

## DEMOCRATIC POLITICS AND ECONOMIC REFORM IN INDIA

Successive Indian governments from a variety of political persuasions have remained committed to market-oriented reform since its introduction in 1991. In a well-argued, accessible and often controversial examination of the political dynamics which underlie that commitment, Rob Jenkins takes issue with existing theories of the relationship between democracy and economic liberalisation, while also engaging with key debates concerning the nature of civil society and the functionality of political institutions. He contends that while democracy and liberalisation are no longer considered incompatible, recent theorising overemphasises democracy's more wholesome aspects while underestimating its practitioners' reliance on obfuscatory tactics to defuse political resistance to policy shifts. By focusing on formal institutions such as party and electoral systems, existing research ignores the value of informal political institutions. In India these institutions have driven economic elites towards adaptation, negotiation and compromise, while allowing governing elites to divide opponents of reform through a range of political machinations. These include shifting blame, surreptitiously compensating selected interests, betraying the trust of political allies, and cloaking policy change in the guise of continuity. Rather than simply denouncing democracy's dark underside, Jenkins argues that promoting change routinely requires governments to employ the underhanded tactics and impure motivations which all politics breed, but only democracy can tame.

ROB JENKINS teaches in the Department of Politics and Sociology at Birkbeck College, University of London.

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# DEMOCRATIC POLITICS AND ECONOMIC REFORM IN INDIA

*Rob  
Jenkins*

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# Democratic Politics and Economic Reform in India

Rob Jenkins

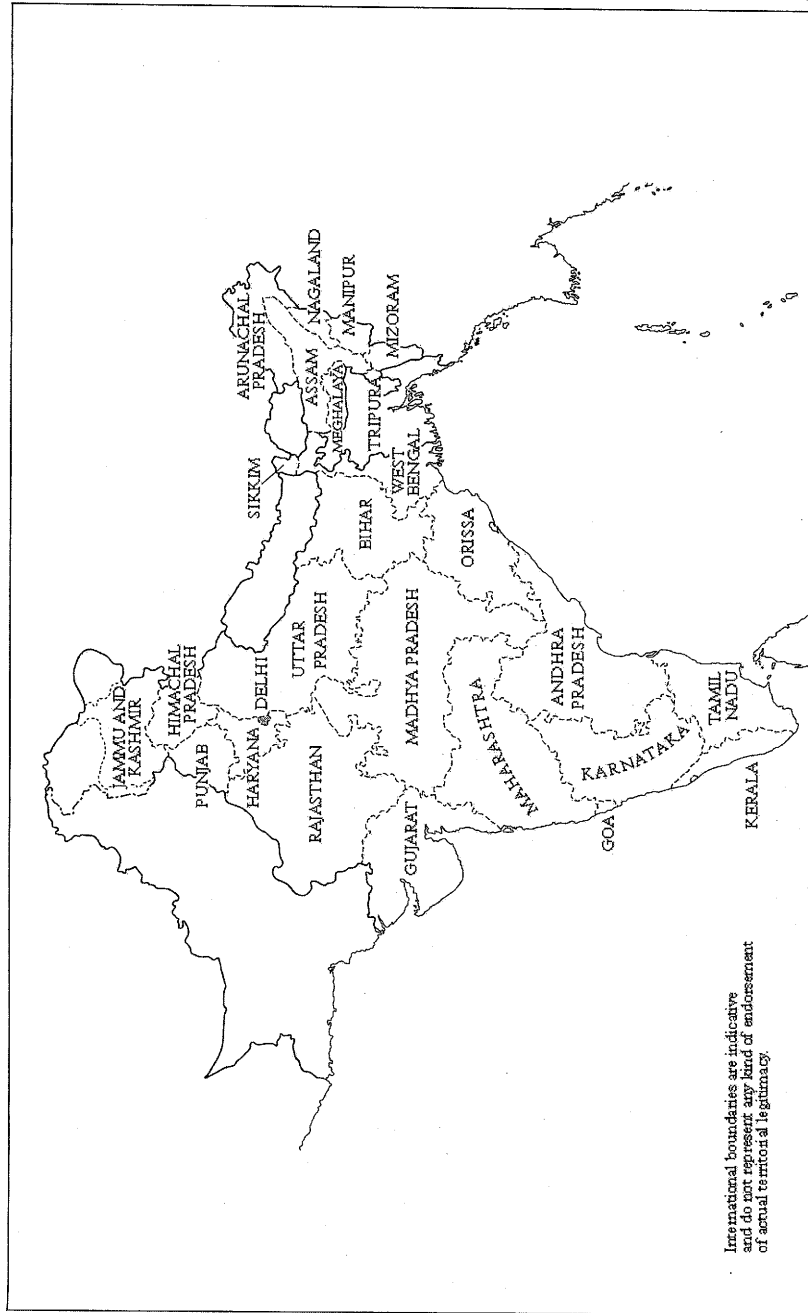
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Map States of the Indian federal union.

# 1 Introduction

'India has fundamentally altered its development strategy', the World Bank announced in 1996. Government initiatives since 1991 to restructure the basis of the Indian economy 'ended four decades of planning and have initiated a quiet economic revolution'.<sup>1</sup> Whether this will produce the economic results hoped for by Indian and foreign advocates of liberal reform remains to be seen. But the wide-ranging reorientation of economic policy has already demonstrated a quality which has surprised many observers – staying power. As this book goes to press in mid-1999, the liberalisation process has not been reversed. New reforms continue to be unveiled on a regular basis, while with each passing day the early policy breakthroughs become further entrenched, as people and organisations operate in accordance with them. New approaches to policy on trade, foreign exchange, anti-trust regulation, banking, industry, foreign investment, and many others are now a familiar part of economic life. Because liberalisation is an open-ended process, the policy landscape continues to evolve. But many of the old landmarks have faded from view. Even two changes of government – towards the left in 1996, and then rightwards in 1998 – did not lead to retreat. In many ways economic reform was strengthened after each of these elections.

This is a transformation that requires explanation. The objective of this study is to account for the capacity of the Indian political system to sustain policy reform over an extended period of time in the face of formidable political obstacles. Dismantling a system of state control is a notoriously difficult task. Witness the on-again-off-again reform programmes throughout the developing world.<sup>2</sup> While most developing

<sup>1</sup> World Bank, Country Operations, Industry and Finance Division, Country Department II, South Asia Region, *India: Country Economic Memorandum – Five Years of Stabilization and Reform: The Challenges Ahead* (8 August 1996), p. i.

<sup>2</sup> Among the more recent reversals was the Tanzanian government's decision to re-launch its market-oriented reform programme, after many false starts. See 'Tanzania Returns to the IMF Fold', *African Business* (London), no. 218, January 1997. Another classic case of on-again-off-again reform has been Kenya. See 'Survey: Kenya' (special supplement), *Financial Times*, 10 May 1994, p. 3. The governments of Kenya and Ghana abandoned

countries, including India, fail to fulfil all of the obligations stipulated in the conditionality-based lending programmes of multilateral institutions,<sup>3</sup> many countries fail even to remain nominally committed to reform. By this standard, India's reforms have shown remarkable durability.

In India, as in most state-dominated economies, there are powerful groups and individuals with a strong interest in maintaining the status quo. Not least among the opponents of change are the bureaucratic and political elites who have prospered as gatekeepers. Their accomplices in the private sector are not only well off financially, largely as a result of the privileged positions they have occupied within the controlled economy, but extremely well organised. When any president or prime minister embarks on a programme of far-reaching reform, he will face resistance from opponents who are well positioned to thwart fundamental change. The groups that might stand to benefit from liberalisation tend to be poorly organised and lacking in influence. They are of little use to reformers seeking a constituency with which to counter the inevitable resistance.

Theoretically, democracy should add to the difficulties of bringing about sustainable policy reform. In democratic settings, powerful opponents of reform – farmers fearing the loss of subsidies, protected industrialists fearing foreign competition, party leaders fearing the loss of the illicit spoils of office – have usually forged strong vertical linkages with electoral constituencies which can be mobilised in opposition to policy reform. Powerful interests, and their junior partners, have many weapons at their disposal. Particularly effective are attacks on a reforming government's 'capitulation' to multinational corporations and western-dominated multilateral banks, and its 'betrayal' of the 'socialist' commitment to economic justice. Elected politicians are not known for their far-sightedness. Indeed, their vision rarely extends beyond the next election. They are disinclined to foment unrest among the powerful interests that fund their political activities and, often, their personal bank accounts. They do not relish conflict with public-sector unions over privatisation, or petty traders over tax reforms. Even when a particularly powerful politician launches a reform programme, it is difficult to sustain.

Like many other developing-country leaders, former Indian Prime Minister Rajiv Gandhi learned this lesson during the second half of the

economic reform in order to win their first multi-party elections in 1992. As the *Economist* put it, 'They threw money around like confetti, were duly re-elected and have never been able to get . . . back on track'. See 'The Rulers, the Ruled, and the African Reality', 20 September 1997, p. 85.

<sup>3</sup> See Paul Mosely, J. Harrigan, and J. Toye, *Aid and Power: The World Bank and Policy-Based Lending in the 1980s* (London: Routledge, 1991), two volumes.

1980s. His high-profile efforts to 'modernise' and 'liberalise' the Indian economy lasted less than three years before they were effectively abandoned in favour of the more comfortable path of state-led development. Powerful interests, both inside and outside the state, were credited with forcing Rajiv's retreat from liberalisation. Democracy's theoretical aversion to change seemed confirmed. That liberalisation eventually returned to India in a much more dramatic and lasting form under Prime Minister P. V. Narasimha Rao and Finance Minister Manmohan Singh is thus a puzzle worth untangling. The political durability of India's reform programme runs counter not only to much of the experience in the rest of the developing world, but also to India's own lacklustre track record.

How can we explain the ability of liberal reform to become rooted in India despite the daunting array of political obstacles placed in its path? India is not only a democracy; it has been one continuously for the past fifty years: unlike newly democratising countries in the developing world, or in the former Eastern Bloc, there are no discredited authoritarian regimes on which past failures can be blamed. The lasting ills of colonialism notwithstanding, the Raj has lost much of its usefulness as a scapegoat. Narasimha Rao's Congress Party, unlike so many other reforming governments, was never likely to be granted an extended 'honeymoon' with the electorate. Both had been married before, to each other, and not that long ago. By 1991, Congress had ruled India for all but four years since it attained independence in 1947. It had been out of power for less than two years before Rao and Singh took office. There was no national euphoria to distract people from the unpleasant economic tasks at hand, as there was in the countries emerging from authoritarian rule. Indian voters and powerful interests remained as cynical as ever. The two coalition governments which succeeded Congress – brought in by general elections in 1996 and 1998 – faced even more formidable odds. Both the centre-left United Front government and the coalition led by the Hindu nationalist Bharatiya Janata Party (BJP) had campaigned on anti-liberalisation platforms. That both ultimately pressed on with reform – substantially deepening its content – makes reform's political durability all the more intriguing.

