has played a major role in industrial strategy, both historically (as recognised in the quote in Finance Minister Singh above) and during the “post-liberalisation” period. Take IT, a sector that has become famous for the pioneering activity of private firms such as Wipro, Infosys and HCL (the last, incidentally owned by Nadars – see above). While genuinely value-creating, there is a larger story of the state nurturing the sector over many decades, for which we have in-depth history from Sharma (2009). While public sector biases in policy prior to the 1980s may have been a source of inefficiency, the systematic state support created extensive industrial capabilities in the sector, that went way beyond the production of engineers

by the Indian Institutes of Technology. Furthermore, once the transition to a primarily private-sector led sector had occurred, the state continued to be supportive, notably in the form of tax breaks and access to land. Competition between cities – e.g. between Bangalore and Hyderabad – added to the pressure to support IT industrial development. A parallel story could be told of pharmaceuticals, another example of Indian private firms' impressive success. Both sectors took off and have prospered globally. This was facilitated by global developments – e.g. offshoring from the US, and demand for generic pharmaceutical products from other developing countries. But it is hard to see these takeoffs occurring without the long-term support of the state.

The two faces of Indian capitalism

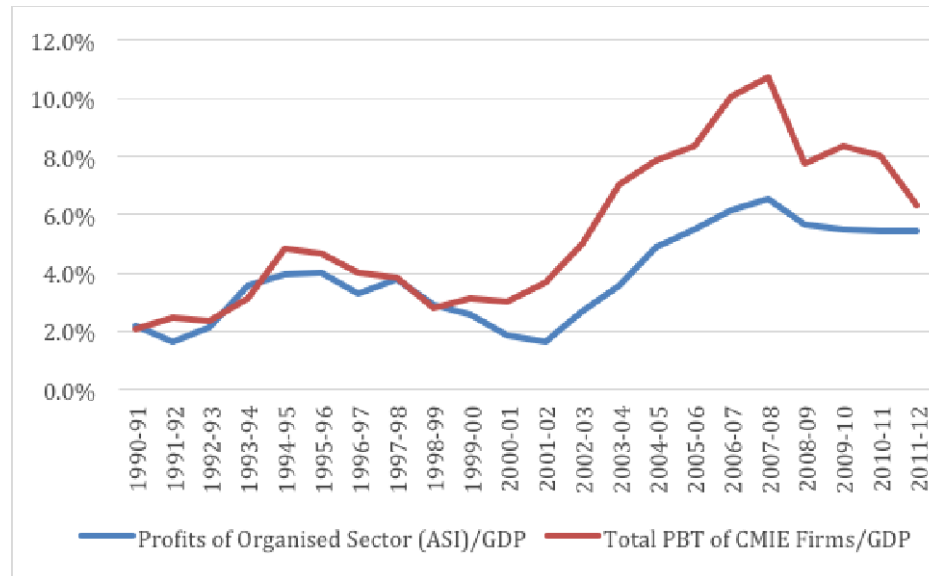
Whatever the role of the state, corporate India was remarkably dynamic in this period. There was in particular an impressive acceleration in private corporate investment, with annual real growth rates of the order of 13-14 percent in the 1980s and 1990s and over 20 percent per annum in the 2000s (Figure 20). This was associated with a large increase in the corporate sector's share of profits, whether we look at the data from the national accounts, quoted companies (both in Figure 21) or for the industrial sector from the survey of industries (Figure 22). The latter also has data on wage shares, which fell substantially between the early 1980s and late 2000s.

Figure 20. Real annual growth of corporate sector investment in India, 1970-2010 (in percent per annum)



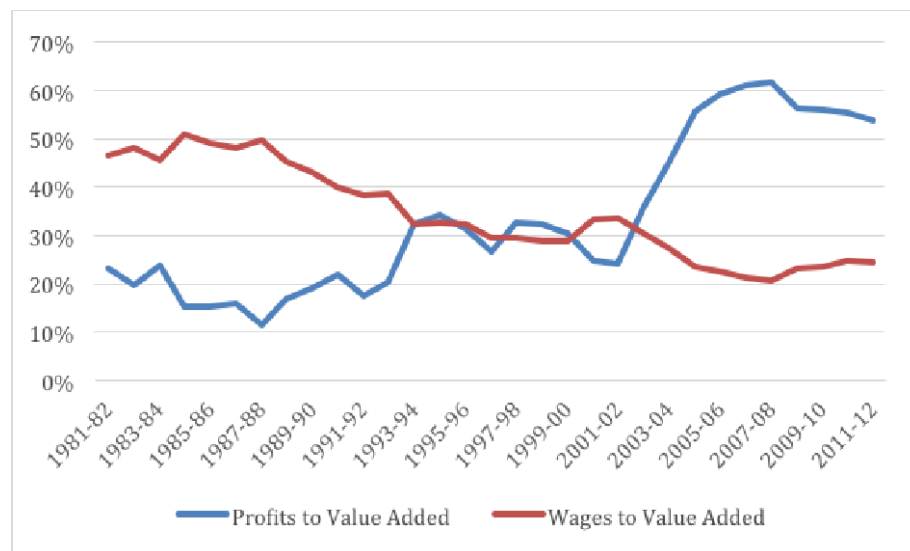
Source: Central Statistical Organisation.

Figure 21. India's corporate profit share, 1990-01 to 2011-12 (in percent of GDP)



Source: National Accounts, and the Centre for the Monitoring of the Indian Economy.

Figure 22. Share of profits and wages in value added in India's industrial sector, 1981-82 to 2011-12



Source: Annual Survey of Industries, Ministry of Statistics and Programme Implementation.

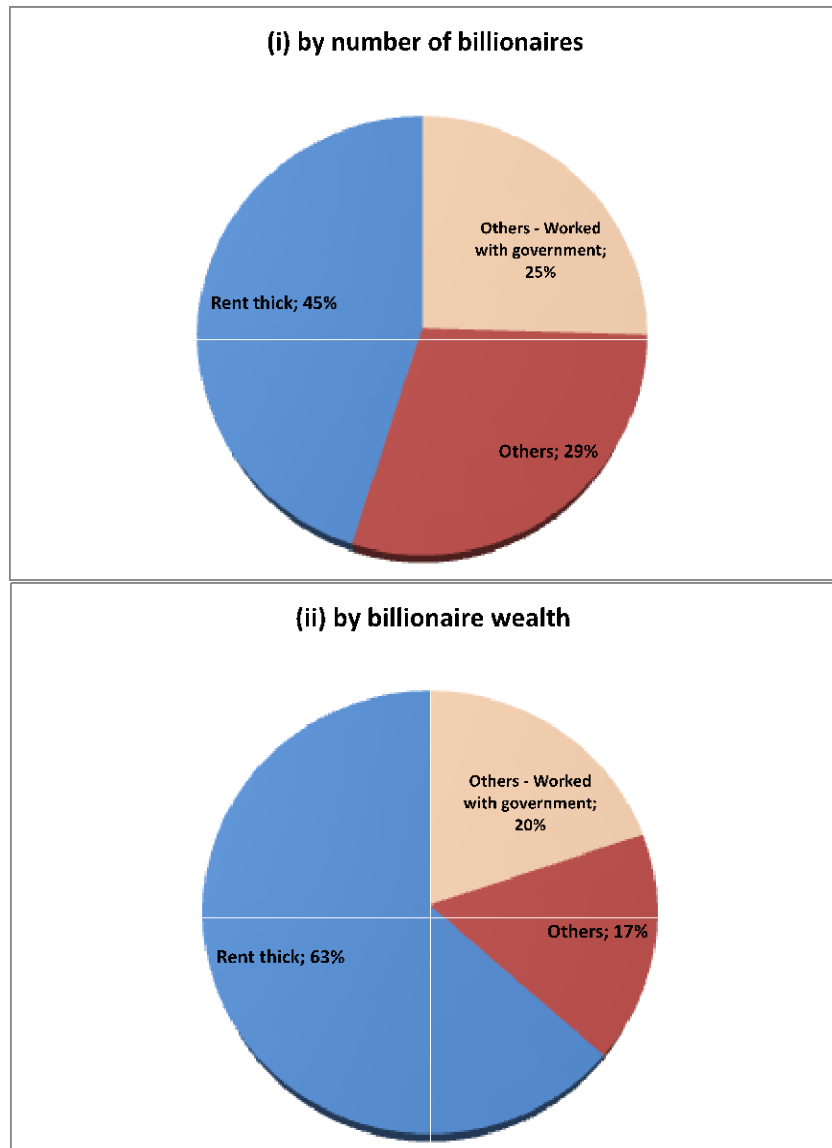
By the late 2000s, the shift in the political economy of business, the market opening, the deepening of institutions of capitalism and the emergence of extensive, and undoubtedly long-nurtured, business capabilities had truly put Indian capitalism on the global map. The leading Indian corporations were symbolically engaging in “reverse globalisation”, purchasing assets in developed countries, as they sought to become genuine global players. The British magazine *The Economist* even hailed this development as one of the hopes for the UK economy, in an otherwise bleak context (The Economist, 2011)! But the interaction between the state and business

sector domestically was also raising major questions about the form of Indian capitalism: is it an exemplar of dynamic, competitive capitalist activity, or of crony capitalism, benefiting from influence over state actors? “Crony capitalism” started to be used as a term by India’s leaders.

The recent evidence in fact suggests two faces of Indian capitalism. On the one hand, there has been extraordinary dynamism, with evidence from profit behaviour more consistent with the view of competitive forces than exploitation of monopoly powers (Mody et al., 2011). On the other hand, there has been an array of high-profile scandals, ranging from allegations of high-level bribery (as in the 2G case or mining in Karnataka) to major accounting malfeasance (as with the high profile case of Satyam in the IT sector). Which way this will play out is a major issue for India’s future political economy and polity, which we return to below.

A complementary prism on the relevance of connectivity between the state and business is given by the pattern of the sources of wealth of India’s billionaires, as reported by Forbes, that was cited above as an indication of rising inequality at the very top. The wealth basis of almost all India’s truly wealthy is in the corporate sector: many inherited from previous generations, including long established business families such as the Birlas and Tatas, as well as relatively new entrants such as the Ambanis. Almost all are still engaged in business activities. In parallel work, we sought to classify the reported primary, or original, sources of wealth, as reported by Forbes (Figure 23). Some sectors were classified as being “rent-thick”, since they clearly involved activities in which attaining permission led to the possibility of substantial economic rents (e.g. mining, land, construction, cement, media), and often had accusations of illegal influence (see Gandhi and Walton, 2012). A second category still involved specific government approvals, but did not appear to involve high levels of economic rents, at least of a monopoly kind (IT is an example). And a residual category was categorised as “other”, though note that this included banking, placed here since, at least by reputation, the regulatory regime is effective and clean. This is a qualitative and partially subjective classification. But the results are interesting: 45 percent were in the rent-thick category, and 25 percent in the “worked with government” in terms of numbers, with 63 percent and 20 percent, respectively, in terms of assets. This does not mean the relations involved corruption – though there were frequent allegations – but rather underlines the role of connectivity between state and large-scale business.

