

CHAPTER 3

BATTLES HALF WON: POLITICAL ECONOMY OF INDIA'S GROWTH AND ECONOMIC POLICY SINCE INDEPENDENCE

SADIQ AHMED AND ASHUTOSH
VARSHNEY

When economists propose their favored economic policy agendas and fret that they are not immediately adopted, or get aborted after adoption, because of social instability, one reason for policy failure and economists' frustration is the lack of understanding of the social and political context in which the policy was implemented ... Hence the focus on the politico-cultural underbelly of an economy does not have to be founded in skepticism of economic policy, but in recognition of the fact that this is a complement of it and so should assist in the design of better and more appropriate economic policy.

—Kaushik Basu (2004: 5)

Rapid growth since 1980 transformed India from the world's 50th ranked economy in nominal US dollars to the 11th largest in 2009. When income is measured with regard to purchasing power parity, India's economy occupies fourth place, after the United States, Japan, and China. Along with growing incomes, India's increasingly outward orientation makes it an important player in the global economy, and the optimism about India's economy in recent years has led to a surge in international investors' interest. Further, growth acceleration since 2003 has shifted the debate from a concern about the ability to sustain an annual growth rate of 6% to the prospects for increasing this growth rate to 8% and higher (Ahmed 2007). This optimism about higher growth has not been dented by the onset of the global food–fuel–financial crises. India recovered remarkably well with only a transitory downturn in the growth path in 2008–9. Of late, a spate of corruption scandals and inflation have caused concern, but no one yet is predicting a sharp downturn in growth.

Even though higher growth has helped lower the poverty rate and improve human development outcomes, questions have been raised about the distribution of the benefits of growth between income groups. A key concern is the perception of two Indias—one shining and the other bleak—referring to the large gap in the standard of living between the rich and the poor (World Bank 2006a; Kohli 2006; Varshney 2007; Dreze and Sen 2011). Evidence indicates that interpersonal income inequality is rising, and the gap in the average per capita income between the rich and poor states is also growing. There is substantial disparity in social indicators between the rich and poor states, suggesting not only that income is low in the poorer states, but also that the quality of life is worse. The persistence of lagging regions, with substantial concentration of the poor, is raising concerns about the social and political stability of these regions, with the Maoist insurgency having mostly emerged in the slow-growth, low-income states of central India. Unless income and welfare disparities are tackled up front, there is a risk that the economic reform momentum might run into political difficulties (Varshney 2007). If this happens, growth might suffer.

The objective of this chapter is to review India's *long-term* growth experience with a view to understanding the determinants of growth and the underlying political economy. The chapter looks specifically at the political economy of India's growth transformation from a low-growth environment (pre-1980s) to a rapid growth environment (post-1980s) and asks how sustainable the new transformation is. Following the introduction, section 2 looks at the evolution of India's growth, and section 3 reviews this growth experience in terms of its affect on employment and poverty. Section 4 briefly reviews the policy framework underlying this growth.¹ Section 5 takes a political approach to understanding the process and politics of policy making in India. This framework is then applied in section 6 to explain India's growth transformation. In section 7, the chapter looks at inclusiveness, which is arguably at the heart of the sustainability of economic reforms and long-term growth. Finally, some concluding remarks are provided in section 8.

2. EVOLUTION OF INDIA'S GROWTH

This section reviews India's long-term growth in relation to total and per capita gross domestic product (GDP) growth; the changing composition of growth by the three broad sectors of agriculture, industry and services; and the growth experience by states. Sectoral composition provides useful information about the relative dynamism of these components and helps explain the link between growth and employment. Similarly, because states have important flexibility in their policies, their growth experience enables a better understanding of the determinants of growth.

Trend in total and per capita GDP growth: 1950–2009

Figure 3.1 shows the pattern of India's long-term growth.² There are two distinct growth periods: a first phase from 1950 to 1980 (phase I) and a second phase from 1980 to 2009 (phase II).³ The first phase is characterized by slow growth in both absolute and per capita terms when compared with growth in phase II. In the first period, India grew at an average pace of only 3.6% per annum in absolute terms and 1.2% in per capita terms. In the second phase, growth accelerated to 6.3% in absolute terms and 4.3% in per capita terms. Within these two broad phases, there are some interesting variations. During phase I, the decades of 1950–1960 and 1960–1970 experienced almost identical growth rates (3.9 and 3.7% per year, respectively). But growth dipped significantly during the 1970–1980 decade (3.1% per year), causing per capita annual income to virtually stagnate at below 1%. Indeed, this decade saw the slowest pace of economic expansion since independence. In phase II, the decades of 1980–1990 and 1990–2000 both experienced fairly rapid growth (5.8 and 5.9% per year, respectively), but importantly, growth accelerated further during 2000–2009 (some 7.2% per year). In addition, if the growth in more recent

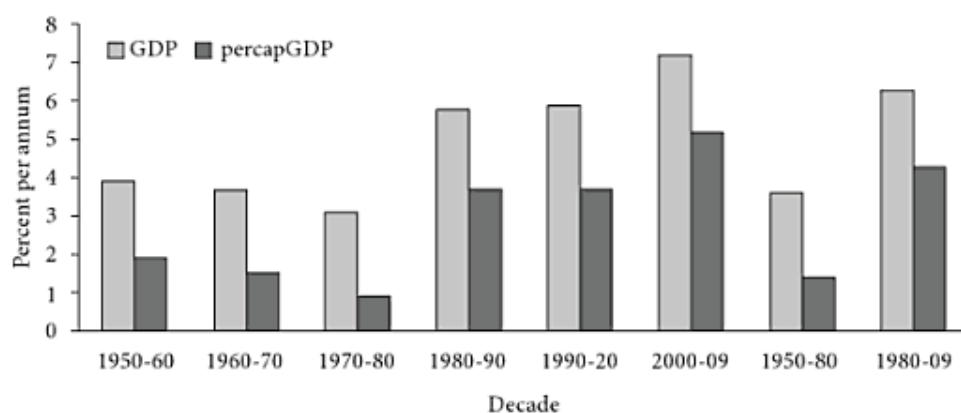


Figure 3.1 India's Long-Term Growth Trend, 1950–2009.

Sources: World Bank Central Database (May 2007), and Government of India (2010).

years is examined, the acceleration becomes quite prominent, notwithstanding the downturn during 2008–2009 (figure 3.2). The average annual rate of growth during 2003–2009 is estimated at 8.3%.

Fast growth since 1980 has placed India among the 10 most rapidly growing economies of the world. Table 3.1 shows a list of countries that have grown by 5% or more per year during 1980–2008. Interestingly, like China, India consolidated its growth momentum in 1990–2008 and, as such, its relative ranking improved, rising from the eighth fastest growing economy during 1980–1990 to the third fastest in 1990–2008. The growth surge of the recent years (2002–2008), if sustained over the longer term, will further strengthen India's position. This could make India the

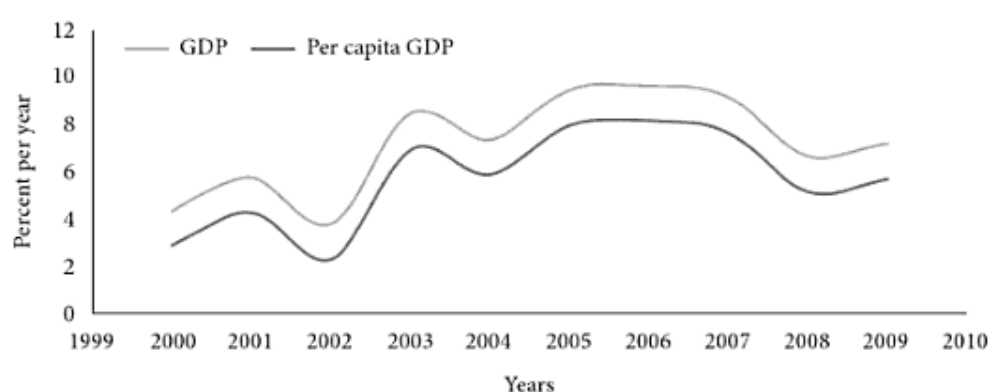


Figure 3.2 India's Recent Growth Path, 2000–2009.

Sources: World Bank Central Database (May 2007), and Government of India (2010).

Table 3.1 The World's Ten Fastest Growing Countries, 1980–2008 (Percent per Annum)

Country	1980–1990	Rank	1990–2008	Rank	1980–2008	Rank
China	10.1	2	10.4	1	10.3	1
Botswana	10.3	1	5.3	6	7.1	2
Korea	9.4	3	5.1	7	6.6	3
Singapore	6.7	6	6.4	4	6.5	5
Vietnam	4.6	10	7.7	2	6.6	3
India	5.8	8	6.6	3	6.3	6
Oman	8.4	4	4.6	9	6.0	7
Thailand	7.6	5	4.6	9	5.7	8
Malaysia	5.3	9	6.1	5	5.8	9
Mauritius	6.2	7	4.7	8	5.2	10

Sources: World Bank (2001, 2010).

world's second fastest growing economy after China. However, despite the rapid growth of the past 26 years, in per capita terms, India is still a poor economy, given the very late start of its development. Thus, measured in nominal dollars, India's per capita gross national product in 2009 was a mere 2.4% of that of the United States. In purchasing power parity terms, the share rises to 7%, still a small proportion of the US per capita income. Clearly, there is a huge amount of catching up still to be done.

Global financial crisis and implications for growth

The robustness of India's growth strategy and associated macroeconomic policies was tested during the global financial crisis of 2008–2010. Like all globally integrated economies, India suffered a substantial downturn in the stock market and associated capital outflows. The economic growth rate came down substantially because of the slowdown of domestic and export demand. Thus, the growth rate in 2008 fell to 6.7%, down substantially from the 9.2% growth in 2007. This slump in growth was large in relation to India's past rapid growth, but the rate of growth achieved was still much higher than most countries of the world. Furthermore, the rate of growth recovered to 7.4% in 2009. This resilience of growth is both a testimony to the robustness of the underlying growth strategy adopted in phase II and an indication of sound macroeconomic management in India. These issues are discussed in greater detail later in the chapter.

Sectoral composition of growth

The broad sectoral composition of growth by decades is shown in table 3.2. Agriculture grew the slowest, at only 2.6% per year during 1950–2009. In contrast to that, both industry and services grew more than twice as fast, at about 5.8% and 6.0%, respectively, per year. When compared by growth phases, all sectors show better growth performance in phase II than in phase I. Within phase I, the decade of 1970–1980 was generally a difficult period for growth, especially for agriculture. Industrial growth also slowed in this period. Together, they pulled down GDP growth to only 3.1% per year, the slowest pace of expansion, as already stated, in any decade since 1950. More generally, agriculture has been a drag on India's growth performance. Except for 1980–1990, when agriculture grew at 3.4%, it normally expanded by 3.0% or less, mainly at 2.5% or lower. This growth is considerably weaker than in China or even Pakistan. The industrial sector maintained a steady pace of growth, at 5.5% or more per year, for most of the 59-year period, except for the temporary deceleration during 1970–1980. Acceleration in the expansion of the services sector provided the main impetus to the GDP growth surge after 1980. Thus, the annual average services growth climbed from 4.5% during 1950–1980 to 7.8% during 1980–2009.

