

Introduction

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

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

sluggish economy and an organizational inability to intervene on behalf of the poor remained major obstacles.

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

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

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

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

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

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

UNDERLYING ASSUMPTIONS

The book provides a distinctive interpretation of India's contemporary political economy. While the focus is on empirical analysis, even casual

social observers recognize that facts seldom speak for themselves. How facts are arranged and interpreted is deeply influenced by underlying theoretical assumptions and normative commitments. Since this volume is aimed at a broad audience, I will avoid theoretical and philosophical controversies that mainly attract scholars. Instead, I will outline in brief the assumptions and commitments that I embrace and that inform the interpretation developed in this book; those uninterested in such issues can skip this brief section without much loss.

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

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

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focus – examining, say, the class determinants of political structures and processes – when investigating other issues. This scholarly posture puts me at odds both with strict Marxism and with neoclassical economics and its offshoot, the rational choice approach to the study of politics.

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

POLITICAL CHANGE

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

I provide such an analysis of the Indian state in the first chapter of the book, developing two main themes. First, the Indian state has become a lot more pro-business over the last three decades than it had been previously. These shifting class preferences of the Indian state are deeply consequential for the choice of economic policies and for patterns of economic change in India. A second main theme concerns the political challenges thrown up by the pursuit of a narrow, pro-business ruling

alliance. Ever since Indian leaders abandoned the rhetoric – if not always the practice – of populism in order to embrace economic growth as a priority and business groups as a main ally, they have struggled to come up with a formula for political legitimacy that might enable electoral support of majorities while catering to narrow interests. It may be useful to introduce both of these themes at this point.

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

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

If the Indian state has taken the lead in constructing a state-business ruling alliance, Indian business groups have hardly been mere passive recipients of manna from above. The power and influence of Indian business has grown enormously in recent decades, a power that business groups have used to mold state behavior. This power is both diffuse and well organized. One obvious example of diffuse power is the growing weight of the private sector in the overall economy; for example, the

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share of the private sector in overall investment surpassed that of the public sector for the first time during the second half of the 1990s and has remained significant since. The role of foreign direct investment and of portfolio investment in the Indian economy has also grown. Any government that wants such investment to continue must take into account the needs and interests of private investors. A different type of example of the diffuse power of business is the growing corporate control of the media. That the modern media influence the culture and values of a society is no secret. While much of what the Indian media target are consumer tastes, political values are hardly far behind. By influencing what issues get covered and how they get covered, as well as via editorials, the privately controlled media in India today attempt to shift the political preferences of Indian society in a pro-business direction.

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

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

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

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

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

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

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

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

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

STATE AND ECONOMY

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

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

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