Figure 23. Proportion of billionaires and total billionaire wealth by whether “rent thick” or otherwise connected with government in 2011



Source: Forbes.com and authors’s calculation; Gandhi and Walton (2012).

A wasted “sweet spot”

In the heady 2000s, especially before the Lehman crisis, it looked as if the Indian corporate sector had truly taken off, with India’s growth trajectory heading towards Chinese levels. But the extraordinary growth occurred because of an unusual confluence of favourable factors, a “sweet spot” of domestic and international conditions (Mody and Walton, 2012). This was particularly fostered by the interaction between the release of pent-up entrepreneurial energies induced by the reform, and the unusually prosperous global economic environment prior to the Great Recession. It was supported by rising aspirations in the population, whether for education, housing or durable goods. This bred a virtuous cycle, with rising government revenues and dynamic business growth, and ushered in the 2009 re-election of the UPA government. But the favourable conditions were temporary. Moreover they

contributed to hubris amongst political and business elites, and, with growth apparently taking care of itself, to a loss of political urgency over the policy and infrastructural supports for sustaining growth. As conditions worsened, the corrupt aspects of the business-state nexus became more salient (and more frequently revealed to the public), the quality of public services failed to improve, and underlying distributive conflicts and demands became “resolved” in populist policies and a persistent deficit.

The state and social policy

As discussed above, social policy presented a paradox in the first few decades after independence. Despite a broadly “social” constitution, with strong aspirations for universal social provisioning, the long-run record in most of the country was one of dismally slow progress on schooling, health, nutrition, water and sanitation. There were exceptions – Tamil Nadu for nutrition, Kerala for most social domains, but the dominant pattern was bad, especially in the populous northern states. The core interpretation we gave was around the interplay of federal assignment of basic social services to the states and fiscal constraints, especially given a cognitive map of state elites, at the national and state level, in which public finance and provision was *the* mechanism for delivery. Lurking beneath this surface was a second constraint, concerning the capacity of the government to deliver, given its internal organisational structures, but this was not apparent till later.

We highlight two themes here: the continuance of old-style approaches to social provisioning, even during the “liberalisation transition”, and the emergence of a new approach in the rights-based movement.

Old-style social provisioning

In the “liberalisation transition”, the cognitive map for social provisioning remained essentially the same. The state should provide, and this should be done as soon as it could be afforded. Finance Minister Singh’s budget speech is again illuminating. It is first interesting that he frames the problem of deprivation as a distributional question – or more precisely around the pattern of consumption. However, it is not cast in terms of the need to redistribute from wealthier groups, nor do the tax or other proposals in the speech support that. It rather looks more like the residual heritage of Mahalanobis’ thinking around managing the consumption-investment balance. He then says:

“In a society where we lack drinking water, education, health, shelter and other basic necessities, it would be tragic if our productive resources were to be devoted largely to the satisfaction of the needs of a small minority. The country’s needs for water, for drinking and for irrigation, rural roads, good urban infrastructure, and massive investments in primary education and basic health services for the poor are so great as to effectively preclude encouragement to consumerist behaviour imitative of advanced industrial societies.” Singh (1991, 8)

Later, the speech gets practical, increasing resources to education, but recognising the continued budget constraint imposed by the macroeconomic situation.

“Every effort will be made to ensure that the constitutional directive of providing free and compulsory education up to the age of 14 years becomes a reality before we enter the 21st century.....I am raising the allocation for education from Rs.865 crores in 1990-91 to Rs.977 crores in 1991-92. This allocation is not commensurate with my deep commitment to education and the priority that is attached by the Government to the education sector. I would have liked to do more but we must learn to live with the constraints on the exchequer.” Singh (1991, 14)

So this policy reform was certainly a case of “adjustment with a human face”, increasing rather than cutting education spending, despite the need for fiscal retrenchment to complement the liberalisation strategy. But the story of the 1990s was again essentially one of contrast between the effective building of capitalist institutions and an associated business dynamic, alongside weak social progress, in spite of immense (and formally recognised) needs.

We stay with education as an example of social policy. As seen in Figures 10 and 11, there was steady, but modest, progress in school enrolments, until the breaking of fiscal constraints and the big push on getting kids into school in the 2000s (supported by the national governments’ major programme of transfers to the states for education, the Sarva Shiksha Abhiyan). This masks good past experience of getting children into school in many states, especially in the south, but much worse in the north, and especially for girls. The problems of education in the northern states were vividly laid out in the seminal *Public Report on Basic Education* of the late 1990s (PROBE, 1999) The PROBE report also showed how it is possible to have successful basic education in India via the example of Himachal Pradesh; but this only underlined the message that it is the overall social and political history that combines to lead to a different equilibrium in the state’s behaviour, and in its interaction with social groups.

The PROBE report found substantial parental demand for education, including of girls. It diagnosed two interrelated problems: low quality of schooling (for those in school), and the syndrome of low teacher effort, characterised by lack of accountability and teacher disempowerment. This echoes the theme of the “corrupt state”, albeit with more sympathy for public sector workers caught within the system. These themes have been extensively documented in subsequent work, including a broader study of teacher absenteeism in the country (Kremer et al., 2005). Pritchett and Murgai (2007) further explore the theme of low effort despite relatively high teacher pay as a consequence of an incentive system that gives essentially no incentives to teach, and problems of lack of accountability.

Educational failures have continued to have political salience, both at state and national level. A striking example is Bihar. In the 1990s it was the worst state in terms

of enrolments (especially of girls), after decades of neglect on provisioning. But in the 2000s a government-led push – involving central resources, state resources and a shift in the state political equilibrium – largely solved the enrolment problem. At the national level a long political process finally converted the constitutional fundamental right to education into legislation, with the passing of the “The Children's Right to Free and Compulsory Education Act” (also known as “The Right to Education Act”) in August 2009.

While there is not the space here to review the design of the Right to Education Act, two comments are relevant. First, it is very weak on quality, despite the fact that schooling quality has now become the most important issue in basic and secondary education. The country-wide Annual Status of Education Reports (Pratham, various years) find dismal levels of maths and reading amongst children in rural government schools, with only slightly better performance in rural private schools. Worse, there was effectively no progress between 2005 and 2010. And the problem of low quality applies equally to many richer states that have a reputation for higher quality public services – notably Gujarat and Tamil Nadu. Second, and relatedly, there is little in the Act that tackles the incentive and accountability problems at the centre of the problem of low quality.

Similar accounts could be told on other domains of social policy, such as nutrition and health – though health in particular has a much larger role for the private sector, the latter undoubtedly influenced by problems of very low quality in public services (see, e.g. Banerjee et al, 2008; Das and Hammer, 2004)

Social provisioning is politically salient and continues to be considered a central function of the state. But problems of low quality have so far proved to be insuperable. This appears to be primarily an issue of how state-level systems function – whether they are embedded in clientelistic employment systems, or simply lack the structures of accountability, incentives and professional empowerment that are necessary for a well-functioning state. We can think of this as an issue of sector-level “local political settlements”, often operating at the level of federal states. This brings us to a major theme of the UPA governments of 2004-2014 – the rights-based movement.

Rights-based social welfare movement

The Right to Education Act was just one chapter in a new movement, that involved concerted activism, in and outside the government, and a new, or at least re-styled, cognitive map on how to change the behaviour of the state. As discussed above, the idea that citizens had social rights vis-à-vis the state is an old one in India, and was reflected in the Directive Principles of the Constitution. However, this was overwhelmed by the combination of high-modernist and patronage-based thinking and practices by state actors. And for citizens this meant negotiations, participation in clientelistic relations, and often humiliation in their everyday dealings with the state. This is the context for the emergence of the rights-based movement in India – this is

discussed in detail in a companion paper (Aiyar and Walton, 2014) and here we only sketch the argument and findings.

The rights-based movement was largely scripted by civil society movements, especially working on the ground around service delivery. One group, the MKSS, working in rural Rajasthan, was especially influential. However, the impact, in a series of rights laws, reflected the confluence of several factors. These included the emergence of the Supreme Court as an actor on social issues, facilitated by specific changes that allowed Public Interest Litigation to be brought to the court by any citizen (or by the court itself). The shifting political settlement was crucial, with the unexpected 2004 election victory of the Congress-led UPA coalition being interpreted as a mandate for increased social inclusion. And it was facilitated by shifts in the bureaucracy: many elite bureaucrats, potential sources of resistance, had left for the private sector in the wake of the 1990s boom; and particular “reformist” bureaucrats allied with the civil society movements. In a specific emblematic move, the National Advisory Council (NAC) was formed under the chair of the President of the Congress Party, with participation of the civil society activists. This was influential in framing the legislation.

The movement was to a significant extent a response to the failure of the executive arm of the state to deliver effective public services. While it involved specifying concrete state obligations to deliver services in particular areas, it was fundamentally a project to transform the state. The first act was the Right to Information (RTI), explicitly designed to make the traditionally opaque government bureaucracy transparent to citizens. This was followed by rights to work (via the Mahatma Gandhi National Rural Employment Guarantee Act, or MGNREGA), education (via the Right to Education Act, or RTE), and food (via the right to food, primarily through the Public Distribution System, or PDS). These also typically involved mechanisms of social accountability – including social audits under the MGNREGA – and Village Education Committees under the RTE. At the time of writing, there was ongoing debate over a right to grievance redressal. Making these policies rights was seen to be important, both to take them out of government discretion and to make them justiciable – the latter relying on the courts, and especially the Supreme Court – to enforce government behaviour.

Did the rights-based approach work? A preliminary assessment is that the strategic design was incomplete (see Aiyar and Walton, 2014, for the discussion). In some areas there have been real changes – the RTI in particular has led to a surge of applications, changes in government bureaucratic behaviour, and genuine revelations. However, it has also led to resistance and distortions: bureaucracies respond to specific file applications, but have not undertaken proactive disclosure, despite this being part of the Act. Social audits have rarely been implemented at the state level, again despite the requirement in the MGNREGA. Where they have – in Andhra Pradesh – new mechanisms of extracting rents have developed that work around the system. The problems within the rights-based approach are particularly severe in domains in which it is intrinsically hard to use a justiciable approach – where

effective government action depends on multiple stakeholders and discretionary behaviour, as opposed to specific, narrowly verifiable outcome. Achieving genuine learning amongst schoolchildren is an example of this, and the design defects of the RTE were discussed above (see also Aiyar and Walton, 2014).