**Table 3.2 India's Sectoral Composition of Growth, 1950–2009
(Percent per Annum)**

	Agriculture	Industry	Services	Total
1950–1960	3.0	6.2	4.3	3.9
1960–1970	2.3	5.5	4.8	3.7
1970–1980	1.5	4.0	4.4	3.1
1980–1990	3.4	7.1	6.7	5.8
1990–2000	2.5	5.6	7.6	5.9
2000–2009	2.6	7.6	9.1	7.2
1950–1980	2.3	5.2	4.5	3.6
1980–2009	2.8	6.8	7.8	6.3
1950–2009	2.6	6.0	6.2	4.9

Sources: World Bank Central Database (May 2007) and Government of India (2010).

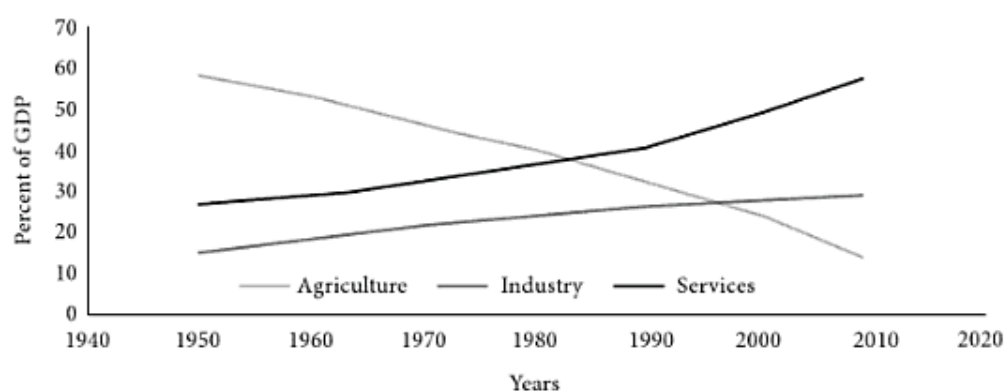


Figure 3.3 Sectoral Composition of GDP, 1950–2009.

Sources: World Bank Central Database (May 2007) and Government of India (2010).

These differential sectoral growth rates have brought about a major structural transformation in the Indian economy. That is illustrated in figure 3.3. The agricultural sector's share of GDP shrank dramatically throughout the period, falling from 58% in 1950 to only 14% in 2009. The industry sector's share of GDP rose from 15% to 29% during the same period. Most notably, the services sector's share surged from a low of 27% in 1950 to more than 57% in 2009. Interestingly, industry's share of GDP has increased only marginally during the 1990s, from 27% in 1990 to 28% in 2009, whereas services' share moved up from 41% to 57%, showing its dynamism.

Regional pattern of growth: state-specific GDP

In India's decentralized political environment where policies, resources, and institutions differ substantially by states, understanding the pattern of growth by states is important. Detailed reviews of state-level growth performance are available in Ahluwalia (2002b), Bhattacharya and Sakhivel (2004), and Krishna (2004). Reliable state-specific GDP data are available from only 1960 onward (when most of India's current federal state structure came into place). The rates of growth by decade since 1960 are shown in table 3.3.⁴ Not surprisingly, growth has varied significantly by states and by decades. During the low-growth phase (1960–1980), most states grew slowly and close to the Indian national average. The exceptions were Haryana, Punjab, and Orissa. The higher growth in these three states was largely due to strong growth in agriculture. During the second phase of rapid national growth (1980–2007), Gujarat, Karnataka, and Haryana took the lead in contributing to the growth acceleration. The average growth in these states exceeded the national average. A few states grew at about the national average, especially Maharashtra, Andhra Pradesh, and Tamil Nadu. But a number of states significantly lagged behind the national average for most of the period, especially Orissa, Uttar Pradesh, and Bihar. Recent reports suggest that Bihar has, at least temporarily, moved to a higher growth rate. It is still

Table 3.3 Regional Pattern of India's Growth, 1960–2007 (Percent per Annum)

State	1960– 1970	1970– 1980	1980– 1990	1990– 2000	2000– 2007	1960– 1980	1980– 2007
Andhra Pradesh	3.0	3.1	6.3	5.6	7.2	3.1	6.3
Bihar	2.3	3.1	4.8	3.6	6.0	2.7	4.7
Gujarat	4.6	3.5	5.3	6.2	9.6	4.1	6.8
Haryana	5.9	4.5	6.4	4.9	8.5	5.2	6.4
Karnataka	4.2	3.1	5.1	7.8	6.8	3.7	6.5
Kerala	4.0	2.2	3.6	5.5	8.4	3.1	5.6
Maharashtra	2.9	4.6	6.0	5.8	6.7	3.8	6.1
Madhya Pradesh	2.1	3.0	5.1	3.8	4.4	2.6	4.4
Orissa	9.8	2.9	2.8	4.4	7.8	6.4	4.7
Punjab	4.6	4.8	5.2	4.7	4.7	4.7	4.8
Rajasthan	4.7	1.0	7.4	4.7	6.4	2.9	6.1
Tamil Nadu	2.8	1.7	5.6	6.4	6.3	2.3	6.1
Uttar Pradesh	2.5	3.0	5.0	3.5	6.7	2.8	4.9
West Bengal	2.2	3.1	4.3	6.7	6.5	2.7	5.8
India Average	3.7	3.1	5.8	5.9	7.7	3.4	5.7

Sources: World Bank South Asia Regional Database (May 2007) and Reserve Bank of India Database (2010).

to be seen whether Bihar's is a decisive turn around. The faster growing states on average registered significantly higher rates of expansion in industrial and service sectors as compared with the lagging states.

Given the initial differences in the states' incomes, the differential growth rates, along with variable progress in tackling population growth, have brought about substantial differences in the per capita income of the states (figure 3.4). The gap between the rich and poor states widened particularly rapidly during the 1990s. The widening income gap between states generated a substantial debate about liberalization policies and the convergence of growth (Ahluwalia 2002b; Bajpai and Sachs 1996; Purfield 2006). The divergence in per capita state incomes has also led to large differences in the standard of living across states and progress with poverty reduction. Not surprisingly, the incidence of poverty has been among the highest in the poorest states of Bihar, Orissa, and Uttar Pradesh. The state-level income inequalities have contributed to a view widely held in some circles that India's rapid growth has not benefited the poor.

More recent data, however, suggests that the diverging trends in per capita incomes by states and associated growth rates might be changing in favor of convergence. This is evidenced, for example, in growth experience after 2004. Slow-growing states such as Bihar and Orissa are showing signs of growth acceleration that, if sustained over the longer term, would substantially narrow the gap with the richer states of Punjab and Maharashtra. For example, Bihar grew at an annual average rate of 10.4% between 2005 and 2008, whereas Orissa grew at 7.7% as compared with 5.9% in Punjab and 4.1% in Maharashtra. This is indeed a welcome development and potentially speaks well of the reform efforts that have been underway in both Bihar and Orissa over the past few years.

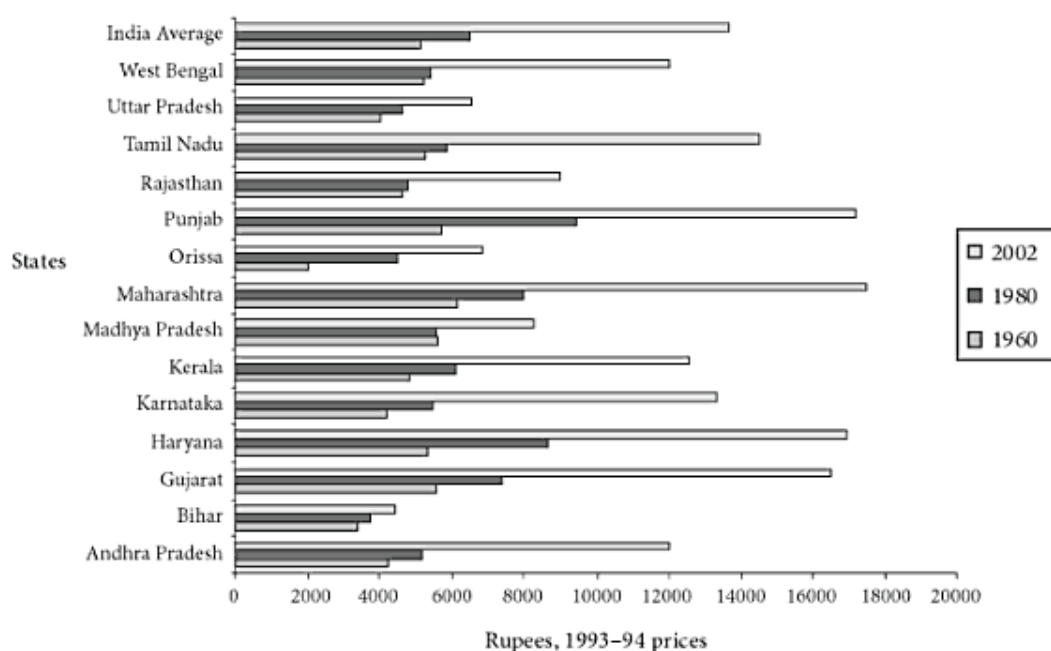


Figure 3.4 India States per Capita Income Trend, 1960–2002.

Source: World Bank South Asia Regional Database (2005).

3. THE QUALITY OF GROWTH

It is now well-recognized that the long-term sustainability of growth depends significantly on proper distribution of the benefits of growth. How has growth affected the poor, and what is the progress with improving human development? We now look at these dimensions of India's growth.

Poverty and human development

As we have already indicated, there is growing concern that higher growth in India is not benefiting the poor adequately. What is the evidence and what are the key issues? Table 3.4 summarizes the average poverty and selected human development outcomes for India during the two growth phases. The results are quite striking, although not surprising. Both rural and urban poverty increased during 1951–1978, even though income distribution improved, reflecting the stagnation of growth during phase I.⁵ The pace of poverty reduction picked up substantially in phase II, supported by the acceleration in growth. Progress with human development was similarly better in phase II. So it is reassuring that higher growth did allow India to make faster progress in improving the well-being of its citizens. State-level analysis shows not only that poverty came down in all states but that human development was similarly better in phase II. There is also a positive correlation between growth and poverty. The incidence of poverty tends to be lowest in rapidly growing states and highest in the slow-growing, low-income states (Datt 1997; World Bank 1997, 2000; Deaton and Dreze 2002). Thus, a part of the development challenge is to find ways to accelerate growth in the lagging regions rather than abandon the growth effort. Nevertheless, there is also evidence that income inequality increased (Deaton and Dreze 2002, Himanshu 2007, Dev and Ravi 2007) and human development indicators remain weak by international standards, including the quality of health and education outcomes. Income inequality increased fairly rapidly in urban areas between 1993 and 2005 (Himanshu 2007, Dev and Ravi 2007). These facts suggest that along with more rapid growth, India needs to pay stronger attention to improving equity.⁶

Labor force, employment, and real wages

One key link between growth and poverty reduction is through the creation of productive employment. The somewhat unusual pattern of services-led growth has fed some concerns about the sustainability of growth as well as a worry about labor absorption (Kohli 2006). How unusual is India's growth experience in regard to sectoral composition?