In explaining the political sustainability of economic reform in India, we must address not only the deeply ingrained notion that democracy, particularly under developing-country conditions, constrains politicians from ushering in far-reaching reforms, but also a more recent set of thoughts on the matter. These hold that some variants of democracy may be conducive to sustainable policy reform because open competitive politics provides a forum within which governing elites can 'sell' the benefits of reform to individual constituencies and to the public at large.

This argument is popular among aid agencies, and has had its greatest impact as part of the 'good government' agenda, which seeks to establish links between democracy and market orientation. The good government agenda has been furthered by the findings of mainstream academic research on the politics of economic reform, which is more subtle than the good government literature, but suffers from many of the same shortcomings. Most importantly, both perspectives neglect the capacity of democratic governments to usher in policy reform by engaging in underhanded tactics, one of the salient features of the Indian case.

The unseemly underside of democracy is wished away by the architects of the good government agenda largely because foreign aid must be justified in highly moral terms. Such practical considerations are not the reason why democracy's unwholesome aspect is neglected by academic political economists. In this case the cause is a combination of methodological preoccupations and sample bias. A fixation upon a rather rigid form of rational-choice analysis leads much of the comparative literature to a conception of democratic institutions that is divorced from their actual functioning. Rational-choice political economists have become hostages to models and the model-building process. Concerned with cross-national comparability, the institutional variables selected in this portion of the literature are schematic, bland, and unenlightening. The result is an unfortunate blind spot when it comes to apprehending the complex calculus of survival – particularly its adaptive quality – by which political and socio-economic elites operate in times of change. The relative autonomy of democratically accountable governing elites in India, both today and in general over the past fifty years, is greater than many had expected, and for reasons that standard rational-choice models are unable to comprehend.

As for sample bias, India's status as a long-established democracy goes a long way towards explaining why the new-political-economy approach would have been unable to reveal the underlying reasons for its ability to sustain adjustment. Much of the literature is based on case studies of newly democratising countries. Few studies have examined the politics of economic reform in a long-established developing-country democracy, like India, largely because they are so rare. While democracies clearly can sustain reform (perhaps as well as authoritarian regimes), the sample's bias towards fledgling democracies has led theorists to emphasise the *wrong reasons why* they are able to do so. Preoccupied with the contrasts between new democracies and their authoritarian predecessors, the literature over-emphasises democracy's wholesome aspect – particularly the role of 'accountability', but also democratic governments' skill at selling reform to open-minded electorates. In an effort to assess the

creation of political institutions in the new democracies, they have neglected to look elsewhere to determine how they might function in practice. 'Actually existing' democratic governments are often more 'accountable' to the powerful than to the powerless, a fact which affects their operation in times of reform no less than it does in times of stasis.

In short, there are two variants of conventional wisdom about the relationship between democracy and the promotion of policy reform, and both are wrong. Democracies are less constrained by unholy interest-group coalitions than was previously thought, but neither are they paragons of consensus-building. Democratically elected governments operate in a complicated world in which obfuscation and betrayal are routinely used to achieve political ends. Arguably democracy makes such tactics both necessary and possible. Advanced capitalist democracies rely on them all the time. Nevertheless, the explanation advanced in this book is not simply that India's reformers were Machiavellian enough to outwit opponents of liberalisation. Our concern is with the system within which reform was sustained. We identify three aspects of that system, around which the case material is structured: political incentives, political institutions, and political skills.

Two types of incentives are identified. First, governing elites at many levels of the Indian polity were attracted by the potential of liberalisation to provide new sources of patronage to substitute for some of those forfeited by the shrinkage of the state's regulatory role. Once it became clear to powerful political elites that economic reform did not have to conform to a rigid recipe, but that they themselves could write the rules of the transition as they went along, they were less inclined to press hard for a reversal of reform. They were also able to see the value of a second incentive: the inherent fluidity of India's interest-group structure. Interest groups themselves respond to new policy-derived incentives, and are vulnerable to divide-and-rule tactics. The ability to compensate narrowly defined groups, often clandestinely, and thus to magnify the 'feedback effects' that the new policy environment itself has on the fortunes and lobbying potential of various economic sectors, served to lessen the perceived political cost to governing elites of continuing with reform.

They were aided in this process by two types of political institutions – formal and informal. Many formal institutions were important in absorbing the political strain on reformers at the apex of the political system, but one institutional feature stands out, and is treated in detail – the federal political system. For a variety of reasons, the division of power between the central government and state governments tended to quarantine political resistance to reform within the confines of state-level political systems. Because the impacts of reform varied from state to state, politi-

cians from states that did well economically were less inclined actively to oppose reform, while those from states that were not as fortunate had fewer allies and less clout with which to mount a campaign of resistance. Moreover, the responsibilities of governance forced state-level governing elites to adapt to liberalisation by competing with each other for private investment. Once reluctantly engaged in liberalising activities in their own right – even if not fully committed to reform – governing elites at the state level proved invaluable in tackling resistance among powerful interest groups, who were also subjected to the divisive impacts of the federal system.

Governing elites at the state level were also able to rely upon *informal* political institutions, particularly the regularised networks of influence, encompassing party and non-party organisational arenas, which are constructed around individual party leaders. These are a crucial feature of India's institutional environment, but one which most of the comparative and theoretical literature is ill-equipped to treat seriously. Because of the far-reaching scope of these informal political networks, politicians were able to arrange accommodations between a vast array of groups concerned with the effects of the new policy dispensation. Not all could be adequately compensated. But the openness of the democratic system allowed governing elites at the centre and in the states to use the intelligence-gathering capacities of their informal networks to gauge both the mood and the relative political worth of various constituencies, and to distribute whatever advantages were at their disposal with impressive *political* efficiency. The impacts on *economic* efficiency are less certain, but to the extent this political mechanism facilitated the transition to an ostensibly more efficient policy framework, it can be presumed to have had an indirect effect.

Sustaining adjustment also required political skills. Particularly critical was the tactical skill of governing elites at disarming opponents of reform. On some occasions this relied on the capacity to cloak policy change in the guise of continuity, while at others continuity with earlier liberal reforms was effectively disguised as a return to the status quo ante. Contrary to the conventional wisdom, the projection of an economic 'vision' for India played virtually no role in this process. By using informal political networks to negotiate compensation for powerful allies, and orchestrating the sequencing of reforms in ways that benefited themselves and their parties, governing elites contributed to an image of 'politics as usual', thus concealing the radical implications of reform. All of this bought India's besieged reformers valuable time, the one commodity that any reform programme requires if it is to become politically rooted and have at least a chance of success.

To recapitulate: the Indian state is more capable of producing system-maintaining change than theories of 'demo-sclerosis' would have us believe – indeed, less captured by powerful interests than was allowed for by most explanations of why Rajiv Gandhi failed to remain committed to reform in the late 1980s. Nevertheless, the contrary view, most visibly put forward as part of the good government agenda, is marred by inconsistencies, naïvety, and an overly schematic view of democratic institutions. Much of this shortcoming stems from the methodologically constrained analyses found in the theoretical literature on why some democracies have been able to promote reform, from which the good government literature has borrowed highlights. New-political-economy approaches are at times helpful in framing research questions, but tend systematically to discount the incentives facing governing elites to take limited risks, as well as the capacity for interest groups themselves to respond to new incentives, redefine their strategic objectives, and fall prey to the divisive tactics of governing elites. A selective application of the less dogmatic elements of rational-choice analysis can yield a more nuanced approach to both incentives and institutions, which in turn can allow us to appreciate the value of the *informal* institutions and political skills to which formal democracy can give rise. Indian politics, constructed around these institutions, induces socio-economic elites to engage in negotiation and compromise – and governing elites to engage in obfuscatory and manipulative tactics. These tactics include, in addition to outright pilfering: shifting unpleasant responsibilities and blame on to political opponents, surreptitiously compensating selected interests, concealing intentions, reassuring and then abusing the trust of long-time political allies, and obscuring policy change by emphasising essential continuity.

Before proceeding further, a few disclaimers are in order. First, this book is not arguing that India's reform programme is irreversible. The Indian government could announce a nationalisation of all industries tomorrow, though this or even less drastic forms of backtracking are unlikely. Even if a stark reversal in policy direction were to take place, it would not make the findings from this study any less relevant. The interpretation of events that is put forward is an attempt to explain not the irreversibility of economic reform in India, but its ability to last longer than many had originally predicted. Second, it must be recognised that economic factors are crucial to the sustainability of reform. Without producing at least some economic results, no reform programme, however well managed politically, can hope to retain the political support of state elites or resist the opposition of adversely affected interests. India has been blessed in this area. But positive economic results, while necessary, are not sufficient to ensure the continuation of reform. Third, and

finally, what we are discussing in this book is *Indian* democracy, not democracy in the abstract. Lessons from one country cannot be translated to another. History matters. While the findings from the Indian case may allow us to take issue with generalisations in the existing literature, and to formulate questions about other democracies, they do not constitute a model with general applicability.

### Methods and case-study regions

The questions that have arisen from the evolution of economic policy in India do not lend themselves to quantitative analysis. They are intimately bound up with the changing perceptions of interest groups, with back-room deal-making, and with the complex motivations underlying political decisions. It is therefore difficult, if not impossible, to subject such material to rigorous hypothesis-testing. What follows is an interpretive account of events in India. The goal has been to make sense of seemingly contradictory forces, and to do so by probing the actual functioning of political institutions. This, in turn, will allow us to transcend what have become sterile debates surrounding the relative capacities of authoritarian and democratic systems, and the impact of such institutional variables as party and electoral systems.

To achieve these objectives it has been necessary to rely on first-hand information provided in interviews with key informants – that is, with actors involved in the process of bargaining, protest, policy formulation, and other forms of political activity. The research included field visits in every year between 1992 and 1999, inclusive. Field research consisted primarily of close to 300 interviews with senior bureaucrats, elected officials, party functionaries, lawyers, and representatives of business associations, trade unions, and non-governmental organisations. Also contributing to the base of knowledge on which these key-informant interviews were conducted were conversations with local journalists, academics, retired bureaucrats, representatives of international organisations, and long-time observers of the political scene. One of the major sources of background and supporting information has been press reports. These have been combined with reviews of the academic literature and documentation provided by interviewees. The result is not political ‘science’. But it is hoped that the insights provided by this approach will assist us in understanding the complex realities underlying the trends identified by other social scientists, particularly economists, which are often presented with little attention to the context of power relations.