Our interpretation is not that the rights-based approach is wrong, but that it is incomplete. In the absence of a complementary programme of reform of the functioning of the public administration, rights will have weak, and often distortionary, effects. And this in turn will only emerge through shifts within the broader political context within which bureaucracies function.

Rural political economy

While in the “liberalisation transition” of the 1980s and 1990s, tackling modern sector growth was the central focus of intellectual debate, the rural economy and polity was of even greater political importance. As discussed above, the political economy of the farmer was shaped in the late 1960s and 1970s. In the domain of cognitive maps, this marked a notable transition from the Nehru-Mahalanobis conceptualisation of agriculture as a source of low-cost workers for industry and wage goods. This mirrored the emergence of middle farmers, primarily from the “other backward castes/classes” as the determinant political force in electoral competitions, in national and state-level elections.

As also seen above, the cognitive map that emerged around the political economy of farming was essentially around input provision: of water, electricity, new seeds, fertiliser and credit, complemented by controls over procurement prices to assure a “decent” return for farmers. This typically involved subsidies, and success was mixed. There was an impressive surge in productivity as green revolution rice and wheat were adopted. But other parts of input provision became mired in an unholy mix of low quality provision by the state, high subsidies, and, in many areas, negative external effects – notably on a falling water table, on losses of electric power companies, and on sustaining an inefficient state banking culture. The political economy became further entrenched through the creation of economic rents and associated interests in ancillary parts of the farming system, especially in agro-industrial producers of inputs (fertiliser being a prime example) and the Public Distribution System for food, which is a major purchaser of farming produce. There was, and continues to be, awareness of these problems, but the cognitive map of state elites was dominated by ideas around input provision and protection.

The economic crisis added new twists to this mix of political economy and ideas. The core rural political economy was robust, but there was an added urgency to manage the crisis in ways that sought to shield farmers. This was aligned with major strands of thinking in the global development arena. While “structural adjustment” became the vogue for development policy in the 1980s, the need for “adjustment with a human face” had a rising profile, as the costs of fiscal retrenchment, opening and privatisation became clear (Stewart et al., 1987). This was an emergent

counterbalance to the perspective of self-regulating markets. It was also part of the long-run quest to find means of effecting the transition to modern capitalism without the contemporaneous costs of displacement, that Polanyi had interpreted as a central feature of the transformation of now-rich countries. We return to this theme in our discussion of the present conjuncture.

Around the symbolic point of transition in 1991, Indian state elites were a long way from a belief in self-regulating markets for all. Rather, there was a confluence of the ideological and political desire to protect farmers, alongside a continued input-oriented development culture. This is again revealed in the language of Finance Minister Singh's budget speech:

“Farmers will be compensated for the proposed increase in the price of fertilisers through suitable increases in procurement prices. ... We would continue to ensure that 50 percent of the plan resources are invested in the agricultural and rural sector. The provision for the continuing schemes for assistance to small and marginal farmers for dug wells and shallow tube wells would be doubled. ... New schemes are being drawn up to popularise small tractors and matching implements, drip and sprinkler irrigation in areas where water is scarce, and quality seeds in low yield areas.” (Singh, 1991, 10)

These phrases illustrate both the goal of protection through the management of prices and the centrality of “schemes” as the way to support farmers. There is no discussion of de-licensing, liberalisation or even market-deepening when it comes to farming, in sharp contrast to the treatment of industrial/corporate sectors.

The origins of the state's contrasting stance for agriculture flows from the mix of political economy and the cognitive map again, but with very different effects. With respect to political economy – this dimension of the unfolding political settlement – the centrality of the middle farmer coincided with the rise of regional parties and the emergence of competitive and coalition politics. This was effectively an era of “competitive clientelism”, even though many of the policy instruments of choice might be more accurately described as populist rather than clientelist. The delivery of inputs, schemes, subsidies and periodic loan write-offs was the tried and trusted mechanism for competing for and sustaining support. This was aligned with the dominant cognitive map of what made sense to do in agriculture in an Indian context. There had indeed been international work on the case for a more market-oriented approach to agriculture, by some of the same authors who had led the intellectual charge on liberalisation in general (see Krueger, Schiff and Valdes, 1988, 1991). But this was peripheral at best, even to technical debates within India on how to tackle agricultural productivity.

We are not arguing here that a radical shift to rural market liberalisation would have been socially optimal. The rural economy is complex, thick with market failures around information, credit and insurance, many of which interact with inequalities.

But a blend of market-deepening, public good provision, tackling of market failures and provisioning for managing risks would have been superior to the input- and scheme-driven approach.

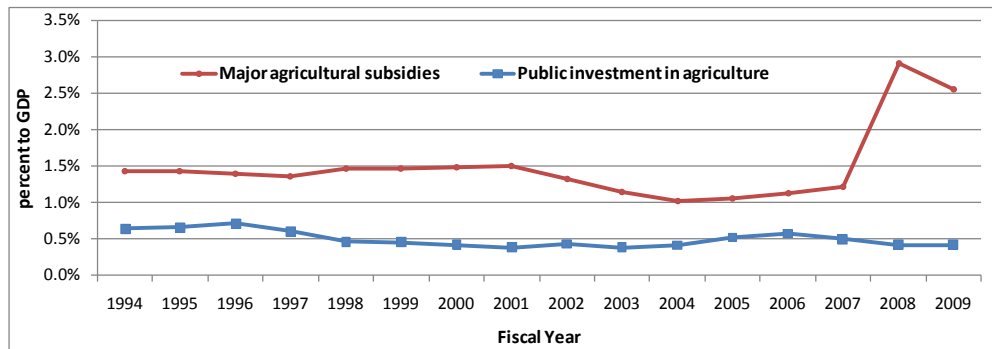
Now the overall political economy of the farmer became further entrenched by an associated system of specific rent creation and sharing, both by public sector actors and those with concentrated influence. We have referred already to the fertiliser subsidy and PDS. Rajiv Gandhi famously said in the 1980s that only 15 paise of every rupee spent on the PDS reached the targeted poor, with the remainder “leaking” to intermediaries and the non-poor. Two other examples illustrate this point.

First, a classic study of the workings of the public sector irrigation system in South India in the 1980s by Robert Wade (1985), found that there was a thriving market for jobs within the irrigation service. Differing posts had differing opportunities for extracting bribes from farmers in return for water delivery, and the anticipated stream of economic rents determined the (private) price that had to be paid for the position. And since individuals often had to borrow to purchase a position, they had to sustain the stream of bribes/rents to repay. Economists call this a self-enforcing equilibrium!

Second, the sugar cooperatives for Maharashtra were controlled by major elements of the state political elite. Through control of input and output prices, they have successfully created a steady stream of economic rents for an extended period, despite relatively inefficient production (Banerjee et al. 2000, Khan, 2011). This system had multiple political benefits: it supported political finance; cooperative members and their families constituted a numerous core voting bloc; and the personal enrichment financed extensive economic diversification, especially into land, by this elite. An ancillary benefit, according to Khan, was that it meant that the state elite did not need major rent extraction from Bombay (as it then was), and so was symbiotic with long-term industrial development. This aspect disappeared with the emergence of competitive politics in Maharashtra, flowing in particular from a Maratha base outside the sugar cooperative areas.

The reliance on “populist” approaches to the rural areas is exemplified by the spending and pricing policy in the more recent past. Figure 24 vividly illustrates the relative neglect of public investment compared with agriculture-related subsidies – and since this does not include the true economic cost of water (with rapidly depleting water tables) or agriculture’s share of electricity subsidies, the true picture has been much worse. The surge in subsidies in 2008 is a consequence of the loan write-off of that year: almost universally supported politically, and understandable from a short-run welfare viewpoint, but with high costs for the long-term development of the sector.

Figure 24. High subsidies and low public investment in agriculture 1994-2009 (% GDP)



Note: Subsidies included fertiliser, seed and loan writeoffs.

Source: Agricultural Statistics, Ministry of Agriculture, Central Statistical Organisation and RBI Annual Report (various years).

Also relevant is the UPA government's policy on minimum support prices for major crops. As Figure 25 shows, real price changes, in relation to the agricultural labourer price index, have risen by some 10 percent 2004-05 and 2012-13, but with very discontinuous patterns. However, prices have risen by 25-30 percent in relation to the broader wholesale price index, owing to the much lower share of food prices themselves within this broader index.

Figure 25. Real minimum support prices, deflated by agricultural labourer price index

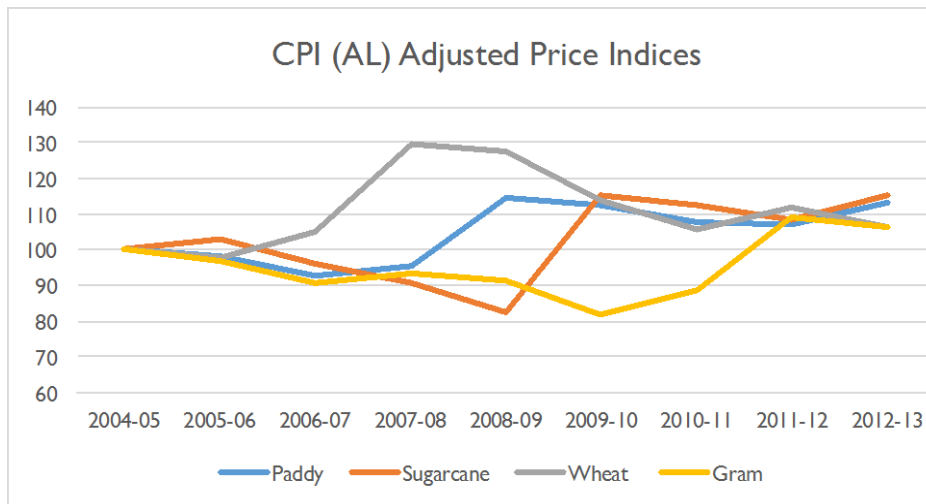
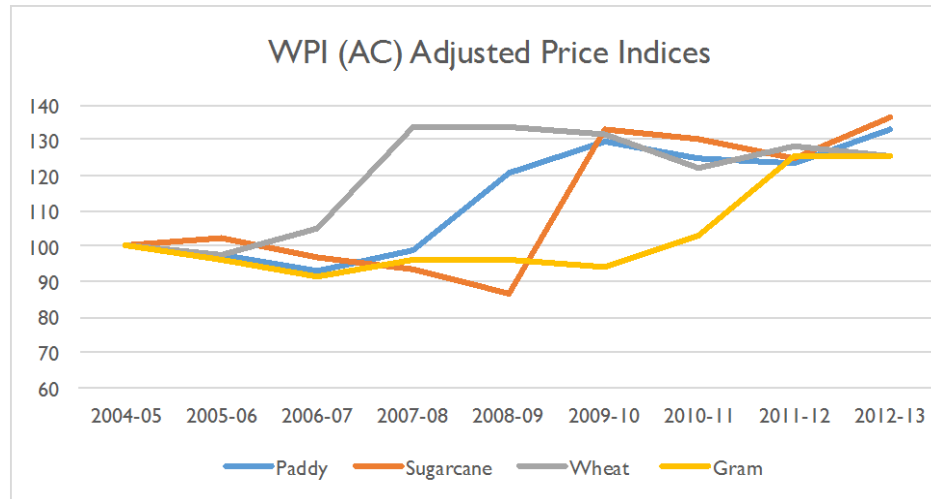