Table 3.4 India's Development Indicators by Growth Phases

Selected indicator	Phase I (1950–1980)	Phase II (1980–2009)
GDP growth, % per annum	3.6	6.3
Per capita GDP growth, % per annum	1.2	4.3
National poverty incidence, % ^a	45.3 (1951–1952); 48.4 (1977–1978)	43.0 (1983–1984); 27.9 (2004–2005)
Urban poverty, %	35.5 (1951–1952); 40.5 (1977–1978)	35.7 (1983–1984); 25.9 (2004–2005)
Rural poverty, %	47.4 (1951–1952); 50.6 (1977–1978)	45.3 (1983–1984); 28.7 (2004–2005)
Income distribution ^b	Gini urban: 0.40 (1951); 0.35 (1977–1978)	Gini urban: 0.34 (1983–1984); 0.38 (2004–2005)
	Gini rural: 0.34 (1951); 0.31 (1977–1978)	Gini rural: 0.31 (1983–1984); 0.31 (2004–2005)
Life expectancy, years	Men: 45 (1962); 54 (1980)	Men: 54 (1980); 63 (2003)
	Women: 44 (1962); 55 (1980)	Women: 55 (1980); 64 (2003)
Infant mortality rate, per thousand	146 (1960); 115 (1980)	115 (1980); 55 (2007)
Adult literacy rate	Men: 18.3 (1951); 43.6 (1981)	Men: 43.6 (1981); 73 (2002)
	Women: 10.0 (1951); 25 (1981)	Women: 25 (1981); 48 (2002)
Primary enrollment ratio	Boys: 78 (1970); 83 (1980)	Boys: 83 (1980); 115 (2006)
	Girls: 55 (1970); 65 (1980)	Girls: 65 (1980); 108 (2006)
Secondary enrollment ratio	Boys: 24 (1970); 30 (1980)	Boys: 30 (1980); 78 (2006)
	Girls: 15 (1970); 20 (1980)	Girls: 20 (1980); 72 (2006)

^a Poverty and inequality estimates for 2004–2005 are preliminary and as reported in Himanshu (2007) and Dev and Ravi (2007).

^b Inequality data for 1951 from Datt (1997).

Sources: Government of India (2005, 2010), World Bank (2000), and World Bank Central Database (2007).

This issue has been studied in some detail by Kochar et al. (2006). The study concludes that although the share of manufacturing in output and employment in 1981 was at a normal level when compared with countries at a similar level of development and size, this share lagged behind others during 1980–2002. In contrast, the share of services in output and employment was below the norm in 1981. Although the output share of services surged ahead during the 1980–2002 period, the employment share was lower. The study also finds evidence that India's services and manufacturing sectors tend to exhibit skill-intensive growth that is more typical of advanced industrial countries as opposed to East Asian countries.

Do these findings verify the pessimism expressed by Kohli (2006)? Kochar et al. (2006) explain this pattern of growth as reflecting partly the policy bias in India's education policies since the early days in favor of higher and scientific education as opposed to basic education and training, and partly the effect of labor market policies that reduce employment flexibility and discriminate against labor-intensive enterprises. The slower-than-expected growth of manufacturing is, in part, the result of a policy-induced constraint (inflexibility of the labor market) that has lowered the expansion of labor-intensive manufacturing rather than an inherent weakness of the growth process in phase II. Similarly, as we shall see later in more detail, the services sector's surge in growth in phase II is the result of reforms, including greater openness to global markets. The downside risks to its sustainability are linked to global downturns and the absence of further reforms, factors that will also hurt manufacturing growth. In short, the sustainability of overall growth is not dependent on the relative balance between growths in services and manufacturing.

The issue of low-employment creation is a substantial one. What is the evidence? Unfortunately, comparable long-term labor force and employment data are not available. We have more recent data pieced together from various sources in a study done by the World Bank (2006b). On the supply side, labor force grew by 1.7% per annum during 1983–2000 (table 3.5). The labor force is becoming better educated, although the average level remains very low when compared with the East

Table 3.5 Summary Labor Force and Employment Data, 1983/1984–1999/2000

	1983/1984	1999/2000	Growth rate (percent per year)
Labor force, millions	312.9	408.8	1.7
Of which:			
–Urban	63.1	100.0	2.9
–Rural	249.8	308.8	1.3
Employment	265.1	360.9	2.0
Of which:			
–Regular	39.0	57.4	2.4
–Casual	79.3	120.6	2.7
–Self-employed	146.8	182.9	1.4
Employment share:			
–Agriculture	66.7	58.7	
–Industry	12.0	12.1	
–Services	21.3	29.2	

Source: World Bank (2006b).

Asian economies (World Bank 2006b). Also, the education gaps between rural and urban workers on the one hand and between female and male workers on the other are quite striking. On the demand side, employment actually grew faster than the supply of labor, although the overall elasticity of employment to GDP growth is low (only 0.3%). The faster aggregate growth of employment relative to the labor supply is also reflected in rising real wages (table 3.6).

What then is the employment concern? The employment and real wage concerns are actually driven by low overall employment elasticity of growth, differential sectoral impact of employment, and the differential rates of wage increases between sectors and by gender. First, although real wages grew economy-wide, the growth was slower than the expansion of per capita income for low-skilled workers. This is a reflection of the overall low-employment elasticity of GDP growth. Second, real wages grew much slower in agriculture as compared with nonagriculture. That is due to the slow growth in average labor productivity in agriculture, the very low levels of educational attainment of agriculture workers, and the relatively slow growth in demand for labor in low-skill, labor-intensive nonagriculture activities. As a result, there is continued strong reliance on agriculture for employment. Thus, although the output share of agriculture fell from 40% in 1980 to only 25% in 2004, the employment share declined only marginally from 66% in 1983/1984 to 59% in 1999/2000 (World Bank 2006b). The much slower growth of employment in industry and services relative to their contribution to growth in output has constrained the overall employment elasticity of output and the growth of real wages economy-wide. This poses the challenge for creating "good jobs" that provide higher productivity and higher real wages. Third, there are substantial wage differentials between male and female workers. Finally, the wage differential between skilled and unskilled workers has widened (World Bank 2006b).

Table 3.6 Real Wage Trends, 1983/1984–1999/2000 (1993/1994 Prices)

Real wages	1983/1984 rural		1983/1984 urban		1999/2000 rural		1999/2000 urban	
Salaried worker/ casual worker (ratio)	Men	Women	Men	Women	Men	Women	Men	Women
Agriculture	1.0	2.0	1.5	2.0	1.7	1.7	3.1	2.0
Nonagriculture	1.9	2.3	2.1	3.3	2.4	3.9	2.7	3.7
Casual workers (rupees per day)	1983/1984 Men		1983/1984 Women		1999/2000 Men		1999/2000 Women	
Agriculture	16.4		11.0		26.0		18.3	
Nonagriculture	23.8		11.7		38.3		23.9	
All activities	18.0		11.1		29.3		18.9	
Public work	19.5		11.9		31.5		25.9	

Source: World Bank 2006b.

For the near future, these findings point to two key policy challenges. First, there is a need to redress the dualistic pattern of skills by focusing on ways to upgrade the skill profile of the large bulk of the uneducated or low-skill workforce through appropriate reforms in education and training policies. Second, there is a need to remove the constraints on labor market flexibility to allow a more labor-intensive pattern of growth in the formal manufacturing and services sector.

4. THE ECONOMICS OF GROWTH

Following the seminal work by Solow (1956), the growth accounting analysis shows that growth per unit of labor depends on capital accumulation and factor productivity. An increase in one or both can raise the rate of growth. Capital accumulation in turn depends on the rate of investment. In a market economy, investment depends on profitability. The profitability of investment depends in part on the price of capital, which is affected by the national savings rate and external capital flows. External capital flows also have an effect on the ability to acquire new technology and, thereby, affect total factor productivity. How have these elements played out in India?

Savings and investment

Figure 3.5 shows the trend in saving and investment. Over the longer term, India's saving and investment rates have increased substantially. Both saving and investment rates have grown steadily throughout all decades, rising from the low levels of 9% and 11%, respectively, during the 1950s to the 23% range in the 1990s. The national savings rate surged further to an average of 30% during 2000–2008,

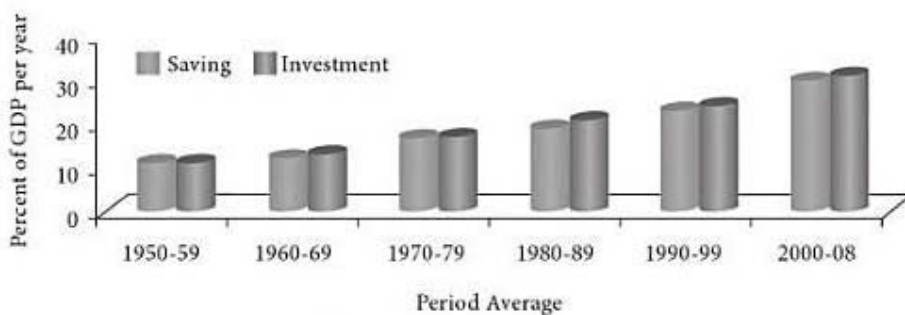


Figure 3.5 Trend in Savings and Investment, 1950–2008.

Source: Government of India (2010).

buoyed in part by the inflow of remittances. Overall, the average investment rate in phase II (25% of GDP) was much higher than in phase I (13% of GDP). It is clear, therefore, that the higher growth rate since the 1980s has indeed been supported by a more rapid pace of investment.⁷

Total factor productivity

The emphasis on total factor productivity (TFP) is based on the theory that the sustainability of growth over the longer term will depend on the ability to make continuous TFP improvements. Without improvements in TFP, diminishing returns to factor accumulation will drive down the growth rate over the longer term. Several studies have analyzed developments in India's TFP. The more recent ones include Rodrik and Subramanian (2004), Virmani (2004b), Acharya et al. (2003), and Bosworth and Collins (2003). The results of these studies are summarized in table 3.7. Despite differences in assumptions and methodology, there is a remarkable degree of consistency in the studies' results.

The stylized facts appear to be as follows. First, TFP has played an important role in pushing long-term growth in India. Second, there has been a significant increase in TFP and its contribution to growth in phase II. Indeed, international comparison of TFP contribution to growth done by Bosworth and Collins (2003) suggests that India scored very low during the 1960–1980 period (at only 10%) compared with other countries. However, the contribution of TFP surged to 57% during 1980–1999, which places India in the best-performing category.