This study has placed considerable emphasis on the state level of

India’s federal system. The reasons for doing so are outlined in the analysis of the case material in Chapters 4, 5, and 6. In brief, the justification is as follows: though the decision to initiate economic reform was made by the national government, state governments must cope with many of its implications; they provide the first line of political defence. They play a large – perhaps decisive – role in defusing resistance to reform among socio-economic interests. The existence of well-institutionalised competitive political arenas below the national level is one of the defining characteristics of Indian democracy. The sustainability of adjustment has also been aided immensely by the ability of reformers in the central government to rely on the dynamics of inter-state competition to fragment opposition to reform from within the political elite.

Though evidence to support the propositions advanced in this study is drawn from a number of states, four states receive particular attention. Most of the case material concerns Maharashtra and Rajasthan, largely because the longest periods of field research were spent there. Developments in Karnataka and West Bengal are also featured prominently. Though any two (or even four) states are bound to be unrepresentative of a country as diverse as India, these four provide a relatively good cross-section of political and economic life. They cover the north, south, east, and west of India. This selection also includes a range of points along the spectrum of economic development, from industrially advanced Maharashtra to severely underdeveloped Rajasthan, with Karnataka and West Bengal fitting somewhere in between. While West Bengal’s once formidable industrial base went into a period of decline in the 1970s and 1980s, as a combination of trade union militancy and government focus on rural areas took effect, Karnataka’s economy, particularly around the capital of Bangalore, made significant strides towards diversification.

India’s range of political parties is also well represented, with their fluctuating fortunes adding to the mix. The Hindu nationalist Bharatiya Janata Party (BJP) was the only elected ruling party in Rajasthan between 1991 and 1998.<sup>4</sup> Rajasthan has been the strongest bastion of the Indian right. The citadel of India’s left, West Bengal, is also represented. The Communist Party of India-Marxist (CPI-M) heads a coalition government that has ruled for more than twenty years under the same chief

<sup>4</sup> The BJP government in Rajasthan was dismissed by the President of India, acting with the advice of the central government, in the wake of the destruction of a disputed religious structure in Uttar Pradesh in December 1992. President’s Rule, in which the central-government-appointed governor heads the state administration, lasted until November 1993, when fresh elections were held. The BJP, though it did not win a majority of the state’s assembly seats in those elections, managed to form a government with the support of independents and members of small parties.



minister, Jyoti Basu. Maharashtra had until recently been the most consistently Congress-dominated state in India. Its chief minister, Sharad Pawar, championed liberalisation in the state even before it became official party policy under Narasimha Rao. The Congress lost power in Maharashtra in the March 1995 assembly elections. A regional party, the Shiv Sena, took power in coalition with the BJP. The significant degree of policy continuity between the Congress and Shiv Sena-BJP governments in Maharashtra provided a useful context for analysing the political management of economic reform. In Karnataka, the shift from Congress rule to a government led by the centre-left Janata Dal, following elections in November 1994, furnished similar opportunities. These four states thus cover bastions of the left and right, as well as regions in which Congress was superseded by the right and the left, respectively.

Even if we could have chosen only one state, Maharashtra would have been a sensible choice. Because its economy, both agricultural and industrial, is among the most advanced and diversified in India, it faces some of the most difficult political challenges associated with liberalisation, such as mediating between powerful and well-organised interests in both urban and rural areas. It also affords us a bit of a glimpse into the future. As liberalisation of the state's economy began three years before the national trend (roughly in 1988), it has experienced many more of the economic and political implications.

Finally, it is worth noting that the explanation for India's ability to sustain adjustment has borrowed some of the conceptual tools of rational-choice analysis. It takes seriously the role of incentives and the way in which these are affected by the behaviour-shaping role of institutions. Moreover, tactical skill in politics is assessed largely in terms of the ability to influence the expectations of economic agents. And by focusing on the role of informal institutions in expanding the quantity and diversity of political transactions that are possible in a democratic setting, the types of concerns that preoccupy rational-choice political economists are never far from centre-stage. Rational-choice approaches can be useful, but they have their limits.

The next chapter provides an overview of reform since 1991, explaining what has happened and why it is significant. Chapter 3 situates the findings from the Indian case within the comparative and theoretical literature on the politics of economic reform. Chapters 4 to 6 detail the contribution of political incentives, institutions, and skills, respectively. Though for analytical reasons these are treated distinctly, they are part of a functioning system, and an attempt is made throughout to identify points of convergence and processes of interaction among them. Chapter 7 assesses some of the further implications of this interpretation of the

Indian case. It is meant to highlight the types of issues which the Indian experience with adjustment has raised for the study of Indian politics, comparative political economy, and development policy, as well as how the findings from this study might help to frame future research questions.

their 'homeland'. This has undermined the 'integrity and self-reliance of Rajasthan's culture', according to Shekhawat. Helping them to 'come home to Rajasthan' was how Shekhawat described his efforts at liberalisation. This, he argued, was just one part of his larger effort to rebuild the people's pride in Rajasthan.<sup>107</sup> To understand the associations of regional pride in Rajasthan's current political climate one must take account of the Rajasthan BJP's strategy of mobilising religious identity around a regionalised form of Hindu nationalism, one which holds a special place for Rajasthan in the national Hindu reawakening and tends to emphasise the political dominance of the Rajput caste.<sup>108</sup> Regionalism, Rajput revivalism, and Hindu nationalism have become very closely intertwined. In such a climate, efforts to justify support for liberal economic reform with claims of restoring Rajasthani pride and the integrity of its indigenous culture – an appeal to regional identity – tap into a stream of associations that includes issues of religion- and caste-based mobilisation. It deflects political criticism by, in Nandy's terms, 'showing dissent to be a part of orthodoxy'.

Even when promoting liberal economic policies that are little different from those promoted by his Congress opponents, Chief Minister Laloo Prasad Yadav of Bihar claimed to be ushering in a revolution in the relationship between Biharis and the outside world. Laloo used the occasion of the inauguration ceremony for a new private-sector cement plant to demand that the central government abolish the Mines and Minerals Regulation Act, the foundation of state control in the mining sector. The act vests most powers with the central government. Stating that the operation of the act deprived Bihar's exchequer of Rs. 3 billion in royalty and cess revenues annually, Laloo justified his demand for deregulation with a rousing defence of the Bihari peoples' honour: 'When I hear that Bihar is rich, but the Biharis are poor, I feel insulted. It is because of racketeering by a few powerful people at the centre that Bihar is being deprived of its own resources'.<sup>109</sup> His strong leadership was going to reverse centuries of humiliation and return Bihar to its former glory, Laloo thundered at public meetings across the state.<sup>110</sup>

<sup>107</sup> Interview with Bhairon Singh Shekhawat, 20 April 1994, Jaipur.

<sup>108</sup> This idea has been developed in greater depth in Rob Jenkins, 'Rajput Hindutva: Caste Politics, Regional Identity, and Hindu Nationalism in Contemporary Rajasthan', in Christophe Jaffrelot and Thomas Blom Hansen (eds.), *The BJP and the Compulsions of Politics in India* (Delhi: Oxford University Press, 1998).

<sup>109</sup> *Times of India*, 31 March 1994.

<sup>110</sup> See *The Telegraph* (Calcutta), 25 March 1994. Laloo peddled a more business-friendly version of the strong-leadership line when he told a 1,000-strong gathering organised by the CII in April 1995: 'You tell me when and where in Bihar you want to invest. The decision will be taken in a day. Bihar has a single-window system as I have kept all the portfolios with myself'. *Times of India*, 27 April 1995.

Laloo has used different forms of identity politics to soften the edges of other economic issues. One mechanism which has proved fruitful with respect to labour issues is to subsume them within the identity-based political dynamics at the state level, thereby diluting the potency of organised labour as an interest group. This sometimes involves appealing to social identities that have come to occupy important positions in the mobilisation strategies of state-level political parties. In early 1994, for instance, junior doctors of the medical services in the state of Bihar went on strike demanding higher pay and guaranteed employment for all medical graduates. The Bihar chief minister responded by invoking the weapon of caste-based quotas, a major feature of political life in most Indian states, but particularly rampant in Bihar. He announced that of the 644 vacancies in the medical services, 333 would be filled by members of the 'backward castes'. This served to sow discord between high- and low-caste members of the Bihar Junior Doctors Association, effectively ending the strike.<sup>111</sup>

This was not an isolated incident. The rise of caste-based unions was lamented by none other than the president of the Communist Party of India-affiliated All-India Trade Union Congress (AITUC), who called this one of the most important trends preventing an effective trade-union response to liberalisation. Moreover, this trend is most evident at the state level, where caste identity is strongest and most clearly articulated. The AITUC president cited as an example the Brahman Employees' Welfare Associations, which have sprung up in a majority of public sector enterprises in Karnataka.<sup>112</sup> Divisions based on religious identity, particularly between Hindus and Muslims, are also rampant within trade unions, providing yet another opportunity for reforming governments to undermine trade-union unity.<sup>113</sup> Similar afflictions have long thwarted coor-

<sup>111</sup> Similar tactics were reportedly used in Haryana by chief minister Bhajan Lal to end a strike among government employees. *The Hindu*, 19 December 1993. Rajasthan's Shekhawat is also well known for 'playing the Rajput card' in his dealings with potentially hostile public employees' unions. Interview with two office-bearers of a public employees' union, 10 November 1993, Jaipur.

<sup>112</sup> See the editorial by M. S. Krishnan, AITUC president, in the official CPI journal, *New Age*, March 1994.