Figure 26. Real minimum support prices, deflated by wholesale price index

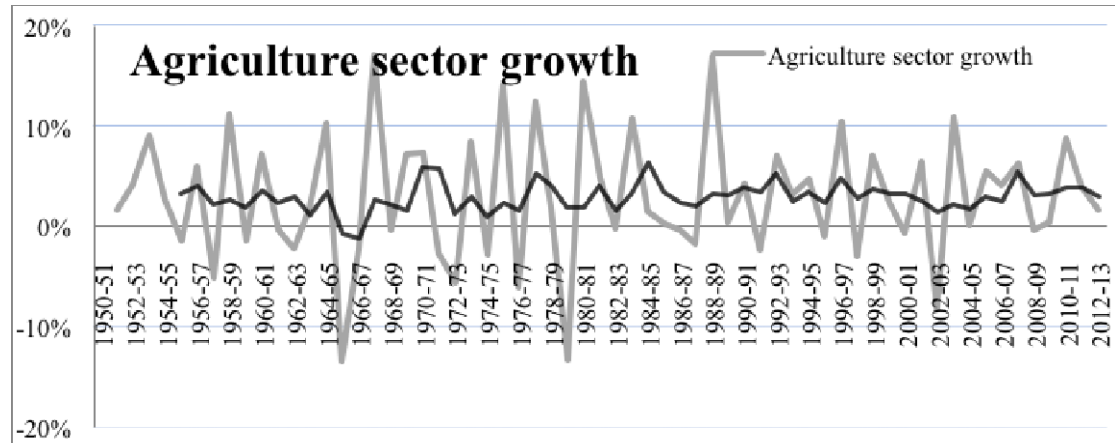


Source: data.gov.in and Database of Indian Economy, RBI.

These exemplify the mix of populist, political strategies alongside a corrupt or ineffective public sector – in many, but not all parts of the system. The narrative of a corrupt state is one that we saw had emerged in the 1970s, and has remained germane to the present day. And with the public system embedded in a bad equilibrium – with its mix of high economic rents and low external accountability – the potential for effecting change was further restricted. In a case study of the power sector, Dubash (2008) finds that farmers rationally resist reforms that seek to cut subsidies in return for better quality, since the government lacks credibility on delivery of the better service. A route out of this has been pursued in Gujarat water: first improve the quality of service in order to establish credibility, and then undertake pricing and other reforms. But this also requires the capacity to get things done (which is relatively high in Gujarat).

The political economy and policy mix for agriculture has had unfortunate consequences. One of the ironies of the past few decades is that a period of ascendancy of farmer groups with respect to electoral attention coincided with slow long-term growth in agriculture production. There were periods of growth in excess of 5 percent per year, for example around the introduction of the Green Revolution, but growth has mostly been in the 2-3 percent range, and seemed stuck there before the series of good monsoons at the end of the 2000s saw a modest acceleration (Figure 22). This was not for lack of potential: farm yields for rice were almost double the Indian levels in Indonesia, and even higher in China.

Figure 27. Indian agricultural growth, 1952-53 to 2012-13



Source: Central Statistical Organisation.

Despite the modest agricultural performance, the good news is that there was an acceleration of rural poverty reduction in the most recent period. As seen in Table 1, rural poverty incidence fell from 42 to 26 percent of the rural population between 2004-05 and 2011-12, with over a 100 million people crossing the poverty line (albeit most still living in conditions that would be considered poor by international standards). This was associated with a rise in real agricultural wages of some 44 percent between 2004-05 and 2012-13, again concentrated in the past few years. A careful analysis of this was not undertaken for this paper, but we would hypothesise that the primary driver was the overall tightening of rural labour markets, especially as households continue to diversify out of agricultural activities – with producer price policies and, perhaps, the MGNREGA playing a supplementary role.

Overall, the rural political settlement proved to be somewhat successful as a political strategy, but with relatively weak results in income growth and poverty reduction. Only “somewhat”, since there has been clear dissatisfaction on the part of the electorate, reflected in the extended period in which anti-incumbency was the dominant pattern at state level, lasting from the late-1980s to around the mid-2000s. But still “successful” in the sense that its core policy and institutional elements have been resilient and, with the exception of areas influenced by the Maoist insurgency, it has been the principal game in town with respect to policy action. The recent acceleration in material living conditions makes the 2014 election defeat of the incumbent UPA government even more striking. It supports the view that frustrations over the “corrupt state” and rising aspirations have become more important to voting behaviour than short-run economic gains.

Interaction between state and society: taxes, identity and subsidies

The final field of interaction we highlight is the set of issues around identity, dignity and humiliation. This was an important element of the aspirations in the post-independence political settlement, manifested in reservations for jobs and higher education for Scheduled Castes and Scheduled Tribes. B. R. Ambedkar, the primary drafter of India’s constitution, was a powerful advocate of the reservation system,

both to redress the past injustice of foreclosing major routes to social advancement, and to create a new class of leaders from these disadvantaged and stigmatised groups, to help shape aspirations for others. Yet his original vision that this would be a temporary affair has not been borne out. Rather, the instrument of reservation has proved an attractive political device to respond to, and mobilise, issues of identity.

Group-based differences have thus continued to be salient for government policy and for political mobilisation. There is also continuing evidence of discriminatory treatment in the social and economic realms, even in “modernising” sectors⁸. This is apparent across many group-based divides – Hindu-Muslim (in much of India); Tamil-Brahmin (especially in Tamil Nadu); Punjabi nationalism; Kannada-Tamil (in Karnataka); Maratha-Northern Indian (Maharashtra, especially in Mumbai); in Other Backward Caste-based parties (e.g. in Bihar and Uttar Pradesh); in the major dalit-based party (in and out of power in Uttar Pradesh for many years until 2012); in adivasi-based parties in Jharkand; and in some overlap between Maoist groups and adivasi (Scheduled Tribe) groups.

Identity has had a counterpart in a range of government policies and legal rulings, including the linguistic organisation of states, the extension of reservations to Other Backward Castes in the wake of the Mandal Commission, reservations for Tamils in Tamil Nadu and so on. Some identity-based mobilisations have had beneficial long-term consequences: dalit mobilisation was one important element of the social movements that effected change in Kerala (Heller, 1999), and there is an argument that Tamilian (and related) mobilisations in Southern India led to a more rapid dismantling of economically restrictive hierarchical structures than in the north (Varshney, 2002). But identity-based differences can also have tragic consequences, as with the history of “communal” (Hindu-Muslim) riots, the widespread violence, and especially Muslim killing in Gujarat in 2002, and the earlier violent conflict in the Punjab, that led to Indira Gandhi’s assassination and the 1984 anti-Sikh riots, especially in Delhi.

Why has identity-based mobilisation been so persistent? This can be related to three factors: the sheer persistence of social difference, the relative failure of the strategy of universal social provisioning (compared with the partial success – for the few who benefited – of reservation policy); and its very effectiveness as a political strategy, that blends well with broader strategies of clientelism (Chandra, 2004). Clearly, there is an ethical and social case for tackling group-based social disadvantage, but in many domains identity-based differences have helped sustain a bad equilibrium around a state that is both very present, but also weak at delivering public goods, and in the worst cases has tolerated the exercise of violence (as in Gujarat) or been a perpetrator (as in anti-Maoist action – see Guha, 2007b).

⁸ See Newman and Thorat (2007) in the special issue of the *Economic and Political Weekly*, 13 October, 2007.

Summary

Overall it is useful to consider the changes initiated in the 1980s and 1990s, and continuing into the 2000s as a major transition. But characterising this as a “liberalisation transition” is misleading in several respects:

- a) In important domains protected rents were not tackled – in much of the public sector, in areas of industrial production (e.g. fertiliser); in land markets, and in the formal labour market – indeed, in many areas there was an intensification of the rent-extracting and rent-sharing nexus between business and politics.
- b) A genuine market-deepening reform of agriculture and the rural economy was not undertaken, or barely attempted.
- c) The (countervailing) attempts to shift to universalistic social provisioning, through expanded spending and rights-based legislation, was half-baked in the absence of a deeper (and difficult) project of transformation of the state to make it effective and responsive.
- d) Identity-based behaviour remained highly relevant to the state’s behaviour in many domains, though the 2014 election at least is suggestive of a diminishing role in national elections.
- e) At the level of the states, patronage has continued to be a major driver of political behaviour, in spite of growing signs of electorates rewarding and punishing state governments for good and bad developmental action.

Complementing this mix has been the functioning of various institutions of accountability, which operate with some degree of organisational autonomy that is characteristic of consolidated institutional states. The Supreme Court has continued to be active, some would say overactive, in filling the vacuum left by a weak executive branch. It has also continued to be ambivalent over central constitutional interpretations affecting development, e.g. over the balance between the “right to life” and the “right to property”. There is periodic and sometimes rather curious railing against the costs of “neoliberal” strategies by some Supreme Court benches, but it is not clear that this is substantively shaping decision-making. The Comptroller and Auditor General has also had high-profile reviews of government policy – in areas ranging from issuance of 2G licences, through coal, to the workings of MGNREGA.

The present conjuncture: strategic tensions and dilemmas

In the Introduction we contrasted three normative views of the state: as a top-down provider, as a state responsive to citizen’s rights and as a handmaiden of capitalist dynamism. And in each area there was a darker, counter-narrative: of the state as a dispenser of patronage and populism, of a legalistic and corrupt state, and of crony capitalism. These reflect different cognitive maps of actual and desired behaviour, with substantial dissonance in both the normative and actual realms.