The evidence summarized here suggests that the acceleration in India's rate of growth in phase II over phase I occurred as a result of both a sharp increase in capital accumulation and a strong improvement in productivity. The surge in the national savings rate observed during the 2000–2008 period and evidence of increasing foreign capital inflows suggest that financing does not appear to be a constraint to further increases in the investment rate. The better prospects for foreign investment also suggest stronger opportunities for accumulation of better technology, which is a positive factor for total factor productivity and growth.

Policies underlying growth outcomes

From an accounting perspective, there is no disagreement that the per worker growth rate depends on the investment effort and the pace of productivity growth. The debate has centered on what determines the investment rate and productivity growth. This has translated into a debate about the role of specific policies in supporting growth. A summary of this debate is contained in Ahmed (2006). In regard to India, the controversy is about the role of deregulation policies versus "attitudinal changes."

Table 3.7 India Total Factor Productivity Estimates (Percentage Annual Average Growth Rates)

	1950/1951– 1966/1967	1967/1968– 1980/1981	1981/1982– 1990/1991	1991/1992– 1999/2000
A. Acharya et al.				
GDP	3.8	3.4	5.3	6.5
TFP	1.4	0.7	2.0	2.6
Proportion of GDP growth explained by TFP, %	38	21	38	40
B. Virmani	1950–1980			1980–2003
NDP per worker	1.3			2.4
TFP	0.7			2.4
Proportion of per-worker NDP growth explained by TFP, %	54			69
C. Collin-Bosworth	1960–1970	1970–1980	1980–1990	1990–1999
GDP per worker	1.9	0.7	3.9	3.3
TFP growth	0.7	-0.5	2.5	1.6
Proportion of per worker GDP growth explained by TFP, %	40	Negative	64	48
D. Rodrik and Subramanian	1960–1970	1970–1980	1980–1990	1990–1999
GDP per worker	1.8	0.9	3.7	3.3
TFP	1.2	0.5	2.9	2.4
Proportion of per worker GDP growth explained by TFP, %	67	56	78	73

Note: NDP = net domestic product.

Sources: Acharya et al. (2003), Virmani (2004b), Bosworth and Collins (2003), Rodrik and Subramanian (2004).

The implications of liberalization policies for supporting growth in India have been studied extensively (Acharya 2006; Ahluwalia 2002a; Krueger and Chinoy 2002; Panagariya 2005; Virmani 2005; World Bank 2000, 2003; Ahmed 2007). These studies provide evidence that the growth momentum since the 1980s has much to do with promarket reforms. The reforms started in the 1980s but accelerated in the 1990s. This received wisdom has been challenged by a study that concludes that “growth was triggered by an attitudinal shift on the part of the national government towards a pro-business (as opposed to pro-liberalization) approach” (Rodrik and Subramanian 2004).

A careful review of the debate suggests that this has less to do with the substance and more with the choice of time period and the interpretation of associated reforms. In regard to the time period, the distinction between the two subperiods

of phase II, 1980–1990 and 1991 onward, is overdrawn. The facts are clear: The upward shift in the growth path occurred after 1980 and not 1991. Some more recent studies identify the mid-1980s as the real break (Ghate and Wright 2011). But to argue that growth in the 1980–1990 decade occurred as a result of attitudinal changes rather than promarket reforms is misleading. The government's shift from an inward-looking, command-and-control economy to an outward-oriented, incentive-based, private sector-led economy is indeed at the heart of the reforms during phase II. Calling them *probusiness* rather than *promarket* does not change the substance that these reforms were directed at improving the incentives for the private sector. As Ahmed (2007), Panagariya (2005), Virmani (2005), and Joshi and Little (1998) have shown, some significant promarket reforms took place during the 1980–1990 period. Many others happened after the crisis of 1991. Reforms in both periods were geared to improving incentives for the private sector. During 1980–1990, the government signaled its change in development strategy through reforms that were easy. A large share of the growth impact came from better use of existing capacities reflected in TFP improvement. From 1991 to 2006, more fundamental market-oriented reforms took place. A larger share of the growth response in this period came from capital accumulation, although TFP contribution remained substantial. Importantly, most researchers agree that without the reforms of the 1990s, the growth spurt of the 1980s could not have been sustained.

A detailed analysis of policy outturn done by Ahmed (2007) shows that the low-investment effort and low-productivity improvements of phase I were the result of weak incentives and low efficiency resulting from a highly controlled and inward-looking economy. The exchange rate was overvalued and inflexible; trade and capital flows were highly restrictive; the financial sector was heavily controlled under public ownership; and investment regulations were overwhelming (also see Bhagwati 1993). In phase II, the exchange rate was made flexible; exchange controls were removed; the financial sector was reformed; trade restrictions were progressively removed; and investment was deregulated. So, essentially, in the first phase, the Indian economy was inward-looking and managed by state-led command-and-control interventions. In the second phase, the economy was more outward oriented and driven by the private sector through market-based incentives. These are two different development strategies and policy regimes with markedly different growth outcomes.

Along with the flexibility of the exchange rate, the impact of trade, investment, and financial deregulation on private investment has been remarkable. The private investment rate as a share of GDP surged from an average of 10.8% of GDP in the 1970–1980 periods to 21.4% in the 2000–2008 periods. Much of the response until the late 1990s came from the domestic private sector. Foreign direct investment was sluggish, partly because the deregulation drive was a bit conservative initially. Thus, in fiscal year (FY) 1990/1991, net foreign investment was only \$103 million, and it grew to \$2.3 billion in FY 1998/1999.⁸ This pattern, however, is now changing in response to stronger efforts to deregulate and improve the business

environment for foreign private investment. Net foreign investment increased to \$43 billion in FY 2007/2008.

India's experience also brings out several interesting points about the relationship between macroeconomic policies and growth. For more than 50 years, India, on average, has maintained a fairly stable macroeconomic environment. In regard to internal balance, the average long-term inflation rate has been about 6.6% per annum, which is below the world average of 8.8% and substantially below the average for low-income economies (12.5%). Concerning external balance, India kept its average current account deficit at about 1.3% of gross national income per year, thereby restricting its external debt to only 19% of gross national income as of 2008. Exports surged from less than 8% of GDP in 1950 to 15% in 2008, reserves increased from less than 17% of annual imports in the 1960s to 82% of 2008 imports, and the external interest payments on debt was only 4.2% of total export earnings in 2008. However, even though India maintained macroeconomic stability in both growth phases, the policies that allowed macroeconomic stability during phase I were fundamentally different from policies that supported macroeconomic stability during phase II. In the first phase, macroeconomic stability was maintained through monetary tightening, control over the exchange rate, trade barriers, and exchange controls. The policies were not aimed at supporting private investment. Not surprisingly, they adversely affected private investment and growth. They, along with other regulatory restrictions, were an important reason for relatively low private investment and low-factor productivity during this period.

In the second phase, monetary policy was somewhat less tight than in the first phase but remained within prudent limits, thereby keeping the inflation rate significantly below average rates for the world and for developing countries. Most important, the exchange rate was made flexible sequentially, until this became determined by the market. Exchange controls were progressively eliminated, and trade policies were liberalized. These policies spurred private investment and exports, which in turn were an important factor for rapid growth. Another noteworthy dimension is the conduct of fiscal policy, which has been controversial and yielded mixed results. In an effort to break out of the low-growth syndrome of phase I, India adopted an expansionary fiscal policy stance in phase II. This policy had some initial success, and public investment increased, contributing to higher growth. However, the momentum could not be sustained. Much of the deficit was financed domestically. As a result, the domestic debt and interest burden surged, reducing the availability of resources for public spending in infrastructure. Also, there is some evidence of the crowding out of private investment. So, even though the long-term adverse effects of large fiscal deficits on macroeconomic stability were offset by monetary, exchange rate, and trade policies, the efficacy of expansionary fiscal policy for sustained growth has proven limited because of the growing fiscal debt service burden and the crowding out of private investment. Containing the fiscal deficit has remained an elusive goal of macroeconomic management of successive governments in phase II.

The proper conduct of macroeconomic management came under pressure during the 2008–9 global financial crisis. Liberalization policies in phase II, involving reforms in trade, exchange rate, foreign investment and the financial sector, have resulted in the substantial integration of the Indian economy to the global economy. Not surprisingly, when the global financial crisis started in 2008, it also affected India's macroeconomy. But as was noted earlier, the downturn in economic growth was much less severe than the global slowdown and the recovery was also much more rapid. Much of the credit for this goes to deft and flexible macroeconomic management that has been the hallmark of economic management in phase II. A series of stimulus packages through fiscal and monetary policies along with flexible management of the exchange rate helped economic recovery.

Reforms in the financial sector of the 1990s along with prudential regulations also played a role in reducing the contagion effects of the global crisis. Past financial sector reforms strengthened public and private banks and improved their loan portfolios. Prudential regulations, including capital controls, also played a positive role. Moving forward, an important lesson is the importance of balancing financial sector liberalization policies aimed at improving competition and efficiency with prudential regulations to prevent excessive capital outflows, runs on banks, and heavily infected portfolios. India's cautious approach to liberalization of capital accounts seems to have served the country well.

5. THE POLITICAL UNDERPINNINGS OF ECONOMIC POLICY

If economic policies, partly since the 1980s and especially since 1991, are responsible for India's recent economic successes and the upward growth trajectory, some questions naturally follow the account provided in section 4. How did the transformation in policies begin to come about in the 1980s and pick up momentum in 1991? Why was the economic strategy not changed earlier despite a long period of low growth? What role did leaders play in ushering change? How did they learn what was wrong, and, more importantly, how did they set things right? Why did they change some policies (investment, trade, exchange rate), but not others (especially labor laws)? Why have growth rates of different states diverged so much in the second period? Finally, moving forward, inclusiveness is a critical issue, especially as urban–rural, interpersonal, and regional inequalities have grown. Are the decision makers thinking about inclusiveness?

These questions inevitably lead toward a discussion of the politics of economic reforms. Economic policies emerge and evolve in a political context. It is a political economy truism that governments, unlike firms, are not economic agents.

Governments are, first and foremost, political constructs. For governments, economic objectives are often only a part of the larger play of politics.

In the remainder of this section, we start with a framework for thinking about the politics of India's economic policy. We present first some key institutional features of Indian polity that have a strong bearing on economic policy. We then turn to some highly distinctive features of Indian politics, which give us a perspective on how economic policy is viewed by politicians in India and why. Having presented this larger perspective, we outline the policy process and identify the main actors involved in policy.

Politics and policy: a framework

Institutional Features

Two features of India's formal institutions should be especially kept in mind when we analyze policy: India is a federal polity, and it has a parliamentary democracy. Both have implications for economic policy.

Federalism is inscribed in the constitution. Some economic policy arenas are reserved for the central government: for example, currency, foreign trade, telecommunications, environment. But some other key economic matters are concurrent, meaning the center and states have to formulate policy in consultation. Education, health, labor laws, and power, among other things, belong to the concurrent list in India's constitution. Some matters exclusively belong to the state list, such as sales tax and mining. It is harder to develop consensus on concurrent policy arenas, especially if the central and state governments are not ruled by the same political party. In India, the latter has been true since 1967. Until 1967, the Congress party formed the central as well as state governments. In this respect, China is dramatically different: in a non-democratic, one-party polity, the same political party runs the central, state, and local governments. Differences between the various levels of government may emerge in China, but such differences are not exacerbated by the existence of multiple political parties, some staunchly opposed to the ruling party in Delhi.