<sup>113</sup> The communalisation of trade unions was commented on by a leader of a national trade union federation in Karnataka. Interview, 23 March 1994, Bangalore. It has also been demonstrated by survey data on Bombay factories in a study entitled *Communalism and Industrial Workers* (Bombay: Centre for the Study of Society and Secularism, 1994). See also Kiran Saxena, 'The Hindu Trade Union Movement in India: The Bharatiya Mazdoor Sangh', *Asian Survey*, vol. 33, no. 7 (July 1993), pp. 685–96. Even Bombay-based communist trade-union organisers such as Vivek Monteiro consider 'the communal virus' a major obstacle to coordinated labour opposition. Monteiro claims that all parties are engaged in manipulating religious identities in order to divide labour organisations. Interview, 31 March 1994, Bombay. See also 'Religious Divide', *Business World*, 10–23 February 1993, p. 103. Some commentators argue that 'the consumerist

dinated action among rural interests. Ashutosh Varshney has argued that the failure of democracy to prevent urban-biased development policies in predominantly rural India stems from the social divisions in society based on caste, religion, and language.<sup>114</sup> It is worth pointing out, however, that it is at the state level that such tactics are most likely to work.<sup>115</sup>

Pushing through reform measures involves a broad range of underhanded tactics, only a small sampling of which have been outlined in this chapter. It is important to emphasise that many of these would not be out of place in a western democracy. For instance, in April 1995, in an effort to rally votes to defeat an opposition-sponsored budget-related motion, which would have amounted to a vote of no confidence, Congress Party managers reminded first-time MPs who might be flirting with dissidence that they would lose their pensions if the government failed to complete four years in office.<sup>116</sup> The variations on this theme are almost endless. In the same month, it was revealed that, 'in a notable instance of lack of transparency', the Foreign Investment Promotion Board (FIPB) allowed Indian firms to circumvent a law which prevents royalty payments to multinational firms by permitting them to pay American and British wholly-owned subsidiaries what it termed an 'R&D access fee'.<sup>117</sup> The FIPB also signed agreements with two American firms for the extraction of methane gas from coal beds, though the government had not previously published guidelines or announced its intention to attract foreign investment in this sector.<sup>118</sup> In April 1994, representatives of service industries were outraged by the finance minister's authorisation of an unpublicised circular by the Central Board of Direct Taxes which brought them into the tax net for the first time. When contacted by reporters for comments on this 'quiet' move, many service industry companies had not even heard of the circular. Those that had were amazed at the flouting of 'recognized norms of consultation', particularly as they had been involved in the pre- and post-budget discussions with the finance minister (one of the informal institutions mentioned

ethos that accompanied [liberalisation] . . . created, in fact, new spaces into which communal discourse inserted itself'. Arvind Rajagopal, 'Ram Janmabhoomi, Consumer Identity and Image-Based Politics', *Economic and Political Weekly*, 2 July 1994, p. 1659.

<sup>114</sup> Ashutosh Varshney, 'Self-Limited Empowerment: Democracy, Economic Development and Rural India', *Journal of Development Studies*, vol. 29, no. 4 (July 1993), pp. 177-215.

<sup>115</sup> This is because, as Rathin Roy has argued, even during the pre-reform era states served as 'the political conflict-resolution mechanism that attempted to resolve the demands of federal public policy with far more *primordial* regional and local demands'. Rathin Roy, 'State Intervention, Interest Groups and the Politics of Fiscal Policy', *Discussion Paper No. 36*, Institute for Development Policy and Management, University of Manchester (1994), p. 33 (emphasis added).

<sup>116</sup> *The Telegraph* (Calcutta), 25 April 1995.

<sup>117</sup> *Financial Express*, 27 April 1995.

<sup>118</sup> *Indian Express*, 27 April 1995.

in Chapter 5). As one executive put it:

It is, therefore, hard to believe that the government would bring service contracts within the tax net through the backdoor. In the first place, if at all it was to be introduced, the finance minister should have done it through the Finance Bill and not through a circular.<sup>119</sup>

Hard to believe, that is, unless one has had a chance to step back and discern the pattern of obfuscation and manipulation which has characterised the implementation of reform over nearly eight years in India.

Most studies of democratic governance capacity, especially those pre-occupied with the contrasts between new democracies and their authoritarian predecessors, fail to recognise the vital importance of these types of tactics in allowing adjustment to become politically 'consolidated'. The architects of the good-government agenda have instead advanced a vague, sanitised, and ultimately unconvincing version of how transparency (implicitly equated with formal democracy) will assist reformers by facilitating the 'selling' of reform to a vibrant, well-organised civil society. The sort of manipulative and obfuscatory tactics employed regularly in the implementation of reform, however, are a much truer representation of the political reality in India. Above all, they are an integral part of the democratic political process wherever liberal democracy is practised successfully, whether in the developed or developing world.

<sup>119</sup> *Economic Times*, 15 April 1994.

Rather than recapitulate the entire book in miniature, this chapter probes some of the unexplored implications of its main arguments. The aim is to identify additional questions arising from the explanation offered for why India has been able to sustain policy reform in the face of the political obstacles imposed by its democratic framework. This, it is hoped, may highlight some of the ways in which the findings of this study might inform future research. The first section considers the implications of this book's interpretation of the Indian case for the logic which underpins the good-government agenda. Particular emphasis is laid upon the shortcomings of what is currently the linchpin of this agenda – namely, the attempt of aid agencies to foster the emergence of 'civil society' in developing countries. The second section asks whether the means by which economic reform has been made politically sustainable in India may present problems for the implementation of future reforms, and for the health of democracy itself. The focus is on the extent to which the use of underhanded tactics during this first phase of reform may have seriously depleted India's institutional capital.

Before turning to these concerns, however, we must stress what this book is *not* arguing. The previous three chapters have attempted to demonstrate the crucial contribution of three features of India's democratic political system to making economic reform politically sustainable. Each has played a role in enabling change to take place, either by testing the boundaries of the possible or by altering perceptions among individuals and groups. Despite the neat categorisation furnished to contain and structure the evidence, emphasis has been laid upon the unpredictability of change in India. The political actors are engaged more in an ongoing improvisation than a scripted piece of theatre. Audience participation – in the form of elections, agitations, perceived currents of public opinion – provides cues for the next act. A few lines of stage direction can be culled from India's rich political tradition. But nothing inherent in the structure of India's polity, society, or economy determined the outcome, nor will any such 'law of history' do so in the future. Democracy has provided the

space and tools for actors to seize fleeting opportunities. That it has done this at all is significant. That it has done so in ways that challenge quaint conceptions of how democracy works should provide a source of reflection for those who believe that the operation of such a complex organism can be managed, much less created, by means of official development assistance. Democracy's impact on governance capacity is ambiguous. After all, it also proved amenable to the creation of the highly regulated, import-substituting, state-dominated economy that economic reform was intended to supplant.

We must also resist the temptation to generalise from the specific. Two caveats are paramount in this connection. First, no single-country study can support generalisations about the relative change-promoting capacities of democratic or authoritarian forms of government. What this study has argued is that democracy *per se* need not be viewed as an impediment to large-scale shifts in policy direction simply because it must contend with avaricious politicians, demanding electorates, and rent-seeking interest groups. The opportunism of politicians allows them to find new resources for sustaining their political careers, and the skills on which democracies place a premium provide them the means with which to manipulate a complex set of interlocking institutions. Electorates act as a check on this process, providing early-warning signals against the more extreme forms of liberalisation that can make it unsustainable for any government, not just a democratic one. Rent-seeking interests are an intrinsic part of a free, pluralistic society, but when given the space to craft alternatives, they favour limited battles rather than total war in pursuing their objectives, which are in any case continually open to reinterpretation. All of these actors operate within institutions that lengthen time horizons, which helps to avoid the intransigence that characterises winner-take-all systems.

Second, just as we cannot make firm statements about the relative capacity of democracies *vis-à-vis* authoritarian political systems, neither can we infer sweeping generalisations about democracy itself. India's is just one form of democracy, embedded in a specific cultural context.<sup>1</sup> The strongest statement we can make is that a well-institutionalised democracy<sup>2</sup> is a flexible instrument, which works best when wedded to

<sup>1</sup> See Judith M. Brown, *Modern India: The Origins of an Asian Democracy* (Delhi: Oxford University Press, 1985); Bikhu Parekh, 'The Cultural Particularity of Liberal Democracy', *Political Studies*, vol. 40, Special Issue (1992), pp. 160–75 (especially pp. 171–2); Sudipta Kaviraj, 'Dilemmas of Democratic Development in India', in Adrian Leftwich (ed.), *Democracy and Development: Theory and Practice* (Cambridge: Polity Press, 1996), pp. 114–38; and David Held (ed.), *Prospects for Democracy: North, South, East, West* (Cambridge: Polity Press, 1993).

<sup>2</sup> Precedent for citing both formal and informal entities as indicators of India's institutional

indigenous forms of social organisation, and that on this basis the arguments advanced concerning the Indian case could be expanded to suit other democracies as well, subject to local variations. But even this highly qualified assertion must contend with untidy historical contingencies. The emergence of liberal democracy in India was a slow, painstaking process, linked to a unique struggle for national identity and sovereignty. The gradual process by which Indians took control of state power – as a result of reforms enacted during the Raj – provided an incubation period found in few other nations. It allowed a political organisation of the complexity that characterised the Indian National Congress at its zenith to mature under conditions which inculcated a taste for compromise, negotiation, deliberation, and continuous mobilisation in support of political action. Congress during the pre-independence phase proved itself capable of both aggregating diverse interests and defining intricate national goals beyond simply self-rule. Perhaps the closest parallel is the African National Congress, which under the leadership of Nelson Mandela, a figure of Nehru's stature, has been able to negotiate a moderate path towards democratic rule in which accommodation is the dominant theme. The African National Congress also faced a protracted period of struggle, in the process forging an inclusive political organisation capable of containing great social diversity and ideological friction.

### Economic reform, civil society, and good government

The profound influence of historical contingency – a variant of which can be found in the concern of some forms of institutional analysis with 'path-dependence'<sup>3</sup> – must also temper the enthusiasm which democratic India's thus-far successful reorientation of development strategy may raise among aid agencies.<sup>4</sup> Any attempt to derive lessons from the Indian experience in order to replicate its success must recognise that the three key assets of India's political system which have aided the sustainability of adjustment – political incentives, institutions, and skills – are the product

health can be found in Samuel Huntington's assessment of Indian democracy twenty years after independence. Huntington's focus was on the Indian bureaucracy and the Congress Party: 'So long as these two organizations maintained their institutional strength, it was ridiculous to think of India as politically underdeveloped no matter how low its per capita income or how high its illiteracy rate'. Samuel P. Huntington, *Political Order in Changing Societies* (New Haven, Conn.: Yale University Press, 1968), pp. 84–5.

<sup>3</sup> See, for instance, David Collier and Ruth Collier, *Shaping the Political Arena* (Princeton: Princeton University Press, 1991); and Margaret Weir and Theda Skocpol, 'State Structures and the Possibilities for "Keynesian" Responses to the Great Depression in Sweden, Britain and the United States', in Peter B. Evans *et al.* (eds.), *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985), pp. 107–63.