In this context, it is premature to judge the 2014 election as marking a critical juncture in the realm of ideas, interests and government policies and behaviour. At the time of writing, we are too close to events to form any definitive assessment. But we would make three points here.

First, in contrast to the stunning outcome of the Modi/BJP absolute majority in the national parliament, at least some of the voting shifts were less dramatic. The vote share of regional parties remained roughly at the level of 50 percent that has prevailed for the past two decades. There was indeed a huge swing between the two national parties, that essentially changed places in vote shares, compared with the 2009 elections: BJP 's share of the vote rose from 19 to 31 percent between 2009 and 2014, while Congress' share fell from 29 to 19 percent (Vaishnav and Snogard, 2014). However, the distribution of the BJP's 2014 vote led to an unusually high conversion of votes to seats, through the first-past-the post system (see also Tillin, 2014).

Second, the electoral shift falls within a long-established (counter)-narrative of the corrupt state. What was different was the very public and high-profile cases of corruption under the UPA government (helped by the RTI and the CAG), the social and then political mobilisation against corruption (for example by the insurgent Aam Aadmi Party in the December 2013 Delhi elections) and Narendra Modi's plausible offer as an alternative focal point for the coalescing of dissatisfaction. We can speculate that the dissatisfaction with the everyday costs of dealing with the government may also have been intensified by the very expansion of the state, and especially of promises of state action.

Third, while some observers are interpreting the result as a mandate for a market-based turn, and even for the wholesale dismantling of welfare programme, it is not at all clear that this is what the electorate voted for. Nor is it clear that the so-called "Gujarat model" exemplifies this (despite the interpretation of Bhagwati and Panagariya, 2013).

Nevertheless, the 2014 election was seen by many as crystallising demands for change, and giving a mandate to the Modi government to effect change. Here we suggest it is useful to frame this in relation to core questions around the strategic tensions and dilemmas in India's development path. India has immense problems of deprivation, deep inequalities, widespread deficits in public good provision, and periodic violence. Yet the current political settlement has, by some criteria, been a successful arrangement – in political terms – for providing overall stability, supporting dynamic capitalist growth, achieving a slow but steady improvement of social provisioning, and, not least, allowing regular alternation of power. The question is how it will evolve. A major theme has been that the settlement is a resolution of underlying distributive conflicts – interacting with cognitive maps and global forces. The mantra of "inclusive growth" – present in different language in the BJP's as well as the Congress' election manifestos – is an expression of the state's attempt to

construct (and implement) a legitimising narrative of change that will manage these conflicts.

In the remainder of this section we explore the core tensions.

Capitalism, politics and inclusion

A classic tension, now unfolding in India, is between the drivers of capitalist change and the demands for inclusion via work, social risk management, education, housing and urban services – this mediated via the political process, that is in turn shaped by the interplay of interests and ideas.

Rising capital and capital income

An important part of the context lies in the rise in importance of capital, especially in the business sector – echoing themes that have become important in global debates, notably in the recent work by Piketty (2014).

While direct measures are unavailable, it is highly probable that the past 25 years have witnessed a rising ratio of capital/wealth to total income, a growing concentration of capital ownership, and increasing interconnectedness between capital owners and the political class.

Wealth was historically very highly concentrated, especially around Indian ownership of land, and around British and Indian entrepreneurs command over large-scale industrial and service capital. This was reduced in the post-independence years with the exit of the British, the *zamindari* abolition, and nationalisations. However, as noted above, the redistributions were far from radical, and the Indian business class remained largely protected in the early decades of independence.

Since the growth acceleration that started in the 1980s, there has, almost certainly been a large rise in the capital to income ratio. We saw buoyant investment, huge increases in stock market valuations, and very large, if badly measured, land values in urban and peri-urban areas. We also saw in the above discussion the entry of different caste groups into business activity: to the extent this reflected the unleashing of new dynamism, it would have both raised the ratio of capital to income, and diversified the identity of owners.

At the very top, further evidence is provided by the spectacular growth in billionaire wealth from the early 1980s to the late 2000s, as seen in Figure 16, albeit with some fluctuations as valuations responded first to the Lehman crisis and then to the Indian slowdown. We have also seen the strong secular increase in the corporate profit share, that appears to have been driven by a mixture of rising capital, and a more complex pattern of profit rates, that – according to Prowess data (in established firms) – first fell and then rose between the early 1990s and late 2000s.

This is suggestive of India having experienced the kind of U-curve of capital to income that Piketty analyses for rich countries. (The one Indian data source on taxed

incomes, while undoubtedly having problems of coverage, showed a pattern that was strikingly similar to that of Argentina and the United States – see Figure 15 above.)

Different kinds of capital, links with the state and pressures

Now what matters is the nature of capital and its relationship with the state. We can think of several categories:

- a) “Dynamic” industrial-service capital. This was rapidly growing in the boom period, had high returns, is good for productivity dynamics, and has an interest in infrastructure support, a skilled workforce, and a good business climate. But it is unclear if productivity change has been rapid enough to meet global competition from China and other dynamic emerging economies.
- b) Rent-seeking industrial-service capital. This has also been rapidly growing, with high (and probably higher) returns, partly privately appropriated, sometimes illegally, and with a deepening business-politician nexus. It often overlaps with the first category.
- c) Real estate. Rapidly growing (in value), central to rent-sharing nexus, and to politician-business interactions.
- d) Financial savings. Despite growth in financial assets due to financial deepening, this is the one major category in which returns have often not been greater than growth – an implicit form of financial repression that has so far meant public debt has not exploded, and so has been functional to the political resolution of a high public deficit with only moderate inflation.

These patterns already create a tension within capital owners: on the one hand, long-run dynamic capitalism requires effective infrastructure provision, a highly skilled workforce and effective regulation; it also has an interest in low taxes on capital and capital income. Even, or especially, with PPP-type development, this requires an effective and responsive set of state actors.

On the other hand, the rent-sharing nexus leads to incentives for inefficient rent-extraction, protection, and explicit or hidden preferences for these activities, including rent extraction from scarce urban land values, as well as an interest in under-taxing capital and income. PPPs can again be an efficient source of rent-extraction, albeit with some productive capital produced in the process. The intermingling of business and political elites can support this “oligarchic” process as long as it is politically sustainable. However, this will often undercut state capacities.

Forms of inclusion

As we have seen, the dominant narrative around inclusion in the UPA period was framed in terms of a combination of expanded resources for social programmes, from centrally sponsored schemes and state action, and a variety of legislated social “rights”. While some of this reflected narrow “populist” electoral considerations, there was also a genuine element of seeking to create a form of social democracy in a still-

poor country, in which the bulk of the labour force was in informal or self-employed work. This in part associated with the very limited transition to formal work, and a very small trade union movement, both linked to the unusually low growth of labour-intensive manufacturing.

The problem with this strategy was that it ran into two failures:

- Weak administrative and technical capacity of government actors;
- Local political systems, especially rent-sharing networks, often working through a contractor-bureaucrat-politician nexus, or through employment provision.

Neither the rights-based approach nor government schemes engaged effectively with these (even though RTI and the right to work in MGNREGA explicitly sought to respond to the second), creating a tension between intent and implementation.

The larger tension

The larger tension lies between the demands from capital expansion and those for inclusion.

The “dynamic” part of capital, that is increasingly globalising, demands infrastructure, skills and low capital taxes. Global pressures reinforce these. The “rent-seeking” part of capital demands better protected deals. Both are currently on track to have a rising share, and also rising political influence, via overlapping elites and political finance.

Middle and poorer groups demand jobs, or at least income growth, and services. These are also of rising political salience in a period of slower growth, since private income growth has decelerated, as is the capacity to deliver expanded service access and subsidies.

A further important unknown concerns whether global technological change will disfavour unskilled and many categories of skilled labour, even in a middle-income country, or whether this will remain a rich country issue for the next few decades. If so, this would sharpen the tension. A major issue here is whether openness to China has curtailed the potential growth of labour-intensive manufacturing – as anecdotal evidence suggests – given the weaknesses of India’s complementary support for such a strategy.

This leads to several dilemmas:

- a) If “rentier” capital forces dominate, this will lead to a combination of increased concentration, inefficient production dynamics and rising popular resentment, which could lead to various forms of popular protest, populist responses, and group-based conflict.

- b) Even if political pressures from “dynamic” capital become salient, this will require a more effective, higher capacity, state and, even more...
- c) ...if the rights-based movement and social demands are to be converted into genuinely broader provisioning of social and urban services, this will require higher taxes, expanded employment and a transformation of internal state functioning

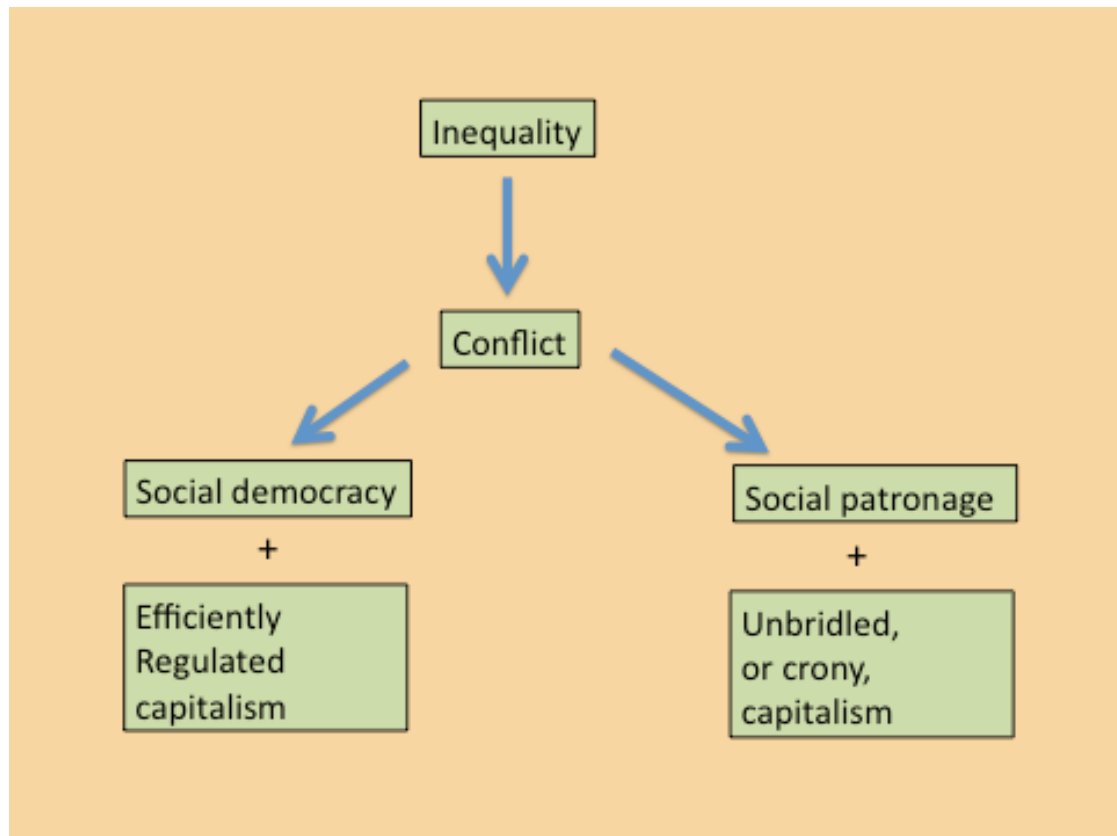
Alternative resolutions

The political and institutional response to distributive conflict is a familiar historical story. One, largely successful, resolution in now-rich countries, has been the long-term expansion of (relatively) effective forms of public spending (Lindert, 2004) within an overall structure of provisioning that can best be described as social democratic. By this we mean political democracy, competitive and regulated capitalism, and widespread provisioning (or at least guarantees) for education and for the management of the major risks that people face over their lives – of health, old age and unemployment. Relative to India, even the United States has a form of social democracy, albeit one that is exclusionary for some.