The policy implications of Indian democracy should also be noted. We discuss them in detail in section 7. To summarize our arguments, universal-franchise democracy historically followed the Industrial Revolution in the West. Britain, the oldest democracy in the world, had only 19% franchise in the 1830s, by which time it had gone through an industrial revolution. East Asia has also followed the Western model in sequencing industrialization and democracy. In contrast, in 1947, an independent India was born poor and overwhelmingly agrarian, but with no restrictions on franchise. As a consequence, inclusiveness has played a more significant role in Indian policy making than was generally true at a comparable level of development elsewhere.⁹

It is well-known that the institutional features of a polity influence politics and the policy process. It is normally less recognized in economic policy circles that

historical experiences that shape political ideologies may in turn have an effect on the policies that politicians pursue. We need to ask: What is truly distinctive about India's politics? And how does it influence policy?

Distinctive historical legacies

Surprising as it may seem, economic issues and policies have generally not made, or unmade, governments in India. On the whole, economics has not determined India's election results. The sole exception thus far may be inflation. Why this is so will become clear later on. Let us first look at what has normally tended to determine the electoral fortunes in India.

The concept of *master narratives* is the best way to answer this question. Master narratives are stories about the central experiences, cleavages, and fault lines of a society. Grounded in historical realities, master narratives make politics intelligible to the masses, mobilize popular energies, and put together winning coalitions in politics. Master narratives form the institutionalized common sense of politics. For example, freedom, equality, and race are often viewed as the master narratives of US politics, repeatedly touching off political passions (Huntington 1983, Smith 1997). In India, the key issues are different for historical reasons.

Although it is unclear what the master narratives of 21st-century India will be, it is evident that Indian politics witnessed three master narratives in the 20th century: secular nationalism, Hindu nationalism, and caste-based social justice (Varshney 2002). Religion and caste, and their relationship to the state and citizenship, are central to all three narratives, but each arranges these building blocks differently. On the whole, *economics has been subservient to the master categories of religion and caste*. The struggle over religion and caste is basically about how some social groups, and by implication, individuals belonging to such groups, are treated in society—with dignity and equality, or with prejudice and discrimination. To use contemporary language, it is a struggle over how formal citizenship rights, available in the constitution, can be made effective and real. Economics has been part of this struggle, but not necessarily the most important part.

Let us take a brief look at each of the three master narratives. Secular nationalism is India's constitutionally endorsed official ideology. It says that equal rights of citizenship are available to all Indians regardless of their religion or caste. India as a nation is owned by all of its citizens. This view is a legacy of the freedom movement led by Mahatma Gandhi and Jawaharlal Nehru.

Hindu nationalism has a fundamentally different view. For Hindu nationalists, the Hindus, India's majority religious group constituting 80.5% of the population in 2011, are the primary owners of the nation. Other religious groups, especially Muslims, 13.4% of the Indian population in 2011, and Christians, 2.3 of the nation's population, must accept the primacy of Hindus and accept Hindu culture, if not religion, as national culture. In effect, this view, when privileged by elections, tends to make Muslims and Christians second-class citizens of India, generating a lot of anxiety and passion.

The third narrative, caste-based social justice, concentrates on the contradictions within the majority Hindu community. It argues that the elite upper Hindu castes, numbering somewhere between one-fourth to one-third of the Hindu society today, have historically enjoyed superior status and also subjected the lower castes, constituting a majority of Hindu society, to various forms of subjugation and discrimination.¹⁰ Only an egalitarian restructuring of the Hindu social order, with affirmative action seen as its linchpin and democracy viewed as the key weapon of change, can bring social justice about.¹¹

In the first two decades of independence, the secular nationalist narrative, and its prime representative, the Congress party, enjoyed a nearly uncontested hegemony. Since then, the last two narratives have become a force, first at the state level, then at the central level. Today, none of three narratives enjoys a clear dominance. Coalitions between them, some entirely pragmatic, have of late settled who wins elections and forms the government.¹²

What do these structural features mean for economic policy? Two implications are of special significance: one about poverty specifically, and another about economic policy generally.

The politics of poverty

Given how many of India's citizens have been poor—from over a majority of the electorate in the early years to roughly one-third recently¹³—it is worth asking why a winning coalition of the poor was never constructed in Indian politics. Such a construction could, in principle, have married two different objectives: the economic objective of attacking poverty, and the political objective of putting together an electoral majority.¹⁴ Although such an arrangement might still have left the question of what antipoverty strategy to follow—an indirect market-oriented approach, or a direct asset-transfer approach—it would have at least generated a huge propoor political pressure in the system.

That such a coalition never came about has a great deal to do with how poverty is *experienced* by most poor people in India. The largest proportion of the poor in India has historically come from three social categories: the ex-untouchable Dalits (the Scheduled Castes, or SCs), the so-called middle castes (the “other backward classes,” or OBCs); and the traditionally forest-based, or nomadic, Scheduled Tribes (STs). The SCs are about 16% of India's population, the STs 7.5%, and the OBCs anywhere between 40% and 52%.¹⁵ These are also groups that have historically suffered humiliation and discrimination at the hands of the upper castes in a vertical Hindu social order. For centuries, they were looked down on; they were not allowed access to the upper-caste temples, wells, schools, and village commons; the styles of their dress and the architectural patterns of their homes had to be in keeping with their “station in life”; their children were seen to be fit only for the menial jobs, not worthy of education; and their women were also treated with disrespect (Rudolph and Rudolph 1967; Weiner 1991; Varshney 2000a).

Poverty, in other words, is not just a low-income category in India, but something much more comprehensive. For most poor people, it came with the denial of human dignity. Being treated badly is not the same as being poor; in India, the two were traditionally conjoined. Moreover, the pain of the denial of dignity often lasted longer, for even when lower groups climbed up the economic ladder, they were denied better treatment for a long time.¹⁶

As a result, when democracy came and the numerically larger lower castes began to realize how voting could be used as a weapon to counter the traditionally instituted status inequalities, their focus was on dignity and justice (Weiner 2001). Poverty was viewed as a subset of the larger problem of degradation, discrimination, and deprivation. To be treated as a human being became the political battle cry. By now, lower-caste parties have emerged in most parts of India, and they have been incorporated in the power structures (Jaffrelot 2003; Varshney 2000a). At the same time, it is also widely recognized that although lower-caste assertion is on the rise and older forms of discrimination are declining, the outcomes on the ground have lagged behind lower-caste gains in political representation, especially for SCs and STs.

Why have the lower-caste parties not produced a politically united class of the poor? Wouldn't they have won a majority of seats and power if they had united? The resolution of this paradox is well-known in politics and sociology.

Although almost all lower castes, compared to upper castes, were huddled at the lower end of the social scale, they were not equally deprived of dignity. The middle castes, for example, were historically not as badly treated as the untouchables. Being higher on the ritual scale, the middle castes were most unlikely to group themselves with the ex-untouchables, and they, on the whole, did not. A subjectively united class of the poor, thus, never became a politically reality in India. To make matters even more complex, Muslims, 12%–13% of the population, were the largest non-Hindu group to be among the poor. Religiously different from the lower Hindu castes, they felt a split between their identity as Muslims and their interest as poor people.

To summarize, ethnicity or birth-based identity group became the category through which the full extent of deprivation was experienced by the poor in India. Class, or poverty per se, could not become the driver of politics. The poor were always talked about in Indian policy circles, but the polity has felt the greatest pressure to attack discrimination and denials of dignity, not poverty. To use contemporary language, a desire for effective, as opposed to formal, citizenship has been one of the principal determinants of lower-caste politics.¹⁷ Poverty is simply one aspect of this larger problem.

The politics of economic policy

The concept of master narratives of politics also makes clear where economic policy belongs in India's political space. Religion and caste have dominated *mass politics* in India; economic policy has basically been a contentious matter in *elite politics* (Varshney 200b, 2007), though this may well change in the future.

What are the key differences between mass politics and elite politics? The primary arena of mass politics is the street and the ballot box. The major theaters of elite politics are the English-language press, the Internet, university seminars, corporate conferences, and the corridors of power, where corporate executives, officials of the international financial institutions, foreign government representatives, and lobbies meet with the bureaucrats and politicians. Negotiations, discussions, bargaining and “deals” are the typical forms of elite politics. Voting, agitations, protests, and demonstrations are the principal forms for mass politics; riots are also sometimes a key element. Only episodically disrupted by mass agitations and protests, authoritarian polities are normally driven by elite politics. Democracies witness both forms of politics more or less as a routine matter.

What, analytically speaking, allows a policy to enter mass politics? Three factors are typically critical: (1) how many people are affected by the policy, (2) how organized they are, and (3) whether the effect is direct and short-run or indirect and long-run. The more direct the effect of a policy, the more people are affected by it and the more organized they are, the greater the potential for mass politics. *Underlying long-run and indirect links do not flourish in mass politics where the basic message has to be simple, intuitive, clearly demonstrable, and capable of arousing mass action.*

Within economic policy, following this reasoning, some issues are more likely to arouse mass contestation than others. For example, inflation, by affecting more or less everybody except those whose salaries are inflation-indexed, quickly becomes part of mass politics. Privatization, a change in labor laws, withdrawal of agricultural subsidies, rural land acquisition for industry, and reforming the retail trade sector policy have similar properties. Either a large number of people are negatively affected in the short run (agriculture and retail trade), or those so affected, even when not in large numbers, are well organized in unions (privatization and labor laws). It should now be clear why India's decision makers have not restructured agricultural subsidies, not reformed labor laws, have found it hard to open up retail trade, and achieved limited privatization.

Stock markets, on the other hand, directly affect the shareholders, whose numbers are not large and who are not likely to be organized in a poor country. As a result, short of a financial collapse, stock market fluctuations and the developments in the capital markets rarely, if ever, arouse mass politics in less-developed countries. Similarly, overhauling industrial investment rules—delicensing—concern primarily the investor, foreign and indigenous. Their numbers are also typically small. Since 1991, India's reformers have achieved their greatest success in reforming capital markets and investment regimes.