<sup>4</sup> In private discussions with the author, some officials of the UK's Overseas Development Administration voiced great enthusiasm for what they consider replicable 'lessons' from the Indian experience.

of half a century of constitutional democracy. Unfortunately, there is no way to ensure that newly democratising countries will be capable of constructing and nurturing the complex state–society linkages that underlay these assets. Guillermo O'Donnell, among others, stresses the difficulty of building institutions capable of overcoming the tendency for political conflict in democracies to devolve into prisoner's dilemmas:

The best-known invention for such achievement is the strengthening of social and political institutions. But under the conditions I have depicted [in Latin America] this is indeed a most difficult task. In the contemporary world, the joyful celebration of the advent of democracy must be complemented with the sober recognition of the immense (and, indeed, historically unusual) difficulties its institutionalization and its rooting in society must face.<sup>5</sup>

Indeed, there are contingencies within contingencies. Arguably, the consolidation of Indian democracy itself rested upon the creation of a pool of state spoils for which established and emergent groups could contend, using the means the new political system placed at their disposal.<sup>6</sup> In other words, we are faced with a historical paradox that limits the ability to replicate the virtues of the Indian political system: a highly *dirigiste* policy regime may have been required to nurture the democratic institutions capable, ultimately, of dismantling it without fatally undermining either the reform effort or democracy itself. If this is substantially true, then the role of historically contingent processes is ignored by proponents of good government at their own peril.<sup>7</sup> The Indian experience should serve to temper the optimism among donors about the prospects for an ill-defined 'civil society' to serve as the foundation for newly constituted democracies in Africa and Latin America. The reasons for the durability of Indian democracy are more complex, as are the reasons why its evolving form of democratic politics has been able to foster and adapt to policy change. As Richard Jeffries has argued,

the tendency of some Africanist scholars to wax optimistic about a new era of hand-in-hand economic and political liberalisation, both supported by a reflowering of civil society . . . is wishful thinking on a par with 1960s modernisation and 'political development' theory.<sup>8</sup>

His conclusion is that '[t]here seems little reason to doubt that economic

<sup>5</sup> Guillermo O'Donnell, 'On the State, Democratization and Some Conceptual Problems: A Latin American View with Glances at Some Postcommunist Countries', *World Development*, vol. 21, no. 8 (1993), p. 1376.

<sup>6</sup> See James Manor, 'How and Why Liberal and Representative Politics Emerged in India', *Political Studies*, vol. 38, no. 1 (March 1990).

<sup>7</sup> This point is made in greater detail in Section 4 of Robert Jenkins, 'Liberal Democracy and the Political Management of Structural Adjustment: Conceptual Tensions in the Good Government Agenda', *IDS Bulletin*, vol. 26, no. 2 (April 1995), pp. 37–48.

<sup>8</sup> Richard Jeffries, 'The State, Structural Adjustment and Good Government in Africa', *Journal of Commonwealth and Comparative Politics*, vol. 31, no. 1 (March 1993), p. 20.

and political development in African states . . . will have to go through something like the same historical stages' seen in the case of the East Asian NICs.<sup>9</sup> The Indian case demonstrates that, in Asia at least, an alternative path exists. Nevertheless, it does not negate Jeffries' underlying criticisms of the good-government agenda: that outcomes are historically contingent; that the processes involved cannot readily be speeded up; and that attempts to apply the lessons of political and economic systems across space and time are usually misguided.

The difficulty of replicating historical sequences is one reason why aid agencies have in recent years begun to dig deeper in their search for the underlying mechanisms which underpin democracy, and which might link democracy with positive developmental performance. In the process they have retreated further from political reality. Foreign aid programmes have identified civil society as the key ingredient in promoting 'democratic development'. The United States Agency for International Development (USAID) has developed perhaps the most fully elaborated statement of the logic underlying this hope. It runs roughly as follows. Development requires sound policies and impartial implementation. These can only be delivered by governments that are held accountable for their actions. Accountability, in turn, depends upon the existence of 'autonomous centers of social and economic power'<sup>10</sup> that can act as watchdogs over the activities of politicians and government officials. Civil society consists of both the associations that make up these 'centers' and the 'enabling environment' that permits them to operate freely. It is an arena of public space as well as a set of private actors. By funding organised groups within developing countries, aid agencies seek to create a virtuous cycle in which rights to free association beget sound government policies, human development, and (ultimately) a more conducive environment for the protection of individual liberties.

From the standpoint of the role into which civil society has been cast in promoting this equilibrium, there are several problems with this model.<sup>11</sup> The most serious shortcoming is that aid agencies expect too much of civil society. In order to justify its reliance on civil society for so many different missions, USAID, to take the most prominent example, has assigned a *range* of meanings to the term. Each use is, in effect, context-

<sup>9</sup> Ibid., p. 30.

<sup>10</sup> USAID, Center for Development Information and Evaluation, 'Constituencies for Reform: Strategic Approaches for Donor-Supported Civic Advocacy Programs', *Program and Operations Assessment Report No. 12*, February 1996, p. viii.

<sup>11</sup> These problems are addressed in greater detail in Rob Jenkins, 'Mistaking Governance for Politics: Foreign Aid, Democracy and the Construction of Civil Society', in Sudipta Kaviraj and Sunil Khilnani (eds.), *Civil Society: History and Possibilities* (Cambridge: Cambridge University Press, forthcoming).

dependent – that is, the definition of civil society changes, depending on which goal is under discussion. There is nothing inherently wrong in this, since civil society is in fact an ever-changing phenomenon. The problem arises when efforts are undertaken to operationalise these varying conceptions by building (or 'fostering', or 'supporting', or 'nurturing') civil society through the application of foreign aid. The main difficulty is that the definitions used are incapable of producing the three-part sequence towards which civil-society funding is aimed: (1) transitions to competitive politics; (2) the 'consolidation' of fledgling democracies; and (3) the establishment of market-oriented economic policies, and subsequently positive developmental performance.

To put it slightly differently, in order to make the case for civil society's pivotal role in achieving any one of the three objectives, the concept is defined in ways that preclude it from contributing to the other two. This disjunction is remedied by specifying, when referring to the other two objectives, alternative definitions of civil society that render its ability to achieve them more plausible. Since the three objectives are meant to reinforce one another in a virtuous cycle, the aid-agency conception of civil society is fatally flawed. Their instrumental usage of the term cannot contain these multiple meanings. To understand why this is the case, we must pay particular attention to the ways in which dynamics within one process can have 'spillover effects' for the other two. Despite its pronouncements on the need for careful sequencing, USAID's policy, *in effect*, pretends that the three objectives operate in isolation – and therefore that civil society can be represented differently in each case.

Consider, for instance, just one aspect of the transition from a 'movement for democratisation' to 'democratic consolidation' – that is, from 'phase one' to 'phase two'. For the purpose of dislodging an authoritarian regime, USAID is willing to stretch its definition of civil society to include virtually any mass organisation that can bring pressure to bear on the offending government. This even encompasses 'first-tier associations' – that is, those of 'a more ascriptive nature (kin, clan, ethnic, or religious)'.<sup>12</sup> When discussing the later task of consolidating democracy, however, these groups are nowhere to be found in USAID's vision of civil society. They have been surreptitiously erased from the 'strategic logic' which informs their funding of 'Civic Advocacy Organizations'.<sup>13</sup>

But political reality works rather differently. Such mass movements have a tendency to live on beyond the transition phase. As mobilisers of identities which cut across sectoral interests, their actions continue to affect the organisations contained within the more restrictive (phase two)

<sup>12</sup> USAID, 'Constituencies for Reform', p. 2. <sup>13</sup> Ibid., pp. 5–11.

definition of civil society. These organisations need to be integrated into the matrix of competitive politics – as they have been in India<sup>14</sup> – rather than cast as obstacles on the road to modernity and good governance. While this book has not offered a full explanation for how this can take place within the context of a transition to a market-oriented development strategy, it has highlighted the importance of such concerns, as well as the failure of both aid agencies and rational-choice political economists to accord them the importance they deserve. It also provides some insights that may be of use to future research which addresses this issue directly, especially concerning the purposes which a blurring of the boundaries between formal and informal institutions can serve.

While the issues which arise in the transition from democratisation to democratic consolidation are important, it is the interaction between democratic consolidation and market orientation (phase two and phase three), and how these are treated by aid-agency conceptions of civil society, that are more directly relevant to the arguments advanced in this book. At the root of the tortured attempts of development practitioners to equate civil society with all that is wholesome in political life – citizen involvement, public-interest advocacy, self-help – is a preoccupation with promoting good governance. This is understandable, even admirable. In practice, however, it turns out to be something of a mirage. The problem is with how the conception of good governance is formulated – in particular, the explicit bias towards neo-liberal economic orthodoxy. Market-centred policies, it is everywhere implied, are ‘sound’, while those that deviate from this logic undermine both efficiency and welfare.<sup>15</sup>

The concept of good governance, in short, has transcended democracy. It no longer refers simply to authority which is accountable. It denotes the taking of actions consonant with sound policy, which, in turn, is con-

<sup>14</sup> The classic account of how caste identities have adapted to democratic politics in India is Lloyd I. Rudolph and Susanne Hoeber Rudolph, *The Modernity of Tradition* (Chicago: University of Chicago Press, 1967).

<sup>15</sup> The most zealous expositions of this view are to be found in World Bank publications. See *Sub-Saharan Africa: From Crisis to Sustainable Growth* (Washington, DC: The World Bank, 1989); *Governance and Development* (Washington, DC: The World Bank, 1992); and *Governance: The World Bank's Experience* (Washington, DC: The World Bank, 1994). For more detailed statements, see the publications of the World Bank's Senior Policy Adviser in the Africa Region's Technical Department (written in his ‘personal capacity’ and therefore expressing views that ‘should not be taken as reflecting those of the World Bank’): Pierre Landell-Mills, ‘Governance, Civil Society and Empowerment in Sub-Saharan Africa’, paper prepared for the Annual Conference of the Society for the Advancement of Socio-Economics, 1992; P. Landell-Mills and I. Serageldin, ‘Governance and the External Factor’, *Proceedings of the World Bank Conference on Development Economics* (Washington, DC: The World Bank, 1991); and P. Landell-Mills and I. Serageldin, ‘Governance and the Development Process’, *Finance and Development*, vol. 29 (1991), pp. 14–17.

strued as market-oriented economics. This raises a fundamental dilemma for the efforts of USAID and other donors to promote civil society as the basis for ensuring good governance: many of the associations which inspired the original faith in the power of civil society to act as a check on state power arose in *opposition* to the imposition of market-oriented policies by authoritarian regimes. They were formed to bury neo-liberal economics, not to praise it. Were subsequently installed democratic governments to be swayed by such voices they would, by definition, be providing *accountable* governance but not *good* governance. This is an anomaly that further undermines the credibility of the aid agencies’ conception of civil society. The assumption that nascent grassroots associations will support market-oriented economic policy is rooted in the type of democracy that aid agencies envisage – that is, ‘democratic capitalism’.<sup>16</sup> If a government fails to embrace liberal economics, then it is not seen to be operating within the context of liberal politics. The adoption of neo-liberal policies thus becomes the *sine qua non* of civil society’s existence.