However, a social democratic resolution of distributive conflict is not the only path. In the 1930s, fascism was another path that many countries followed. In some Latin America countries, such as Argentina and Brazil, the intensification of authoritarianism in the post-war era was also partly in response to conflict, as middle groups preferred the stability offered by the military (O'Donnell, 1973). In India's case, such a shift to authoritarianism is highly unlikely. However, there is another common path, characterised by a mix of unbridled and crony capitalism in the economic sphere and social patronage in social areas. Figure 28 provides a heuristic graphic.

As discussed in Walton (2013), while an authoritarian resolution is extremely unlikely in India, it is unclear which of the two paths stylistically portrayed in Figure 28 India will follow – and, we suggest, it remains unclear after the 2014 election.

Figure 28. Alternative paths for the evolution of the political settlement



Source: Authors and Walton (2013).

Centrality of the functioning of the state

The state will lie at the heart of what happens, on the interface between politicians, state actors and business, and between politicians, state actors and middle and poor groups. There are some sharp internal contrasts.

The state is seen as both pervasive and failing, developmental/redistributive and corrupt. On the one hand: in elite thinking the state is central – from Nehruvian grand designs, to reservations, to the wide array of “schemes”. Similarly, citizen demands for state action are pervasive, whether in specific redress or resolution of problems. Moreover, state actors are very present in the lives of citizens, in benign and malign ways.

But, on the other hand: politicians do not trust the bureaucracy to deliver, undercutting public goods-based political strategies; higher bureaucrats do not trust lower bureaucrats or lower levels of government, leading to top-down rules; citizens experience daily corruption in their interactions with state actors; activists see a contractor-bureaucrat-politician nexus. As we have seen throughout this paper, the idea of a “corrupt state” goes back decades, and is both often accurate, and a central part of the cognitive map of those inside and outside the state.

This mix has led to resolutions around hardening of identities, subsidies and other clientelistic and populist political strategies, as these are viewed as areas the state

can systematically deliver. This contrasts with areas where the state has indeed demonstrated a capacity to deliver public goods: emblematically in the work of the Election Commission; but also over a core domain, such as the Prime Ministers' rural roads programme – undoubtedly thick with some corruption, but with huge reach and substantial, and substantiated, economic benefits.

The state as a domain of both deals and rules, bribes and audits. A related prism would place the Indian state in the deals v. rules space (North et al. 2009; Hallward-Dreimeier et al., 2010). Here, too, both coexist. State action is, and is pervasively viewed as, a domain in which deals are made – especially deals between politicians, their bureaucrats and economic elites, whether legal or illegal, but also deals over jobs, access, subsidies that are outcomes of mobilisation and negotiation. Bribes are also seen as central, at the front-line and in major transactions. But the Indian state is also obsessed with rules, from the “passion for paper” within its bureaucracy, to the rights-based approach, itself a product of a substantive (and cognitive) coalition between activists, some bureaucrats and politicians. The activity of the CAG, the activism of the Supreme Court and the new governance agenda framed around right to services (with rules and punishments) are manifestations.

Perverse resolutions?

These inherent tensions – with their cognitive dissonance – have bred resolutions that perversely undercut the larger project of building a state that is genuinely responsive, developmental and in creative tension with an autonomous civil society.

Examples include:

- The mutual choice (of political elites and social demands) for subsidies over public goods; reservations over universal quality services;
- The periodic anti-corruption movements that coalesce around new, more rule- and hierarchy-based, forms of control;
- The resistance to genuine devolution to panchayats and municipalities;
- The weak demand from middle groups for core education and health services – with the rising privatisation of these services;
- An approach to the welfare state grounded in schemes and rights;
- Half-baked devolution and half-baked regulation.

This contrasts with the history of now-rich countries. The reach of the state was much less extensive in, say, the 19th century. But in these countries, the story is of a cognitive map in which demands, expectations and fights were over the steady extension of the state in social provisioning, as in the trajectory described in Lindert's long-term historical perspective (Lindert, 2004). This was driven by the steady extension of democracy that made social demands more effective, along with demographic change, urbanisation, the joint effects of the Great Depression and the two World Wars, that – as Piketty, amongst others, highlights – led to both a political settlement in which the social state was central, and also to the destruction of private

capital. In all of this, what the state could do was not in question, but rather what was politically and financially supportable in the scale of its extension.

By contrast, India's post-independence formation occurred not only as a democratic polity in a poor country, but also one in which the dominant cognitive maps of developmental design and nation-state formation involved an activist state from the start. These aspirations – reflected in the Constitution (especially the Directive Principles) and the Nehruvian designs – were in conflict with severe state incapacity (albeit *relatively* high capacity for a very poor country), and deep social, cultural and political inequalities. This bred resistance, especially in North India, and the theme of a “corrupt state” – corrupt both in the sense of the role of bribes and influence, and in the sense that even legitimate access came to be seen as extracting private and group benefits through state-mediated privileges obtained via access to power. This was also a form of dissonance around the state.

A related issue is land. The central domain for transformation and rent allocation is land, and the government is currently in the midst of an attempt to balance this: to facilitate the transformation to industrial and modern service use, whilst compensating rural occupants and, in some areas, urban slum-dwellers (that we might see as seeking to combine Polanyi's double movement into one epoch). Whether and how this works, with how much genuine equity, how much hold-up of productive transformation, and how much violence, is unclear. It will depend fully on the state's implementation interacting with both business and local political processes. The Maoist conflict can be seen as an extreme manifestation of these issues, in domains in which the reach of the state is least effective.

At the same time, and especially in the states, there are some signs of transition to developmentalist political strategies, and of this being rewarded in the polls. Bihar under Nitish Kumar, and Gujarat under Narendra Modi fell into this category. More broadly, the electorate appears to have become more discriminating over performance. The strong anti-incumbency preference – of “throwing the rascals out” – has in the 2000s increasingly shifted towards rewarding governments seen as relatively good performers – in these states, and in Chhattisgarh, Madhya Pradesh and Orissa, for example. Conversely the 2011 electoral changes in West Bengal and Tamil Nadu can be seen as rejections of extremes in entrenched patronage-based systems, albeit with unclear alternatives. The 2014 national election is only a more dramatic manifestation of this.

The “corrupt state”

The old theme of the “corrupt state” has motivated increasingly energetic responses, often flowing from civil society, but also working to change accountability behaviours within the governmental system. This includes the movement that led to the passing of the 2005 Right to Information, localised measures to improve service quality, such as the citizen report cards pioneered by an NGO in Bangalore, and the 2011 movement to create national and state-level groups – a form of ombudsman – to

investigate corruption within the state. There are also measures within many government policies to improve accountability to clients of government services, including village-level parents' committees for government schools, and social audits for the National Rural Employment Guarantee Scheme. The sheer range of the measures is indicative of the social demand for a better state, and of formal recognition of the issues by state elites. The Right to Information has transformed the possibility of obtaining information on government decision-making by the public. However, it is still premature to assess whether this category of measure will transform the behaviour of the government. As one example – from just one district in Uttar Pradesh – many members of the school parents' committee did not know that they held this position, and there was no evidence of impacts on learning (Banerjee et al., 2010)

What does this mean for policy?

What does a political and institutionally informed analysis imply for policy? In these final notes we provide some general thoughts to this question, seeking to link political-institutional issues to practical questions of policy design.

Many of the old challenges – that informed policy and institutional design from the Nehruvian era to the 1990s reforms – now seem less central for policy design. The question of solving savings-investment constraints is not a major issue, with the large rise in the saving and investment rates in the 2000s. Industry has shown its capacity to diversify, to insert itself into global markets, and indeed to provide inputs to other industries. The capacity to raise taxes is much less binding than in the past, even though fiscal deficits remain a central macroeconomic issue. While the financial crisis in rich countries is a drag on the world economy, there is no structural reason for export pessimism.

However, other issues are salient, whether or not they are on the table. Here we look at four: designs for the next phase of capitalist development; the potential for transition in the political economy of rural policy; questions of state capacity and political economy in social provisioning; and the cross-cutting question of tackling the “corrupt state”. How these are resolved will have a profound influence on India's future development dynamics, for good and ill. All involve a mixture of essentially political questions, institutional dynamics and technical questions.

Capitalist and industrial strategy

Can the government manage the next phase of support for capitalist development and industrial strategy? Policy-institutional elements of this include the provisioning of the land, urban service and infrastructural bases for modern industrial and service investment, clustering, innovation and growth. This will undoubtedly involve a mixture of market and government solutions, but some form of public regulatory or direct action is necessary in each of these areas. Add to this the ongoing design of institutions for the management of capitalist behaviour – for example, with respect to

competitiveness, protection of minority shareholders, and the next phase of finance development. And finally there is likely to be a need for new rounds of sectoral reform, whether in productive sectors (e.g. mining, energy) or in the regulation of the production of technical and high level skills, the functioning of the labour market, etc.

Each of these areas is profoundly political in two senses.

First, policy and institutional resolutions will depend on the nature of the business-state nexus – especially on whether the process of resource allocation, land and infrastructural support, licence allocation, is shaped broadly by productive efficiency and economic dynamism or short-run, rent-sharing deals between business and the state. Land allocations in Mumbai, the role of family political influences on business in Tamil Nadu, the mining-politician nexus in Karnataka or Orissa are just a few examples in which rent-sharing structures look aligned with private gains but distortive of longer-term economic dynamics.