What of trade liberalization and currency devaluation? If a country's economy depends heavily on foreign trade, a lowering of tariff walls, a reduction in quantitative trade restrictions, and a devaluation of the currency will indeed be of great concern to the masses, for it will directly affect mass welfare. In 2004, trade constituted more than 50% of the GDP of Singapore, China, Malaysia, Thailand, the Philippines, Mexico, Hungary, South Korea, Poland, and Venezuela, among

some others. Changes, especially dramatic changes, in the trade and exchange rate regimes of these countries have a clear potential for mass politics. However, if trade is a small part of the economy, as has been true of India and Brazil historically, changes in trade and exchange rate regimes remain peripheral to the mass concerns.¹⁸ In 1991, India's trade/GDP ratio was a mere 15%. Of late, this ratio has risen rapidly, nearing 35%–40%. Foreign trade could well become a matter of mass contestation before long.¹⁹

A point about delicensing and import tariffs also ought to be noted. Those hurt in the short run by such reforms included, primarily, the industrialists of the sectors protected from foreign and internal competition.²⁰ But the expected long-term benefits of such liberalization were substantial, even enormous. As a result, India's politicians invested a lot of energy in reforming the investment and trade regimes. A similar argument can be made about capital markets. In other words, these reforms made political as well as economic sense.²¹

The distinction between mass politics and elite politics is more relevant to democracies, given that periodic renewals of mass mandates are not necessary in authoritarian countries. For example, India's agricultural land acquisition for industrial or commercial development remains mired in deep contestation. To build airports, roads, and bridges, India goes through intense legal and political disputation. In China, land can be acquired with ease. Almost all land, for one, has historically belonged to the state in China; in India, a lot of land is privately owned. Secondly, democratic political contestation by opposing political parties is not allowed in China; it is commonplace in India.

Similarly, India's privatization plans have remained slow and halting—the welfare of workers who might lose their jobs continues to be an important political concern and questions about transparency in sales touch off substantial political storms. To be sure, China was cautious about privatization to begin with, embarking on it only in the late 1990s, nearly two decades after the market-oriented turn in economic policy came about. But once Chinese political leaders decided to go for privatization, they did not retrace steps regardless of what consequences it had for those laid off. A treason or subversion trial against labor leaders protesting job losses is virtually impossible in India's democracy. But in China, this is what a *Washington Post* correspondent observed:

Under tight security and with an angry crowd holding a vigil in sub-zero temperatures outside, a court in this Northeastern Chinese city (Liaoyang) tried two prominent labor leaders on subversion charges today ... Yao Fuxin, 52, and Xiao Yunlinag, 56, were arrested last March for helping organize large-scale protests in Liaoyang demanding aid for workers left jobless by economic reforms and punishment for officials unfairly profiting from the privatization of state industries. The protests, which drew as many as 30,000 people from factories across the city, were among the biggest labor demonstrations in China in years.²²

This analysis should explain why India's reforms have followed a very clear pattern: substantial reform of capital markets, investment regimes, and trade and exchange rate regimes; no, or very little, reform of agricultural subsidies, retail

trade, and labor laws; and no great push toward privatization. The distinction between mass and elite politics is critical to explaining these patterns.

The policy process

The policy process in India can be conceptualized as consisting of three kinds of circles. At the core are the so-called policy actors: the politicians heading ministries and the bureaucrats serving under them. On policy matters constitutionally defined as *central*—for example, exchange rates, foreign trade, and telecommunications—the core policy actors are entirely concentrated in Delhi. This core expands to include state governments, if the policy at issue is constitutionally categorized as *concurrent*. For instance, power, education, and health are, among others, concurrent subjects. Within this core, there can be differences of opinion between ministries: Finance and agriculture have historically wrestled over agricultural prices and subsidies (Varshney 1995). Such differences are typically resolved by the prime minister. There can also be differences between Delhi and state governments. On power, for example, state governments and Delhi have on several occasions been at odds (Mukherji 2004). These differences are harder to resolve than those between different ministries in the cabinet, especially if the central and state governments are ruled by different parties. A lot of give and take often becomes necessary.

The second circle in the policy process consists of factions in the ruling party or in the ruling coalition. In the days of one-party dominance (1947–1989), the Congress party typically had a right-of-center and a left-of-center faction within the ruling party (Frankel 1978, 2005). The Bharatiya Janata Party (BJP), when it came to rule, was also split between an ideologically correct, *swadeshi* (self-reliance), right wing and a more pragmatic right-of-center faction (Sinha 2007). Sometimes these factions are not ideological. A few of the factions are driven purely by personality rivalries or patronage concerns. Small regional parties, important in ruling coalitions since 1996, are often especially tied to some important organization or interests in their own states. They may not be ideologically driven in their policy choices.

The third circle in the policy process consists of lobbies and interest groups. Both corporate interests and labor unions are well organized in India, though, over time, the power of business groups has risen and that of labor unions has gone down. Historically, neither is known to have exerted pressure for a change in the overall economic policy. Rather, they mostly reacted to the policies announced, and when they did lobby, they did so for very particularistic benefits, such as getting a license, tariff reduction or excise tax concession for a particular commodity (Kochanek 1974). The 1990s witnessed a change, as industrial associations, especially the Confederation of Indian Industries, started sponsoring, and participating in, debates about policies in general (Kochanek 1995–96). General policy advocacy has thus been added to particularistic lobbying. Both forms of interaction now exist.

Two more sources of policy inputs need to be recognized. In times of economic crisis, the international financial institutions can become key policy actors, but in normal times, their power is limited.²³ The economics profession is quite developed in India, and the top echelons of India's bureaucracy, whether running central plans, or encouraging market-oriented economic policies, have displayed considerable economic competence. The exceptions would appear to be states, where economic bureaucracies are less developed. Often, these also happen to be poorer states, which require resources over and above their central allocations and tax collections. The international financial institutions can play a bigger role in such states.

A final source of policy input is the press. It does not formally participate as an organization in the policy process, but it vigorously debates policy ideas relevant to the larger public sphere, brings in experts who may not be involved in the policy process, and seeks to exert its weight by shaping opinion. Some of what the press does, or says, feeds back into the policy process. Parliament debates are sometimes triggered by what appears in the press.

The picture of the policy process just sketched is thus quite complex. The complexity, however, can be reduced to two cardinal rules of economic policy making: (1) the greatest power undoubtedly rests with politicians and bureaucrats; and (2) politicians are relatively risk-averse on issues that can bring large numbers of people agitating on the streets, and they are normally more resolute, if the masses are not adversely *and* negatively affected in the short run. India's democracy is incapable of administering shock therapies, even if one argues that such therapies will improve the long-run welfare prospects. The influence of business has increased over the years, but it is by and large confined to particular benefits or specific policies, as opposed to an overall policy framework.

6. THE POLITICAL ECONOMY OF INDIA'S GROWTH TRANSFORMATION

If this is how the policy process operates, how did policy change come about, partly in the 1980s and especially in 1991? And what explains why India's leaders, while keeping institutions of a capitalist economy such as stock markets, banks, and private firms, were wary of more fully embracing markets until the 1980s, with one exception (agricultural policy)? In normal policy discourse, a great deal of emphasis is placed on the role of leadership in policy change. Was India's leadership exceptionally economically adroit after the 1980s and remarkably incapable before? For chronological reasons, we begin with phase I (1950–1980).

Phase I (1950–1980)

Proposed almost a century back, Max Weber's threefold typology of leadership—traditional, legal-rational, and charismatic—remains the starting point of discussions of leadership in the social sciences even today (Weber and Eisenstadt 1968). Traditional leaders derive power from long-held conventions and norms of succession. Charismatic leaders inspire mass loyalty by their personality and personal record. Legal-rational leaders acquire authority from institutions, not from the force of personality or tradition.

Indian politics has witnessed all three types of leaders since independence. By now, however, traditional modes of leadership are disappearing in vast swathes of the country. Gone are the days of upper-caste leaders commanding votes purely on grounds of traditional caste structures. The political arena has become increasingly competitive, and an array of lower-caste leaders has burst on the scene, challenging the hold of upper-caste leaders and making bargaining quite central to government formation and survival. Increasingly, leaders fall into the charismatic or legal-rational category.

It is often believed that inspiring charismatic leaders bring about fundamental change in policy directions. The period 1950–1980 was dominated by two of the most charismatic leaders postindependence India has seen: Jawaharlal Nehru (1950–1964), and Indira Gandhi (1966–1984, except for 1977–1980). With the exception of the transformation of agricultural policy in the mid-1960s, India's fundamental economic strategy, based on a distrust of markets, trade pessimism, and a belief in *dirigisme* (state control and guidance of industry), did not change for three decades. Whereas Nehru's charismatic authority was clearly associated with the birth of Indian dirigisme, Indira Gandhi's charisma is not linked to any great departures in economic policy. The decisive change in agricultural policy took place after Nehru died and before Indira Gandhi took power. This "interregnum" (1964–1966) was not led by charismatic politicians. The oft-heard belief in policy circles that policy change may require charismatic leadership is belied by at least what happened in India in the mid-1960s and also during the decisive shifts in the 1990s, as we shall argue later.

The first phase of India's economic history raises three important political economy questions. Why did Nehru opt for dirigisme and not embrace markets more fully as a way to develop India? Why did Indira Gandhi not change the overall economic policy, even though India's growth rate failed to pick up during 1966–1980, a period when she was at the helm for the most part? And how was agricultural policy transformed in the mid-1960s?

The dirigisme of the Nehru period was partly based on his own beliefs and partly on the economic theories of the time, supportive as they were of central planning as the best way to industrialize poor societies. The Soviet Union's rapid industrialization had convinced most postcolonial leaders that central planning was necessary for rapid industrialization (Hirschman 1981).²⁴ India's economic bureaucracy worked with the prevalent theories of industrialization. In addition, Nehru's own position on markets and the profit motive is noteworthy:

It would be absurd to say that the profit motive does not appeal to the average Indian, but it is nevertheless true that there is no such admiration for it in India as there is in the West. The possessor of money may be envied but he is not particularly respected or admired. Respect and admiration still go to the man or woman who is considered good and wise, and especially to those who sacrifice themselves ... for the public good. (Nehru 1946: 554)

Nehru's continuing electoral popularity, despite serious stagnation in agriculture, was one of the interesting paradoxes to emerge in the first half of the 1960s. Consistent with the preceding view, Nehru's agricultural policy was not based on price incentives to farmers: Rather, it was based on land reforms, which were supposed to raise production, and on food price controls, which were considered necessary for transferring savings from agriculture for financing industrial development (Varshney 1995). This policy had run into trouble by the early 1960s, but Nehru won a massive election victory for his party in the 1962 elections. Low-economic performance did not electorally matter.

In addition to his charisma as a founding father of the nation, Nehru's identification with the master narrative of secular nationalism, a narrative he had in part created during the freedom struggle, triumphed over the rising economic malaise. That narrative continued to provide assurance to some key social groups in India, especially the upper castes, who had led the freedom movement, the Dalits, the STs, and the religious minorities. Given (1) a first-past-the-post parliamentary system, which does not require a majority of votes for parliamentary majorities, and (2) the presence of multiple opposition parties that were not united, the combination of upper castes, Dalits, the STs, and religious minorities was enough to elect the Congress to power.

In retrospect, given the economic zeitgeist of the time, it is not surprising that the Nehru era saw the birth and institutionalization of central planning in India. What is surprising is the lack of change in industrial policy under Indira Gandhi after the mid-1960s. Not only had problems in plan implementation started appearing as early as the second half of the 1960s (Bhagwati and Desai 1970), but the economic growth rate in the 1970s, as we saw earlier, was the lowest since independence. On at least two occasions, Indira Gandhi had a remarkable opportunity to change policy—after a victorious war with Pakistan (1971–1972), which immeasurably added to her status, and during the 18 months of the “emergency,” when she suspended democracy and had very few constraints on her power. No change came about.