On a more basic level, what USAID and other donor agencies fail to recognise (or at least openly to acknowledge in their policy statements) is that free-market economics removes many decisions from the purview of not only the state, but also the political community, democratically constituted or otherwise. In their zeal to see dominant social groups stripped of their power to subvert public institutions for private gain, they simultaneously disempower subordinate social groups: the associations that come closest to the ideal of citizen involvement will find the political basis for pursuing even mildly radical redistributive projects undermined. The most important reason why this fallacy has remained relatively unchallenged is the ability of aid agencies to point to the adoption of market-oriented economic reform in democratic countries. Thus the case of India, which is not only democratic but also possessed of a vibrant civil society, has thus become a powerful weapon in the rhetorical arsenal of donor agencies. It would be a shame for a misreading of this book to contribute to such a project.

As discussed in Chapter 2, the expectation among many commentators at the outset of India’s reform programme was that powerful economic interests (threatened by the potential withdrawal of their perquisites) would join forces with advocates of the poor (who feared that reform

<sup>16</sup> One internal assessment, referring to USAID’s support of business associations, argues that ‘[i]n civil society terms, such assistance could be called a “democratic capitalism” strategy’. USAID, Center for Development Information and Evaluation, ‘Civil Society and Democratic Development in Bangladesh: A CDIE Assessment’, *USAID Working Paper No. 212*, August 1994, p. 29.



would not come with a 'human face') to thwart efforts to restructure the Indian economy. Because this has not happened – not yet, at least – the Indian case would seem to support the aid-agency view that governments of countries in which civil society is clearly free enough to hold them to account are nevertheless willing and able to provide good governance (in the form of neo-liberal economic prescriptions). The Indian experience, in this reading, helps to maintain the equation between good governance, accountability, market economics, and civil society.

The details of the Indian case, as we have seen, reveal a more complicated picture – one which by no means justifies such facile assumptions concerning how civil society is best conceptualised. One of the main reasons why the Indian reform programme has been able to overcome the political forces arrayed against it is the existence of functional sub-national political arenas. The logic of economic reform brought many more decisions about economic life to the state level. Politicians heading state-level governments – representing parties of the left, right, and centre – pursued liberal policy reforms of varying intensities. These leaders were free to indulge in such activities because the main electoral preoccupation of politicians operating at the state level is with courting the support of organisations engaged in the mobilisation of politicised social identities, based on affiliations of caste, sub-caste, religion, language, sect, and tribe. 'Modern', functionally defined sectoral interest groups, which under other circumstances might have had more success with their efforts to undermine reform, found themselves subsumed within the matrix of local, primordial politics – an arena and idiom in which they were relatively less powerful. Thus, in this instance, it was the existence of a particular form of civil society – one in which primordial politics was as organised, competitive, and linked to party politics as were the more conventional functional associations – that allowed the state to avoid 'capture' by powerful interests opposed to the introduction of policies deemed synonymous with good governance. Fixated on promoting the emergence of modern solidarities – in fact, pursuing a thinly veiled modernisation agenda by other means<sup>17</sup> – aid agencies' conceptions of civil society do not allow for the practical utility of such hybrid forms of democratic politics, *even when these are instrumental in effecting their preferred outcomes*. Conceiving of politicised identities as an integral part of democratic civil society undermines too many assumptions about the meaning of modernity.

Another of the reasons why the Indian government was able to succeed in introducing market-oriented reforms also flies in the face of USAID's strategy for promoting civil society. The extent to which trade union

<sup>17</sup> See David Williams and Tom Young, 'Governance, the World Bank and Liberal Theory', *Political Studies*, vol. 42 (1994), pp. 84–100.

organisations were integrated into the networks of influence constructed around individual leaders within political parties helped to defuse the resistance of organised labour to a number of important reform measures. While, as with other reforms, the Indian government did not take as bold a stance on labour issues as some neo-liberal advocates might have wished, it did (as we saw in Chapters 5 and 6) take a number of actions that were previously considered unthinkable given the extent of trade-union power. It was not only the Congress Party, but also centre-left and communist parties ruling at the state level, that reined in their affiliated trade unions, limiting the impact of anti-reform protests by independent labour organisations. While donor agency rhetoric condemns the establishment of such strong links between civil society organisations and political parties – their concern is with associational 'autonomy' – it fails to recognise the extent to which the ability of governments to achieve policy reforms *which donors themselves deem consistent with good governance* can rely upon the control of political leaders over such interests.

Anticipating the difficulties that emerge when attempts are made to 'consolidate' a newly installed democracy, USAID (like most bilateral donor agencies) explicitly excludes political parties from *all* of its definitions of civil society, terming them part of 'political society'.<sup>18</sup> While there is ample theoretical precedent for such an exclusion, USAID's stated rationale for doing so – that parties seek to capture, rather than to influence the exercise of, state power<sup>19</sup> – is dubious. It is not until this logic is extended to the point of excluding from its operational definition of civil society those organisations with close links to political parties that it becomes manifestly untenable. To assert that political parties can and ought to remain distinct from the social groups it is their function to reconcile is to assign them a role as dispassionate interest aggregators, shorn of ideology and immune to the pressures of power. There is little empirical justification for such a view in either the recent spate of democratisation – the 'Third Wave'<sup>20</sup> – or in the short-lived wave that accompanied post-war decolonisation.

The account provided in Chapter 5 of the role played by the informal political networks maintained by India's governing elites furnishes a useful perspective from which to assess other cases. For instance, Poland's Solidarity movement, perhaps the greatest single inspiration for the renewed interest in civil society among the donor community during the 1990s, rested upon a complex web of relationships between groups with

<sup>18</sup> USAID, Center for Development Information and Evaluation, Programme and Operations Assessments Division, 'Civil Society and Democratic Development: A CDIE Evaluation Design Paper', 24 February 1994, p. 5.

<sup>19</sup> USAID, 'Constituencies for Reform', p. 3.

<sup>20</sup> Samuel P. Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (London: University of Oklahoma Press, 1991).



overlapping memberships, cemented together by charismatic individuals operating networks of influence that transcended organisational boundaries. While Solidarity did not begin life officially as a 'party', it effectively became one, and well before the transfer of power was complete. And it was the links between the movement's political core and its organisational satellites that transformed it into such a formidable political force.<sup>21</sup>

Had USAID's 'strategic logic' criteria been in effect, the party linkages of many of the associations that provided Solidarity its legitimacy would have disqualified them from receiving funding. Fortunately, the collapse of communism did not depend upon the assistance of USAID's democratisation strategists. They are understandably anxious to avoid the co-optation of associations by political organisations that are likely soon to gain control of the state. This is an attempt to prevent the re-emergence of authoritarian rule under another banner, and the capture of state power by rent-seeking interests. The objective is to preserve the fragile creation of civil society so that it may go on contributing to the maintenance of a democratic order and a prosperous (market) economy. However laudable these goals, they in effect put the 'cart' of consolidating market-oriented democracy before the 'horse' of effecting a democratic transition. While the currently fraught relations between the African National Congress and the civic associations and trade unions that fought apartheid in South Africa is a topic of much concern, no one seriously believes that efforts should have been made to cleanse these branches of civil society of their association with the ANC in the period prior to the ending of white rule.<sup>22</sup>

Not only does this excessively cautious approach to civil society risk robbing pro-democracy movements of their force; in its obsession with maintaining the 'autonomy' of centres of social and economic power, it jeopardises the healthy development of 'political society'. Even if the realm of parties and the party system is considered beyond the pale of civil society by aid policy analysts – better left to organisations like the German political foundations<sup>23</sup> and the funding institutes run by the two main

<sup>21</sup> See Timothy Garten Ash, *The Uses of Adversity* (Cambridge: Granta/Penguin, 1989).

<sup>22</sup> For an account of the difficulties of this relationship, see Kimberly Lanegran, 'South Africa's Civic Associational Movement – ANC's Ally or Society's "Watchdog"?: Shifting Social Movement-Political Party Relations', *African Studies Review*, vol. 38, no. 2 (1995), pp. 101–26. For an intelligent analysis of how South Africa can reconcile the flaws in both Gramscian and liberal conceptions of civil society (a dilemma which afflicts the aid agency conception as well), see Mark Orkin, 'Building Democracy in the New South Africa: Civil Society, Citizenship and Political Ideology', *Review of African Political Economy*, no. 66 (1995), pp. 525–37.

<sup>23</sup> M. Pinto-Duschinsky, 'Foreign Political Aid: The German Political Foundations and their US Counterparts', *International Affairs*, vol. 67, no. 1 (1991), pp. 33–63.

political parties in the United States<sup>24</sup> – they cannot escape the logical consequences of insisting upon a strict division between political parties and associational entities. Where parties become divorced from either organised sectoral interests or 'principled issue'<sup>25</sup> associations (environmental advocacy groups, women's organisations), the resulting vacuum can often be filled by less appealing forces. Mobilisation around exclusive social identities is certainly not what aid agencies would like to see happen, but in cases such as Kenya and Malawi this is a prominent trend, and has undermined to a significant extent the otherwise welcome ascendancy of civil society. It has been aided by the failure of parties to build strong relations with sectoral interests and principled issue associations.

Developments in Indian politics over the past twenty years represent a similar divergence between high politics and the dynamics of civil society. While this is an extremely complex case, counteracted to a substantial degree by the deep roots that democracy has struck in India over the past half-century, there has been, and continues to be, an alienation of party politics at the national level from specific organised constituencies. The divisive, majoritarian politics of the Hindu nationalist BJP has been a major beneficiary of this trend. Another related phenomenon is what has been termed the 'criminalisation of politics'. This is not merely the corruption of high-level elected and bureaucratic officials, but the wholesale entry into mainstream political parties of notorious underworld figures, who are welcomed by established party bosses because of their hold over formidable political networks. Organised crime syndicates have proved easily adaptable as adjuncts of party machines where party links with trade unions, farmers' organisations and other, more conventional groups in civil society have been weakened. We cannot blame aid agencies for India's political afflictions. But their sanitised vision of civil society, composed of public-spirited watchdogs quarantined from political society, indicates a failure to learn from such lessons. It is certainly not a recipe for the establishment of democratic politics in countries with fewer institutional endowments than India.

In his analysis of why communism failed to provide the basis for a lasting political order in east and central Europe, Ernest Gellner pointed specifically to the absence of civil society.<sup>26</sup> But that which he considered lacking was not what aid-agency policy has created by the same name.