Second, many of the decision-making processes involve distributive conflicts between capitalists (often allied with the state) and other groups: notably on land allocations, city design, infrastructure constructions, slums policies and mining rights. These are even more blatantly political. This is especially the case given the recent salience of a narrative of distributive exclusion by a corrupt state, fuelled by both the reality and the perception of a state beholden to corrupt deals with business.

This area has a counterpart in the domain of ideas, in the cognitive map of key actors. Probably the main issue at this juncture is the dissonant relation to the narrative of legitimisation of the state under the UPA (I and II) and the emergent narrative under the Modi government. The dominant narrative under the UPA governments was of social inclusion and protection, including support for programmes that have historically been populist and clientelistic, and often corrupt, such as PDS. The verdict is still out on whether well-intentioned and important programmes such as MGNREGA and the rural health mission will be transformative or captured by the existing system. More fundamentally, what the government lacked was a coherent narrative of a capitalist-based social democracy – in which efficiently regulated capitalism is a central component of a strategy of social provisioning – of jobs, skills, health and security. It is still unclear whether the Modi government will usher in a difference in substance or only in style, and what this will mean for the management of distributive conflict and genuine inclusion.

Rural political economy

Can the government effect a transformation of the strategy towards farmers and rural dwellers? The policy-institutional questions include at least three challenges.

First, there is the need to shift away from an essentially input-oriented political regime, with associated organisational functioning, that now constitutes a bad equilibrium of subsidies, resource distortions and political populism. It is possible to outline an alternative, involving a public private mix of efficient input and market

delivery and connectivity in value chains, but it is not clear whether this will be a politically supportable path.

Second, economic and social transformation requires mechanisms for managing land reallocations away from agriculture to urban and industrial-service uses in an efficient and equitable manner, with politically acceptable compensation or benefit-sharing. This should include letting the holy cows of irrigated agriculture move into urban or industrial production when this is economically desirable. The 2011 land allocation bill is an attempt to do this, but it has important weaknesses and whether it works well will be fundamentally determined in the core issues which will only be resolved in implementation. At the time of writing, it was under review by the Modi government, but with attendant concerns that the pendulum would swing too far back to favour business deals over real sharing with affected social groups.

Third, there is a welfare and political need to bring into the mainstream those, mainly *adivasi*, groups now caught in the destructive conflict between Maoist and government.

Each is, again, highly political. Overall the past rural political economy has often been a “successful”, or at least a resilient, political strategy. The Communist Party’s loss in the 2011 West Bengal elections might be seen as representing a rejection of old-style rural politics. But ironically one of the focuses of mobilisation was around a strategy of total resistance to land reallocations from rural to industrial use: now there was undoubtedly a case for a more efficient and equitable mechanism, but the exercise of hold-up was neither of these. The political economy of the current strategy also has another set of resistances – the entrenched and new rents that form part of the existing system, whether they lie in the continuance of existing rents (sugar, fertiliser), or are the front end of inequitable land transfers, whether at the urban margin (Noida) or rural (mining). Add to this the government practice of pursuing a strategy of punitive attacks in areas of Maoist infiltration, which is both ineffective and exclusionary.

This also relates to the cognitive map of state elites, since the narrative of the state’s role and associated practices of the state system is embedded in the existing political economy. It is also self-reinforcing to the extent that resource extraction is a source of finance for rural populist programmes.

Social provisioning

Third, can the state solve the social provisioning problem? As we saw, the old issue of public finance is no longer a first order issue, nor is there a question of the rhetorical commitment of state elites. It is now rather a question of organisational functioning and institutional design (i.e., the sector-specific political settlements). This can be described as a dual problem of solving incentive and behavioural problems within state organisations, and providing a regulatory framework that supports the entry of private actors whilst maintaining incentives for quality in both government

and private sectors. This can be illustrated by the case of education, where dismal quality has continued alongside major central, and sometimes local, efforts to extend provisioning. In health there are more complex questions of solving market failures of insurance, though the overall structure of the question is the same. In urban services – water and sanitation, garbage removal – it is also mostly a question of solving state responsiveness – though now often through semi-private resolutions.

This is again highly political, especially where teaching posts are a source of patronage (at the state, and in some cases the panchayat level). Teachers' unions are a source of resistance. Colleges are a source of rents. Health procurement is a source of corruption.

The cognitive map appears to be stuck in a vision of the overriding role of the state and implicit (Weberian?) assumptions about the behaviour of state actors. This is at a time when the state paradoxically has failed to provide a regulatory frame for efficient social service expansion, but has allowed rent-extracting options.

The rights-based welfare state movement played a central role in thinking and practice in the 2000s, but, as argued above, is essentially incomplete. This brings us to *the* central issue.

Reforming the corrupt state

The fourth issue concerns the fundamental question of the transformation of the state. This has been one of the central themes of this piece, with the notion of the “corrupt state” going back decades. The anti-corruption movement, the AAP's insurgence in the Delhi elections, and, to a significant degree, Narendra Modi and the BJP's 2014 election win are symptomatic.

Policy-institutional options include building both internal and social accountability at different levels of government and deeper devolution to the third level of government, in panchayats and cities. But this is also deeply political, since state behaviour is functional to the current rent-sharing system. For example, the equilibrium of moderately good public service provision in Tamil Nadu is a product of long history. Transitions in Bihar, and Gujarat, are products of particular political transitions. Gujarat's performance is deeply blotted by the 2002 riots. But the resolution of credibility in water is a good example of a successful transition. In Bihar there has been a major transition, but this involved state action in domains that were relatively “easy”, given current capacities and incentives; the political outlook is now unclear, with the break-up of the coalition, the associated losses of parliamentary seats to the BJP in the 2014 national elections, and the resignation of the Chief Minister.

Transforming the state is the central challenge that India faces. The rights-based movement had it half right – the need to change the relationship between the state and citizens. But this will only work with complementary reform of public administration. And this is not a question of re-instating top-down rules, or

implementing more high-powered punishments. Incentives matter, but real change will only occur with a transformation of professional norms. And changes in public administration will, in turn, only occur through changes in the broader political context – most of all, in this phase of India’s development, at the subnational state level and below.

Conclusion

This paper has been essentially an extended essay on India’s development trajectory through the lens of the unfolding political settlement. We have interpreted this as being jointly shaped by ideas and interests: the cognitive maps, and associated narratives, of political, bureaucratic and economic elites, and of the various social groups, are influenced by their interests, but also play a role in the construction of these interests. At each juncture in India’s political economic history we see the interplay of cognitive maps, interests and policy designs. At key points these have also involved interactions with global thinking.

India is at an important juncture in 2014 and the years ahead. The boom years of the 2000s were a product of an unusual “sweet spot” of favourable internal and external conditions. This led to hubris amongst policy elites and the postponement of institutional reforms, both in areas important to capitalist dynamics and to the broader inclusion of the middle and poorer groups. The 2014 election surely represented rising aspirations, but also intensified frustration with the failures of the political elites to resolve issues of state functioning. This is particularly relevant to one of the underlying themes of this essay – that India is effectively simultaneously undergoing what Polanyi termed the “double movement” of capitalist advance and social welfare provisioning, the latter aspiring to what rich countries in the 20th century experienced as the construction of the social state. The issue is not markets versus the state, or capitalism versus social inclusion, but rather whether India’s unfolding political settlement will support resolutions of the dissonant narratives and practices, to support an effective state for productivity-based capitalist advance, equitable inclusion and the efficient and just management of the social (and environmental) external effects that markets and capital bring.

References

- Acemoglu, D. and Robinson, J. (2012). *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. New York: Crown.
- Aghion, P., Burgess, R., Redding, S. and Zilibotti, F. (2008). "The unequal effects of liberalization: Evidence from dismantling the License Raj in India", *American Economic Review* 94(4): 1397–1412.
- Aiyar, Y. and Walton, M. (2014). "Rights, accountability and citizenship: Examining India's emerging welfare state". Working Paper, Accountability Initiative, Centre for Policy Research, New Delhi.
- Ahluwalia, I. J. (1991). *Productivity and Growth in Indian Manufacturing*. New Delhi: Oxford University Press.
- Appadurai, A. (2004). "The capacity to aspire: Culture and the terms of recognition". In Vijayendra Rao and Michael Walton (eds.), *Culture and Public Action*. Stanford, CA: Stanford University Press.
- Banerjee, A. V., Mookherjee, D., Munshi, K. and Ray, D. (2000). "Inequality, control rights, and rent seeking: Sugar cooperatives in Maharashtra", *Journal of Political Economy* 109(1).
- Banerjee, A. V., Duflo, E. and Glennerster, R. (2008). "Putting a band-aid on a corpse: Incentives for nurses in the Indian public health care system", *Journal of European Economic Association*, 6(2-3): 487-500.
- Banerjee, A. V., Banerji, R., Duflo, E., Glennerster, R. and Khemani, S. (2010). "Pitfalls of participatory programs: Evidence from a randomized evaluation in education in India", *American Economic Journal: Economic Policy*, 1-30.
- Banerjee, A. V., and Piketty, T. (2005). "Top Indian incomes, 1922–2000". *The World Bank Economic Review*, 19(1), 1-20.
- Bardhan, P. (1984). *The Political Economy of Development in India*. New York: Basil Blackwell.
- Bates, R. H., Greif, A., Levi, M. Rosenthal, J-L. and Weingast, B. (1998). *Analytic Narratives*. Princeton, NJ: Princeton University Press.
- Bhagwati, J. and A. Panagariya (2013). *Why Growth Matters. How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries*. New York: Public Affairs.
- Brass, P. (2011). *An Indian Political Life. Charan Singh and Congress Politics, 1937 to 1961*. New Delhi: Sage Publications.