On why policy paralysis nonetheless persisted, Bardhan (1984) has provided the most widely read explanation. His explanation relies on the power of interest groups. India's dominant coalition, Bardhan argues, consists of the industrialists, the farmers, and the public sector bureaucracy. All three benefited from dirigisme: Industrialists because they were protected from external as well as internal competition; farmers because they got price and input subsidies; and public bureaucracy because it was paid well, protected, and wielded enormous powers. No important interest group had an incentive to push the government for a change in policy.

This popular explanation underestimates the role of the state and political leadership. If Bardhan could show that Indira Gandhi was interested in changing India's economic strategy but she failed because of the interest group gridlock, his argument would be valid. But there is no evidence at all that Indira Gandhi had an alternative economic strategy in mind. She had the charisma to make a decisive break, but she did not use her charisma in the economic realm.²⁵ An overwhelming proportion of her rule, especially 1966–1977, coincided with a very low economic growth, but she only lost one election during her stewardship. Suspension of democracy and some draconian family planning policies were the reason for her 1977 election defeat (Weiner 1978). Low economic growth did not matter. So long as the ideology of secular nationalism was not given up, Mrs. Gandhi and her party continued to be viewed with favor by the upper castes, Dalits, STs, and most religious minorities. This was the electoral formula that lasted from Nehru through Indira Gandhi (Weiner 1987).

In contrast, a noncharismatic prime minister during 1964–1966 and his equally noncharismatic agriculture minister altered India's agricultural policy.²⁶ In 1964, after Nehru's death, Lal Bahadur Shastri became prime minister by coincidence. Shastri emerged as a compromise candidate because he was nonthreatening to the two major factions in the party. C. Subramanian was his food and agriculture minister. Subramanian, like Shastri, had not led any fiery election campaigns. He was basically a technocratically capable politician (Frankel 1978).

Supported by well-chosen economic bureaucrats and the right-of-center faction of the Congress party, the two together brought about a fundamental restructuring of agricultural policy. Unlike Nehru's policy, the new policy was based on price incentives for farmers, supported by incentives for adoption of new farm technologies (Varshney 1995). A green revolution occurred. India, precariously dependent on American shipments of wheat in the mid-1960s, became food self-sufficient.

In summary, charismatic leadership does not explain India's agricultural shift in the 1960s. More or less the same story would be repeated in 1991. Both policy shifts show how institutions work in Indian polity in moments of economic crisis. *Change came about more because of how personalities derived power from institutions, and less on account of how institutions derived power from charismatic personalities.* Moreover, there was a great deal of learning in the policy process, which in moments of crisis was leveraged. We explain later what the sources of learning were.

Phase II (1981–2010)

Unlike popular perception, policy movement toward the markets did not begin in 1991; rather, 1991 was the culmination of a process that commenced systematically during the term of Rajiv Gandhi (1985–1989).²⁷ Indeed some promarket reforms had happened even earlier, first during the rule of the Janata government (1977–1979)

and then during the return of Indira Gandhi (1980–1984), but these were very partial and hesitant (Joshi and Little 1998).

Rajiv Gandhi's regime initiated a more concerted effort to introduce economic liberalization and reliance on private sector. A "reform team" in the economic bureaucracy was put in place by Rajiv Gandhi (Shastri 1995). Unlike previous bureaucratic constellations, this team preferred markets over central planning and was more exposed in its professional life to East Asia and international financial institutions. Rajiv Gandhi delicensed some industries, lowered corporate tax rates, and gave incentives for the development of high technology in several sectors. Exchange rate reform and reduction of quantitative restrictions on imports also happened. The reform team kept working on new policy ideas. By 1991, the blueprint of a larger market-oriented shift in policy was already in place.

In 1991, P. V. Narasimha Rao became prime minister entirely by accident—Rajiv Gandhi, leader of the Congress party, had been assassinated by the Liberation Tigers of Tamil Eelam during the 1991 election campaign. Rao was well-known in India's uppermost political circles for overall competence, but not for charismatic leadership. Moreover, Rao appointed a technocrat, not a charismatic, politician as finance minister. Manmohan Singh was not a professional politician; he was a highly respected economic bureaucrat, who had served in a variety of appointed, not elected, positions, including the head of the Reserve Bank of India. The economic capabilities of Manmohan Singh and his economic team were beyond doubt. But we will misunderstand the sources of change, if we do not put the reform team in the larger institutional perspective.

A balance of payments crisis became an opportunity for Manmohan Singh and his bureaucratic team, to bring about a fundamental shift in India's economic strategy. "The current level of foreign exchange reserves," announced Singh, "would suffice to finance imports for a mere fortnight."²⁸ But instead of addressing only the macroeconomic crisis through an International Monetary Fund-style stabilization program, which would have been the conventional way to go, Singh sought to change the entire economic strategy. "Macroeconomic stabilization and fiscal adjustment alone cannot suffice; they must be supported by essential reforms in economic policy ... (facilitating) *a transition from a regime of quantitative restrictions to a price-based mechanism*. ... Overcentralization and excessive bureaucratization have proved to be counter-productive."²⁹ Thus began a whole series of economic reforms, introduced incrementally in the political process.

A basic restructuring of economic policies goes through a well-defined political process in India. Specifically, the annual government budget becomes the key indicator of changes in economic policies, but it is an instrument over which the executive does not have final authority. The government can only present a budget; the legislature must approve it. In many countries, the budget simply sums up the health of government finances. In India, given the historically entrenched and highly interventionist role of the state in the economy, many of the big changes in economic policy, especially those that reduce the role of government and, therefore, alter taxes, public expenditures, and economic laws, show up prominently in

the budgetary instrument. If India's parliament had not passed the first few budgets after 1991, the new economic policies would have been stillborn, not because of a faulty economic logic but due to the institutional constraints of a parliamentary system. We must, therefore, not only ask why the government introduced reforms, but why India's parliaments repeatedly endorsed them by approving the budget.

It is hard to recall how gloomy the reform prospects were in July 1991. Lacking a clear majority in parliament, the Rao government did not even seem stable. The country was going through a massive Hindu-Muslim upheaval, on the one hand, and a serious dispute over caste-based affirmative action, on the other. To make matters worse, two insurgencies—one in Punjab, another in Kashmir—were showing no signs of abatement. The nation's former head of government, Rajiv Gandhi, had just been brutally assassinated. Instead of reform optimism, many commentators were concerned whether India would survive as a nation in the 1990s.

As it turned out, in spite of lacking a clear majority in parliament, the Rao government was able to push reforms, whereas only a few years back, Rajiv Gandhi's government, even with a three-fourths majority, had to pull back after initiating some market-oriented policy moves.³⁰ Opposition politicians vigorously criticized the budgets during 1991–1995, but they did not vote against them.

They did not because by 1990, India's politics had become *triangular*. Between 1950 and 1990, the principal battle lines of politics were bipolar. The Congress was the party of government, and all other parties were opposed to it. Between 1990 and 1997, a triangular contest developed among the left (the Marxists and lower-caste parties), the Hindu nationalists, and the Congress party. Coalitions were increasingly formed against the Hindu nationalists, not against the Congress. To begin with, the left disliked the reforms, but they disliked Hindu nationalism even more. Having risen from 2 seats in 1984 to 120 seats in 1991, the Hindu nationalist BJP was the rising force in Indian politics. Once the Hindu nationalists had demolished the Baburi Mosque in December 1992, the left became even more convinced that the Hindu nationalists had to be contained. Collaboration among the various opposition parties was required to defeat budgets, but the Hindu nationalists and the Communist left simply could not come together. That would have unseated the Congress party from power, which in turn implied the clear possibility that the BJP would march further in the elections that would ensue.³¹

Thus, India's economic reforms kept progressing because the political context had made Hindu-Muslim relations (and caste animosities) the prime determinant of political coalitions. It was not charismatic leadership, but the workings of India's institutions that led to a transformation in policy, once a decision to change was made at the top, and a skilful team of technocrats was put together. The project of policy transformation was immensely helped by the religious- and caste-related storms of Indian mass politics.

Two more developments require explanation. First, why have the growth rates of various states diverged so much in the second period (1980–2009)? On the whole, the western and southern states have done much better; and the northern and eastern states have lagged behind. Second, why has the problem of Maoism,

opposing market-oriented economic reforms, appeared in recent years, especially since 2007–2008?

On the first issue—interstate economic divergence—four reasons can be advanced. First, as is well-known, greater reliance on market forces tends to generate inequalities to begin with. States better endowed with infrastructure benefit more, when markets are freed up. This was true even when the green revolution technologies and farm price incentives were introduced in the mid to late 1960s. Punjab, Haryana, and Western Uttar Pradesh were the first to have the green revolution. The other states benefited later. By now, Punjab and Uttar Pradesh have declined, showing that the initial advantages do not last forever and other states can eventually catch up. The early beneficiaries of the new reforms in India were states with better infrastructures.³²

Second, especially after 1991, India's states have been allowed to negotiate directly with foreign investors and international financial institutions. Before 1991, all state-level negotiations of this kind were routed through Delhi. Moreover, during 1950–1980, central planning ensured some equity in investment and resource flows. The better endowed states are now able to attract greater investment.

Third, a strictly political argument, not systematically made yet, is worthy of consideration as a hypothesis. The southern states were the first to go through a democratic social revolution, as lower castes displaced the dominance of upper castes in politics by the late 1960s or early 1970s. As a consequence, the entrepreneurial energies of the southern states were released in a way that the north, still going through a caste churning, has not experienced. (Varshney, *forthcoming*) In sociological circles, it is often noted that businesses from all sorts of castes, including both upper and lower, have burst on the scene in South India, whereas in the north, this phenomenon is new. Until recently, entrepreneurs came predominantly from the traditional Vaishya or Marwari castes.

Finally, once the new hegemony of lower castes was institutionalized in Southern India, a most contentious issue in politics declined in significance, and better governance came about. Caste churning in northern politics began several decades later and is still an ongoing phenomenon. Good governance and social churning do not normally go together. Until the new caste churning stabilizes in the north, governance might not get significantly better. It is arguable that such stabilization undergirds what appears to be a turnaround in Bihar over the last few years. To be sure, Bihar government over these years has made a lot of public investment in infrastructure, but governance has also markedly improved.

Let us now turn to the other big issue of the second phase: the rise of a Maoist insurgency in central India, a region dominated ethnically by the tribal (*Adivasi*) populations and economically by forests and natural resources, such as coal, bauxite, and iron ore.

Maoist arguments have two key aspects: One relates to governance and the other to capitalism. The state, Maoists say, has not only demonstrated blatant disregard for the welfare of the tribals, but it has also used violence to silence those who protest state misdemeanor or who defend democratic tribal rights. This is not

a new, or purely partisan or self-serving, allegation. It is widely known that state misconduct in Adivasi lands has gone on for decades. The new twist is that in keeping with the worldwide collapse of an outdated ideology, India has abandoned its romance with socialism and has begun to rely on markets as a driving force of development.