<sup>24</sup> Thomas Carothers, 'The N.E.D. [National Endowment for Democracy] at 10', *Foreign Policy*, no. 951 (1994), pp. 123–38.

<sup>25</sup> This term is drawn from Kathryn Sikkink, 'Human Rights, Principled Issue Networks and Sovereignty in Latin America', *International Organization*, vol. 47, no. 3 (1993), pp. 411–41.

<sup>26</sup> Ernest Gellner, *Conditions of Liberty: Civil Society and Its Rivals* (London: Hamish Hamilton, 1994).

The latter vision is too clean-cut and invested with unambiguous virtue to perform the functions to which Gellner was referring. Gellner depicted a more sensible dichotomy: 'In an important sociological and non-evaluative sense, the Bolshevik system did constitute a moral order. By contrast, and this is perhaps one of its most significant virtues, *Civil Society is an a-moral order*'.<sup>27</sup> It is the latter version which we find flourishing in India today. To neglect its profound contribution to facilitating change is to seek answers to questions of power where they are least likely to be found – in the realm of virtue. In what should be their moment of triumph, the west's development professionals are in danger of repeating the errors of the communists by attempting, in Gellner's words, to 'sacralize' the social and political order. To invest civil society with a moral dimension is not only to misrepresent its historical role in the regulation of social and political life, but also to deprive it of its capacity to express, and thereby paradoxically to contain, aspirations for power over resources, which are the stuff of politics. Indian democracy may be messy and sometimes lacking in virtue, but like the market it is currently learning to accommodate, it generates hidden forms of discipline.

#### **The consequences of political management, Indian style: sustaining democracy amidst economic reform**

Though this book has attempted to identify the main reasons why a reorientation of development strategy has been possible in India, it would be foolish to consider liberalisation irreversible. The objective has been to explain this major transition of the 1990s, not to predict the shape of the new millennium. The analysis in the preceding chapters has steered clear of either policy prescriptions or assessments of economic impact. Still, it is worth asking whether the means adopted by India's governing elites to overcome political resistance to reform may come back to haunt them – as threats either to the further elaboration of a functioning market economy, or to the health of Indian democracy itself. Precisely because democratic institutions and practices have so profoundly influenced the shape of Indian economic policy – both before and since the advent of liberalisation – it is difficult to treat these two potential threats in isolation from one another. Breakdown in one area will likely spread to the other. In the necessarily brief and tentative analysis that follows, an attempt will be made to spell out such connections, though for purposes of clarity it will be helpful to treat the two issues sequentially.

There are two main aspects to the 'threat to democracy' hypothesis.

<sup>27</sup> Gellner, 'Conditions of Liberty', p. 137 (emphasis added).

First, it is possible that the preoccupation with placating and outmanoeuvring powerful interests has led to a relative neglect of the concerns facing India's poor.<sup>28</sup> If India's brand of economic reform leads to greater social and economic disparities among individuals or social groups – or is seen to have done so, as it already is in many quarters – this may imperil the basis upon which Indian democracy has, in part, rested. Second, disparities between India's regions may also grow far worse as a result of the scaling-back of central planning and the failure of many state governments to adapt to the new realities. The potential scenario worth highlighting here is not secessionism and the rupturing of India's national unity. Rather, it is the fading of the long-cherished promise that formal, 'procedural' democracy could give way to a more meaningful, 'substantive' form of democracy for ordinary people. This is less likely when governments of states which have not seen many economic rewards from India's liberalised economy begin to wither. The first casualty in such circumstances is the rule of law, the loss of which robs people of even the formal trappings of democratic governance.

Both of these issues bear watching. But there are reasons to believe that neither will seriously undermine the essential political stability upon which Indian democracy rests. Whether liberalisation will widen gaps between rich and poor social groups is an empirical question which requires further data, and which will in any event be hotly contested among economists. Should such a chasm emerge, it is also by no means certain that it will result in the sort of political instability capable of overwhelming India's democratic institutions. If most people's well-being is enhanced, widening gaps might not threaten the fabric of democracy. India has long challenged the notion that democracy and socio-economic inequality cannot co-exist. The 'why' question, however, has been remarkably under-researched. And, indeed, if liberalisation *does* generate a long-term trend of greater inequality, and yet does *not* result in concerted political action among economically underprivileged groups, the arguments advanced in this book about the functionality of India's federal system might assist in developing hypotheses to explain such a phenomenon. For instance: though economic liberalisation increased disparities in wealth, the threat to political stability was actually reduced because liberalisation also contributed significantly to the decentralisation of economic decision-making to the state level, where strategies to

<sup>28</sup> In a slightly different context, these have been termed 'mass politics' and 'elite politics'. See Ashutosh Varshney, 'Mass Politics or Elite Politics? India's Economic Reforms in Comparative Perspective', paper presented for the conference, 'India's Economic Reforms', Centre for International Affairs/Harvard Institute for International Development, Harvard University, 13–14 December 1996.

avert a revolt among the poor are best devised. In this connection, one might also investigate whether and how the regionalisation of politics, to which economic reform is a major contributor, helps to strengthen the 'tidal barriers' between states, which according to Subrata Mitra were undermined during the 1970s and 1980s by the over-centralisation of the Indian political system. These are, of course, speculative explanations to hypothetical questions. They are introduced here as an illustration of the types of issues that may in future arise, and the ways in which arguments advanced in this book might help to frame fruitful research questions.

As for the issue of regional disparities, the fact is that despite the impression that private investment is flowing only to a few industrially advanced states, poorer states like Orissa and Rajasthan are receiving levels of inward investment which *by their own standards* – and in some cases by national standards as well – are extremely high. In fact, one reason why they are considered substantial is that the record of central planning in preventing the enlargement of inter-regional disparities inherited from the colonial period, to say nothing of actually reversing them, was hardly unimpeachable. The regions that feel cheated by liberalisation are largely the same ones that felt cheated by central planning.<sup>29</sup> As we saw in Chapter 5, leaders of some of these states have themselves adopted liberal policies, and justified their tentative embrace of economic reform by emphasising the extent to which the market could set them free from the even more constraining clutches of New Delhi's mandarins. Whether their states will be worse off – in absolute terms or relative to other regions – is an empirical question, which it is still too early to answer. The political impact of such distributional concerns is even harder to predict, but is worthy of detailed study. To the extent that it reduces the opportunities for state-level political elites to continue blaming the bogeyman of New Delhi, it is quite possible that this process will bring accountability much closer to ordinary people. Or perhaps not. Since landed interests are often in much greater command at state and local levels, it might result in the further restriction of the democratic

<sup>29</sup> The state of Orissa, in eastern India, is a case in point. It is one of the least industrialised in India. But in recent years its mineral wealth, including 1.7 million of the world's total 23 billion tonnes of bauxite reserves, has attracted a range of domestic and international investors. While it is unclear how much of the nearly \$20 billion in investment proposals will actually materialise in concrete form, even if only a relatively small fraction does it will transform Orissa from an economic backwater into a major industrial player. Orissa chief minister J. B. Patnaik cited central government control over investment decisions as the key factor which retarded Orissa's economic growth. And this is a man who represented the Congress Party, which has ruled India's central government for all but seven years since independence. See 'Special Report: A Powerhouse in the Making?' *Business World*, 10–23 July 1996, pp. 60–4.

space to which participation in a larger, outwardly oriented national political community gives access.

Beyond these relatively straightforward concerns, there is a potentially more serious consequence which the means employed to ensure liberalisation's sustainability may hold for Indian democracy. This concerns the fate of its informal political institutions. Much has been made in this book of the flexibility and adaptability of the networks of influence to which Indian parties give rise. The operation of these networks has facilitated the arrangement of a great many political accommodations. But as we have seen, governing elites have, in many cases, deployed political skills to exploit the expectations of stability among interest groups which have come to rely upon these 'regularised patterns of interaction'. Governing elites in India, like the redistributive reformers of Latin America studied by William Ascher (and cited in Chapter 3), have lulled many potential opponents of reform into a false sense of security by seeming to observe the informal rules under which these political relationships have functioned, while in a fair number of instances subverting established norms of reciprocity. In other words, they have expended a good deal of their institutional capital to solve short-term problems associated with economic reform. The question is: how much? It is a question that might not have arisen had we not focused on the value of such informal institutions in explaining the sustainability of adjustment.

For instance, many of the dilemmas which faced the United Front and BJP-led coalition governments were by-products of the political strategy employed during the preceding years under Narasimha Rao. The *modus operandi* was for the central government to make vague assurances to various interests, while placing state governments in the position of having to do the dirty work. The Narasimha Rao government, for instance, steadfastly refused to risk a direct confrontation with labour, and in a sense the strategy paid off politically, though the economic jury is still out. But whatever degree of success it achieved was due largely to the institutional endowments of its initially reluctant accomplices at the state level. The point worth bearing in mind is that this may be a finite resource. The combined effect of national neglect and state-level intimidation and cooptation has, for instance, clearly chipped away at the capacity of the trade union movement to resist what may prove to be far more radical policy change in the future – but at what cost to the institutionalised relations that have been assiduously cultivated in this area over the past fifty years?

Since this book has delineated its analytical boundaries rather narrowly, it would be justifiable to step back and revert to the scholarly disclaimer that such questions are 'beyond the scope' of its concerns. But if

one believes that asking the right questions can draw attention to the issues of greatest significance, then it is vital at least to consider how findings from the present study might inform such an inquiry. It is essential, in fact, to begin by asking whether India's politicians have, in the process of making reform politically sustainable, recklessly expended the country's institutional capital. India's institutions are not only the bedrock of its democracy, providing an ordered process for the politicisation of previously marginalised groups, but also, as this book has argued, the means by which democracy's change-resistant tendencies are overcome. In short, the hope that India will be able to adapt to future shifts rests largely on the shoulders of its institutions.

Returning to the issue of industrial relations might help to illustrate this point. There is growing impatience among trade unions with the failure of elected and bureaucratic officials in both the central and state governments to live up to their promises. In response to the many examples of what they consider government treachery, trade unions have hardened their positions, and the much-vaunted flexibility among certain segments of the trade-union movement may be giving way to old-style rigidity, of the sort which is good for neither labour nor the economy, nor, for that matter, democracy.<sup>30</sup> The abuse of trust which has characterised the government's approach to interest-group negotiation may have fatally undermined its capacity to evolve the more formal institutions which in many countries have stabilised the labour-relations regime. The tripartite negotiating structures developed in countries like South Africa not only address wages and working conditions, but help to generate a consensus on a range of policy issues. Despite the language of inclusion, such institutions can of course privilege some interests at the expense of others – most notably, the employed at the expense of the unemployed, by erecting barriers to entering the labour market. But they can also lower costs to the society as a whole, by avoiding open conflict, increasing predictability, and smoothing the path of difficult transitions. Though this book has argued that evasion and duplicity have been key factors in making reform politically sustainable in India, it does not consider them optimal means. They were expedients, supported by a democratic framework, which bought reformers the precious commodity of time.