- Chandra, K. (2004). *Why Ethnic Parties Succeed: Patronage and Ethnic Headcounts in India*. Cambridge and New York: Cambridge University Press.
- Das, J. and Hammer, J. (2004). "Strained mercy: The quality of medical care in Delhi". World Bank Policy Research Paper Number 3228. Washington, DC: the World Bank.
- Desai, S. D., Dubey, A., Lal Joshi, B., Sen, M., Sharif, A. and Vanneman, R. (2010). *Human Development in India: Challenges for a Society in Transition*. New Delhi: Oxford University Press.
- Damodaran, H. (2008). *India's New Capitalists. Caste, Business and Industry in a Modern Nation*. New Delhi: Permanent Black.
- Drèze, J., and Sen, A. K. (2013). *An Uncertain Glory: India and Its Contradictions*. Princeton, NJ: Princeton University Press.
- Dubash, N. (2008). "The electricity-groundwater conundrum: Case for a political solution to a political problem", *Economic and Political Weekly* 42(52), 29 December - 4 January.
- Forbes (2013). "The World's Billionaires" <http://www.forbes.com/wealth/billionaires>.
- Gandhi, A. and Walton, M. (2012). "Where do India's billionaires get their wealth?" *Economic and Political Weekly* 47(40).
- Guha, R. (2007a). *India after Gandhi*. New Delhi: Pan Macmillan, Picador India.
- Guha, R. (2007b). "Adivasis, Naxalites and Indian democracy", *Economic and Political Weekly*, 11 August, 3305-3312.
- Güven, A. B. (2009). "Reforming sticky institutions: Persistence and change in Turkish agriculture", *Studies in Comparative International Development* 44:162–187.
- Haber, S. H., Razo, A. and Maurer, N. (2003). *The Politics of Property Rights: Political Instability, Credible Commitments and Economic Growth in Mexico, 1876-1929*. New York: Cambridge University Press.
- Hallward-Driemeier, M., Khun-Jush, G. and Pritchett, L. (2010). *Deals versus Rules: Policy Implementation Uncertainty and Why Firms Hate It*. NBER Working Paper 16001. Cambridge, MA: National Bureau of Economic Research.
- Heller, P. (1999). *The Labor of Development: Workers in the Transformation of Capitalism in Kerala, India*. New York: Cornell University Press.

- Khan, M. H. (2000). "Rents, efficiency and growth". In M. Khan and K. S. Jomo (eds.), *Rents, Rent-Seeking and Economic Development: Theory and Evidence in Asia*. Cambridge, UK: Cambridge University Press.
- Khan, M. H. (2011). "Political settlements and the governance of growth-enhancing institutions". Monograph, School of Oriental and African Societies, London.
- Kohli, A. (2006a). "Politics of economic growth in India, 1980–2005", *Economic and Political Weekly* 41 (13): 1251–59.
- Khan, M. H. (2006b). "Politics of economic growth in India, 1980–2005", *Economic and Political Weekly* 41(14): 1361–1370.
- Kosack, S. (2012). *The Education of Nations: How the Political Organization of the Poor, Not Democracy, Led Governments to Invest in Mass Education*. New York: Oxford University Press.
- Kremer, M., Muralidharan, K., Chaudhury, N., Hammer, J. and Rogers, F. H. (2005). "Teacher absence in India: A snapshot". *Journal of the European Economic Association*, 3(2–3), 658–667.
- Krueger, A. O., Schiff, M. and Valdés, A. (1988). "Agricultural incentives in developing countries: Measuring the effect of sectoral and economy-wide policies", *World Bank Economic Review* 2(3), 255-272, September.
- Krueger, A. O., Schiff, M. and Valdés, A. (1991). *The Political Economy of Agricultural Pricing Policy, Volume 1: Latin America; Volume 2: Asia; and Volume 3: Africa and the Mediterranean*. Baltimore, MD: Johns Hopkins University Press.
- Levy, B. (2014). *Working with the Grain: Integrating Governance and Growth in Development Strategies*. New York: Oxford University Press.
- Levy, B. and Fukuyama, F. (2010). "Development strategies: Integrating governance and growth". Washington, DC: World Bank Policy Research Working Paper #5196.
- Levy, B., and Walton, M. (2013). "Institutions, incentives and service provision: bringing politics back in", Effective States and Inclusive Development Working Paper 18, University of Manchester, Effective States and Inclusive Development Research Centre.
- Lindert, P. H. (2004). *Growing Public: Social Spending and Economic Growth since the Eighteenth Century*. Cambridge, UK: Cambridge University Press.

- Mahalanobis, P. C. (1955). "The approach of operational research to planning in India", *Sankhyā: The Indian Journal of Statistics* 16(1/2): 3-130.
- McDonald, H. (2010). *Mahabharata in Polyester: The Making of the World's Richest Brothers and their Feud*. Sydney: University of New South Wales Press.
- Mangla, A. (2014). "Bureaucratic norms and state capacity: Implementing primary education in India's Himalayan region". Boston, MA: Harvard Business School Working Paper No. 14-099, April.
- Mehta, P. B. (2003). *The Burden of Democracy*. New Delhi: Penguin Books.
- Mehta, P. B. (2014). "We are moving beyond the politics of social arithmetic: Pratap Bhanu Mehta", *Live Mint*. 16 May.
- Mody, A., Nath, A. and Walton, M. (2011). "Sources of corporate profits in India: Business dynamism or advantages of entrenchment?" In S. Bery, B. Bosworth and A. Panagariya (eds.), *India Policy Forum 2010-11 Volume 7*. New Delhi: Sage.
- Mody, A. and Walton, M. (2012). "A wasted sweet spot", *Indian Express*, 21 September.
- Murillo, M. V. (2002). "Political bias in policy convergence: Privatization choices in Latin America", *World Politics*, 54(4).
- Newman, K. S. and Thorat, S. (2007). "Caste and economic discrimination: causes, consequences and remedies", *Economic and Political Weekly* 42(41).
- North, D. C, Wallis, J. J. and Weingast, B. R. (2009). *Violence and Social Order: A Conceptual Framework for Interpreting Recorded Human History*. Cambridge, UK, and New York: Cambridge University Press.
- North, D., Wallis, J., Webb, S. and Weingast, B. (2007). "Limited access orders in the developing world: A new approach to the problems of development". World Bank Policy Research Paper 4359. Washington, DC: World Bank.
- O'Donnell, G. A. (1973). *Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics*. Berkeley, CA: Institute of International Studies, University of California.
- Panagariya, A. (2008). *India: The Emerging Giant*. New York and New Delhi: Oxford University Press.
- Piketty, T. (2014). *Capital in the Twenty-First Century*. Berkeley, CA: Harvard University Press.

- Pratham (2006-14). *Annual Status of Education Report*. Mumbai: Pratham Resource Center.
- Polanyi, K. (2001). (1944). *The Great Transformation*. Boston, MA: the Beacon Press
- Polity IV Project (2014). Political Regime Characteristics and Transitions, 1800-2013. Online: <http://www.systemicpeace.org/polity/polity4.htm> (accessed 30 July 2014)
- Pritchett, L. (2009). "Is India a flailing state? Detours on the four-lane highway to modernization". Harvard Kennedy School Faculty Research Working Paper Series (RWP09-013).
- Pritchett, L. and Murgai, R. (2007). "Teacher compensation: Can decentralization to local bodies take India from perfect storm through troubled waters to clear sailing?" In S. Bery, B. P. Bosworth and A. Panagariya (eds.), *India Policy Forum 2006–07*, Vol. 3. Washington, DC: Brookings Institution.
- PROBE Team (1999). *The Public Report on Basic Education*. New Delhi: Oxford University Press.
- Raj, K. N. (1973). "The politics and economics of 'intermediate regimes' ", *Economic and Political Weekly* 8(27): 1189-1198.
- Rodrik, D. (2014). "When ideas trump interests: Preferences, world views, and policy innovations", *Journal of Economic Perspectives* 28(1):189-208.
- Rodrik, D. and Subramanian A. (2004). "From 'Hindu growth' to productivity surge: The mystery of the Indian growth transition". Working Paper WP/04/77. International Monetary Fund, Washington, DC.
- Sharma, D. (2009). *The Long Revolution. The Birth and Growth of India's IT Industry*. Noida, India: HarperCollins.
- Singh, M. (1991). Budget 1991/92 Speech. New Delhi: Government of India, 24 July.
- Sinha, A. (2005). *The Regional Roots of Development Politics in India – A Divided Leviathan*. New Delhi: Oxford University Press.
- Somanathan, R. (2007). "The demand for disadvantage". Conference paper for the Agence Française de Développement conference, Paris.
- Stewart, F., Cornia, G. A. and Jolly, R. (1987). *Adjustment with a Human Face: Vol. 1 – Protecting the Vulnerable and Promoting Growth*. Oxford, UK: UNICEF Clarendon Press.

- Stewart, F. (2010). "Power and progress: The swing of the pendulum." *Journal of Human Development and Capabilities* 11(3), 371-395.
- Mohan, R. (2011). "How the K-family colonized a state – K Klutch Klan", *Tehelka Magazine*, 8(12), 26 March.
- The Economist (2011). "Tata for now". London: *The Economist*, 10 September. Online: <http://www.economist.com/node/21528653> (accessed 30 July 2014).
- Tillin, L. (2014). "Stories of a wave", *The Indian Express*, 20 May.
- Topalova, P. and Khandelwal, A. (2010). "Trade liberalization and firm productivity: The case of India", *Review of Economics and Statistics* 93(3): 995-1009.
- Vaishnav, M. and Smogard, D. (2014). "A new era in Indian politics?" Working Paper. Carnegie Endowment for Peace, Washington, DC.
- Varshney, A. (2002). *Ethnic Conflict and Civic Life: Hindus and Muslims in India*. New Haven, CT: Yale University Press; and Delhi: Oxford University Press.
- Wade, R. (1985). "The market for public office: Why the Indian state is not better at development", *World Development* 13(4): 467-497.
- Walton, M. (2011). *Inequality, Rents and the Long-run Transformation of India*. Nagarabhavi, Bangalore: Institute for Social and Economic Change.
- Walton, M. (2013), "Can a social democratic resolution resolve issues of inequality and growth for India?" in Khilnani, S. and M. Malhoutra (2013), *An Indian Social Democracy: Integrating Markets Democracy and Social Justice*, Delhi: Academic Foundation.
- World Bank (2011). *World Development Indicators*. Washington, DC: the World Bank.

The Effective States and Inclusive Development Research Centre

The Effective States and Inclusive Development Research Centre (ESID) aims to improve the use of governance research evidence in decision-making. Our key focus is on the role of state effectiveness and elite commitment in achieving inclusive development and social justice.

ESID is a partnership of highly reputed research and policy institutes based in Africa, Asia, Europe and North America. The lead institution is the University of Manchester.

The other institutional partners are:

- BRAC Institute of Governance and Development, Dhaka
- Center for Democratic Development, Accra
- Center for International Development, Harvard University, Boston
- Department of Political and Administrative Studies, University of Malawi, Zomba
- Graduate School of Development, Policy & Practice, Cape Town University
- Institute for Economic Growth, Delhi

In addition to its institutional partners, ESID has established a network of leading research collaborators and policy/uptake experts.

email: esid@manchester.ac.uk

Effective States and Inclusive Development Research Centre (ESID)

School of Environment and Development, The University of Manchester, Oxford Road,

Manchester M13 9PL, UK

www.effective-states.org