But developing institutions such as formal, regularised, legally sanctioned tripartite negotiating frameworks requires a high degree of trust

<sup>30</sup> In mid-1996, a senior official at the International Labor Organization (ILO) in New Delhi stated privately that trade union leaders affiliated to all of the major national parties are planning to oppose virtually any proposals that emerge from the privatisation (or 'disinvestment') commission appointed by Deve Gowda. Interview, 6 September 1996, New Delhi. See also, *Frontline*, 6 September 1996, pp. 107–8.

among elites, which is built up over time through the operation of informal institutions. When these have suffered wilful neglect and deliberate damage, as they have in India, the basis for creating suitably adapted *formal* institutions is thus critically undermined as well. Were India's governing elites to attempt to develop formal tripartite structures, they would most likely find themselves hampered by a situation of their own making. There is widespread and mutual suspicion between leaders of different unions and deep distrust between union leaders and rank-and-file members. Neither union leaders nor ordinary workers, for that matter, trust politicians. And to make things worse, a large section of the general public considers the labour movement captured by advocates of sectarian hatred. Corporatist structures would find such circumstances infertile ground, to say the least. Much of the problem, it must be stressed, has been created by the underhanded means employed by governing elites to undercut political resistance to economic reform. Even if one is not won over by the case for tripartite institutions, it is possible to see the point of this example: short-term expedients, by running down fragile reserves of institutional capital, can harm the prospects for the more difficult types of adaptive reform that a more complex and internationalised economy will, in one form or another, inevitably require.

The silver lining in all of this is that institutional capital is, under certain conditions, a renewable resource, though (as with financial capital) depletion beyond a certain level can make replenishment extremely difficult. Unexpected circumstances, for instance, can provide opportunities for moribund institutions to be resuscitated, and these can help to rebuild some of what has been destroyed in yet other institutions. This has certainly been the case with respect to India's federal system since 1991. This study's focus on the value of a revived form of federalism provides us with some of the perspective necessary to ask whether economic reform and the regionalisation of Indian politics will continue to reinforce one another.

Again, this is a question that will require in-depth empirical research. But thus far such a trend seems to be in evidence. Far from bringing a provincial mindset to New Delhi, Deve Gowda's United Front government – the first in which regional parties played such a large role – injected new life into a flagging reform process. It immediately restructured the Foreign Investment Promotion Board (FIPB), which then went on to approve foreign investment proposals worth more than \$5.5 billion in its first three months of operation.<sup>31</sup> Significantly, a good deal of the increased activity on this and other fronts could be traced to the coalition's

<sup>31</sup> 'Survey: India', *Financial Times*, 19 November 1996, p. 1.

roots in India's regions. Ministers sitting on the FIPB and other powerful decision-making bodies – whether in the United Front or BJP-led coalitions – hailed from regional parties, and were politically answerable to party bosses sitting in state capitals. The industry minister in the United Front government, Mr Murasoli Maran, belonged to the Dravida Munnetra Kazhagam (DMK), the ruling party in the southern state of Tamil Nadu. The DMK's leader, Tamil Nadu Chief Minister Mr M. Karunanidhi, wanted to see new industrial projects sprouting up in his fiefdom. The decision of Ford, in a venture with its Indian partner Mahindra, to produce Fiestas at a greenfield plant in Tamil Nadu rather than at a site it had been studying in Maharashtra was considered a major coup for the state when it was announced by Karunanidhi's predecessor as chief minister in January 1996, and Karunanidhi was keen not to be outdone.

The key point is that Mr Maran answered to Mr Karunanidhi, just as central government ministers from the Telugu Desam Party, another component of the United Front coalition, answered to Andhra Pradesh chief minister Mr Chandrababu Naidu – also a pragmatic provincial politician keen to attract private investment in sectors where public resources are no longer adequate. New Delhi began dancing to the tune of state governments. This is a very significant departure from the past twenty-five years, if not longer. During Narasimha Rao's tenure, for instance, Congress chief ministers could lobby their party chief and his ministerial colleagues in New Delhi for action on pressing economic policy matters. But the centralised Congress would respond in its own time, if at all. Congress chief ministers, in almost all cases, owed their jobs to the prime minister, and kept them at his pleasure. They were in no position to lobby effectively for investment approvals, more autonomy over policy-making, or reforms to the rules governing other economic matters. The new clout of regional parties in central coalitions – which is likely to remain for the foreseeable future – changed all of that. Chief ministers from United Front parties called many of the shots, as did those allied with the subsequent BJP-led coalition. They can threaten to bring down the government if they do not get what they want. While they inevitably lobby for increased funds to grease their election machines, in many instances, rather than asking for the brakes to be put on economic restructuring, they are demanding additional action.

The central government has shown itself capable of responding. For all his flaws, Deve Gowda, as a former chief minister, understood the need to tailor the reforms process to the problems facing state governments. Shortly after taking office, he stated that funds for centrally sponsored schemes for providing 'basic minimum services' would be disbursed

through state governments.<sup>32</sup> He announced in September 1996 that the government was considering a proposal to permit state governments to authorise power projects up to a value of Rs. 10 billion.<sup>33</sup> They would no longer need to approach the central government for approval, a process which had delayed many projects. From January 1997, renovation and modernisation schemes of Rs. 5 billion or less no longer required approval from the Central Electricity Authority.<sup>34</sup> In late October 1996, Deve Gowda's government fulfilled a longstanding demand of state governments by initiating a process to give them greater control over granting mining concessions.<sup>35</sup> The government also planned to introduce a bill to amend the Urban Land (Ceiling and Regulation) Act of 1976, which restricts what state governments can do with vacant urban land desperately needed for redevelopment.<sup>36</sup> Though many of these promises were not fulfilled before the United Front government met its premature end, they symbolised a process that any subsequent government would find difficult to reverse. And, indeed, when the Vajpayee government took power in early 1998, in coalition with an even greater variety of regional parties, action on each of these specific policy areas extended what Deve Gowda had initiated.

It is also worth noting that all of these reforms not only have implications for how state governments might make the most of a liberalised economic environment, but also have the potential to assist state-level politicians in building up new pork-barrels to replace those – like public-works patronage – which liberalisation has eroded. A central government inclined to support such activities – because it answers to regional parties – is building a larger and deeper political consensus in favour of reform, making it more politically sustainable in the process. It is also contributing to the strengthening of the many other institutions that emanate from the federal division of power, such as the National Development Council and the Finance Commission. Thus, at least one form of institutional capital is being replenished – through bizarre and unpredictable sequences, to be sure. But it is a side of the balance sheet that it would be wrong to neglect.

The deep roots of both the United Front and BJP-led coalitions in regional politics – and the extent to which even a future Congress government will require alliances with regional parties – may act as a spur rather than a brake on new reforms. In early November 1996, for instance, a leading industrialist personally told Deve Gowda that Indian business was united in its opposition to the government's decision to allow major-

<sup>32</sup> *The Hindu*, 6 July 1996. <sup>33</sup> *The Pioneer*, 11 September 1996.

<sup>34</sup> *Asian Age*, 10 January 1997. <sup>35</sup> *Asian Age*, 18 October 1996.

<sup>36</sup> *India Today*, 15 October 1996, p. 61.

ity equity holdings by foreign investors in a range of new industries – that is, beyond those that had been previously justified on the grounds that foreign technology and capital were desperately required. The prime minister was said to be unfazed by this display. The capacity of the Indian government to resist this kind of pressure stems largely from the fact that the traditionally dominant business houses have in the past relied on a close relationship with the Congress Party, which operated a top-down form of federalism. Most of these business houses neglected to build political alliances at the regional level – precisely the level from which power is flowing in today's bottom-up political environment. The business links of the parties ruling in most Indian states are with smaller, but more outwardly oriented regional business groups. Their backers do not in general share the aversion to foreign investment voiced by the traditionally dominant north Indian business houses. The point is that Deve Gowda, as well as ministers in the Vajpayee government from regional parties, precisely because of their provincial backgrounds, may not be as beholden to traditional big business as the leadership of the Congress was. India's big business houses were concerned about the United Front government's approach to economic policy not because Deve Gowda and his cabinet were abandoning liberalisation, but because they were pursuing it more zealously, particularly with respect to foreign investment. Despite the BJP's swadeshi rhetoric, business leaders have the same fear under Vajpayee. Ironically, the diplomatic conflict with the United States over nuclear testing served only to further isolate the swadeshi lobby. Eager to counteract the potential for economic sanctions to hurt India's foreign-exchange position, the Vajpayee government relaxed guidelines on portfolio investment, and worked hard to court European and other investors capable of filling any gap the departure of US firms might create.

In a country of India's diversity, the fact that its federal system is healthier now than it has been for at least two decades, and that the new approach to economic policy is a vital part of its renaissance, is not without important implications. Indeed, after almost thirty years of increasing centralisation of political authority, we may be travelling 'back to the future' – for, as Clifford Geertz recognised in the early 1960s, it is at 'the state level that perhaps the bulk of the bitter hand-to-hand clashes that form the everyday substance of Indian domestic politics are coming to take place, and where the adjustments of parochial interests are coming to be effected'.<sup>37</sup>

<sup>37</sup> Clifford Geertz, 'The Integrative Revolution: Primordial Sentiments and Civil Politics in the New States', in Clifford Geertz, *The Interpretation of Cultures: Selected Essays* (New York: Basic Books, 1973), p. 291. This is a reprint of an article originally published in 1963.

The recasting of centre-state relations should foster cautious optimism about India's capacity to meet its most pressing political challenge – institutional renewal. Samuel Huntington's analogy of almost thirty years ago captured this dilemma: 'Just as economic development depends, in some measure, on the relation between investment and consumption political order depends in part on the relation between the development of political institutions and the mobilisation of new social forces into politics'.<sup>38</sup> Given the extent to which the dramatic emergence of lower-caste groups from the social margins to political centre-stage is occurring within state-level political arenas, the federal revival assumes even greater significance. It may be just a part of a larger pattern of institutional regeneration – involving judicial activism, tribal self-government, and more sensible arrangements for the operation of coalition governance.

Before getting over-enthused about such a prospect, it would be worth recalling the catalogue of underhanded tactics detailed in this book. If political institutions are revitalised in India – by whatever means – they are as likely to serve narrow, selfish ends as any other.

<sup>38</sup> Huntington, *Political Order in Changing Societies*, p. vii.