Economic development based on market forces has implications for India's Adivasis. In search of profits, large private investors have arrived in the tribal heartlands for minerals. Software may not require old-fashioned raw materials, but steel and power industries do. As a consequence, it is not simply the forest officer and his contractor friend, as in the older days, who exploit the hapless Adivasis. A new force has arrived in the form of Indian and foreign capitalist.

Constitutionally, state governments have a lot of power over minerals and allocation of rights for mining. Central to such transactions is acquisition of lands in areas endowed with natural resources. Land acquisition, too, is a matter over which state governments have a great deal of power. In central India, where minerals exist in plenty, land belongs individually or collectively to the tribals.

The crux of the matter is: How should land be acquired? At what price? And how should mining rights be auctioned?³³ Typically, using eminent domain laws, state governments have compulsively acquired lands from the tribals at current market prices and sold such lands and mining rights to private investors. A politician-bureaucrat-capitalist nexus, typical of crony capitalism, has emerged. As we know from the larger political economy scholarship, crony capitalism is quite common in areas that are well endowed with natural resources. Crony capitalism is driven by the idea of excessive profits for the investor and abnormal rents for the state elites.

Such conduct violates two basic norms of fairness. First, acquisition of land at today's market price blatantly ignores the fact that when agricultural or forest land becomes industrial or commercial, its price goes up many times within a short time. Second, such acquisition may also be unmindful of environmental concerns, such as destruction of forests.

Shaken by the Maoist insurgency and in search of tribal (and rural) votes, the self-correcting mechanisms of democracy may finally be kicking in. The signs are that India's democracy will begin to check crony capitalism at the state level in two ways. At the present time, a legislation is being crafted to deal with acquisition of land. Its core proposition is that if agricultural or forest lands are acquired for commercial or industrial purposes, such transaction will have to incorporate a notion of *stakes* to be given to those whose land is bought. The present value of land is not enough for the transaction. Future increases in value will have to be shared according to an acceptable principle. Second, Delhi has started exercising its environmental muscle. On environment protection, Delhi's powers are immense. If Delhi does not provide environmental clearance to a deal transacted by the state government with private investors, the project cannot go forward.³⁴ It is still to be seen how effective Delhi's self-correction will be. But a beginning, driven by democratic politics, has been made.

Learning

In the 1980s and 1990s, we find evidence of two kinds of learning— external and internal—in India’s policy making circles. To be sure, external influences were also present at the birth of India’s economic policy in the 1950s. At that time, as we have seen, the Soviet experience of plan-led industrialization was highly influential. However, by the 1980s, serious cracks appeared in that model, and by the late 1980s, the Soviet model collapsed in its homeland, which had a profound influence on India’s policy makers. After taking over as finance minister, Manmohan Singh argued: “The overall thinking of the economic profession of this country was greatly influenced by the Soviet model. With the collapse of the command economy of the Eastern European type, everybody is convinced that it is time for fresh thinking.”³⁵

As previously mentioned, fresh thinking had already started emerging in the mid-1980s, when several policy makers began to pay attention to East Asia. Moreover, Western experiences, especially those in the international financial institutions, became transformative for some existing and future bureaucrats. Two factors were especially important: new reflection on the part of several senior economic bureaucrats, and lateral introduction of “new blood” in the high echelons of economic bureaucracy.³⁶

South Korea was the first East Asian country to catch attention. By the mid-1980s, it had clearly emerged as one of the most successful industrializers in the developing world. Manmohan Singh argued: “There must be a deep examination of what has gone wrong. Why is it that South Korea is talked about? In 1960, South Korea had the same per-capita income as India. Today, South Korea’s income is 10 times India’s.”³⁷ South Korea’s success highlighted the significance of foreign trade and global markets.

It should, however, be noted that the change in bureaucratic thinking alone could not have been an inspiration for policy change. On their own, bureaucrats can at best make small changes in India’s policy; without political patronage, they cannot introduce fundamental changes in policy. In Prime Ministers Rajiv Gandhi (1985–1989) and Narasimha Rao (1991–1996), the new economic thinking found political patrons at the topmost rungs of the polity. Even Manmohan Singh as finance minister needed such support, for he was not a professional politician.

By the late 1990s, as Chinese economic achievements became better known, China replaced South Korea in India’s policy discourse. South Korea’s success might have been recognized in the highest circles in the 1980s, but it did not enthuse too many politicians in general. Skeptics noted South Korea’s smaller size, as well as its alliance with the United States. China’s size, complexity, and monumental economic rise have made it a more acceptable reference point. In the 11th and 12th Lok Sabha (1996–1999), India’s elected lower house, China was cited 9 times in parliamentary debates; in the 13th Lok Sabha (1999–2004), 14 times; and in the first three years of the 14th Lok Sabha (2004–2007), alone, when policy discourse was quite serious, China was mentioned a whopping 113 times.³⁸ On the legislation on special

economic zones, introduced by the commerce minister in parliament in October 2005, the debate was full of references to China, some calling China a model.³⁹ In the 2006 annual budget speech by Finance Minister P. Chidambaram, China's success in attracting foreign direct investment was mentioned as a model to follow and as a counsel for pragmatism.⁴⁰ By now, India–China comparisons have clearly replaced the earlier focus on South Korea in the policy discourse.

In the highly nationalistic setting of Indian politics, arguments about Indian exceptionalism have traditionally thrived, and comparisons have normally been resisted. After the heydays of Soviet-influenced planning in the 1950s, explicit references to foreign models were rare. The current burst of India–China comparisons partly reflects a new confidence in the political circles, and it is partly a genuine desire by policy makers to learn from an economic giant of our times, a giant that was as poor as India only two decades back but is now roughly three times richer.

Internal learning in policy circles is also important, though it has never shaped fundamental changes in the overall *policy framework*. Internal experiences have basically influenced *specific policies*. Given that some of the policies are assigned by the constitution primarily to states, different states in India have experimented with different models in rural development, education, health, and power sectors. Great successes and failures at the state level send signals to the entire polity. For instance, the National Rural Employment Guarantee Act (NREGA), passed by parliament in 2005, had its origins in the Employment Guarantee Scheme, launched by Maharashtra in the 1970s.

There is also evidence of policy learning via experimentation, or “learning by doing.” Privatization of the power sector in Orissa in the mid- to late 1990s became a negative example for most policy makers. It emphasized how important it was to have independent regulatory structures, not regulatory authorities beholden to the government, when public utilities are privatized.

7. SUSTAINING REFORMS: THE CHALLENGE OF INCLUSIVENESS

As India moves forward, inclusion has become its greatest policy challenge.⁴¹ India's democracy has given the underprivileged a great deal of voice, a voice that can create political instability, if ignored. As we have already reported, three kinds of inequalities have grown since reforms were introduced: interpersonal, interstate, and rural–urban. The policy makers are showing signs that they are aware of the magnitude of the problem.

The inclusionary pressures in India are best viewed in a larger and comparative perspective. It is a standard proposition of political economy that there are

some built-in tensions between markets and democracy.⁴² Such tensions arise due to the well-known difference in the organizing principles of the two systems. For democracies, the masses are citizens; individually, they have the same weight in franchise as those who are privileged or part of the elite. But markets deal with commodities, not citizens. By and large, the masses appear in the markets as consumers of goods, as suppliers of labor, or as small producers of low value-added goods. As consumers, the masses matter if they have the purchasing power. And as suppliers of labor and products, the value of their work is determined by the forces of supply and demand. In a market-based economy, no assumption of equality of all is made, which is intrinsic to elections, a vital principle of democracy.

In the West, tensions between democracy and markets remained manageable for at least three reasons: (1) universal franchise came to the West only after the Industrial Revolution had been completed, which effectively meant that the poor got the right to vote after Western societies had become quite rich; (2) a welfare state, attending to the low-income segments of the population, has been in operation for much of the 20th century; and (3) finally, those more educated and earning higher incomes tend to vote more often than the poorer sections of society do.

The Indian experience constitutes a departure on all three counts. First, India adopted universal franchise at birth, long before the prospects of an industrial revolution could be visualized. India's development experience was thus bound to be different from that of the West. It is also remarkably distinct from that of East Asia. South Korea and Taiwan embraced universal-franchise democracy only between the late 1980s and mid-1990s, which was two to three decades after their economic upturn began. China and Singapore are not yet democratic. One might argue that in countries such as China, too, policy makers have to anticipate what policies might cause serious explosions of discontent and try to deal with them before they arise. But collective action is simply much easier in India: Protest is constitutionally protected and opposition parties and NGOs exist to lead protests. Mass protest, thus, is more normal in Indian politics and can often be quite consequential.

Second, India does not have an extensive welfare state, though it is trying to create one of late. The poor have very few safety nets. Third, and this is critical, defying democratic theory, a great "participatory upsurge" has marked Indian politics of late. Compared to the upper tiers of society, the so-called plebian orders have of late participated as, or more, vigorously in elections. Indeed, the new conventional wisdom of Indian elections turns standard democratic theory on its head: The lower the caste, the lower the income, and the lower the education, the greater the odds that an Indian will vote (Yadav 2004).

How do markets deal with the poor? The standard market-based economic perspective is quite straightforward: The expansion of markets will conquer poverty better than any other method. Markets release remarkable entrepreneurial energies, which can be harnessed for the larger good of society, including that of the poor. No society, the market-oriented economists argue, has ever banished mass poverty without embracing markets.⁴³

All of these statements are true, but only in the long run, not in the short-to-medium run. Authoritarian politicians may concentrate entirely on the long run, but faced with the requirement that election mandates must be periodically renewed, democratic politicians are, of necessity, concerned more about the short and medium run than about the long run. Moreover, how the masses view the markets in the short-to-medium run also depends on whether the markets are gainfully employing them, thereby increasing their purchasing power and welfare.

India's growth over the last three decades has not been employment-intensive. For all practical purposes, at 25%–30% of the population, the numbers of those who are the prime beneficiaries of reforms and those who continue to hover below the poverty line roughly match, and the latter have a much higher voting turnout. If one adds to this calculus the fortunes and dispositions of those not much above the poverty line (let us say those below \$2 a day, instead of \$1 a day), who also tend to vote more often than the middle classes do, one can see why any reforming government in India will have to think about inclusion, if reforms begin to affect mass consciousness.

Have reforms begun to affect mass consciousness, or are they still a factor primarily in elite politics? In a survey of mass political attitudes in India conducted in 1996,⁴⁴ only 19% of the electorate reported any knowledge of economic reforms, even though reforms had been in existence since July 1991. In the countryside, where more than 70% of Indians lived, only about 14% had heard of reforms, whereas the comparable proportion in the cities was 32%. Further, nearly 66% of the graduates were aware of the dramatic changes in economic policy, compared to only 7% of the mostly illiterate poor. In contrast, close to three-fourths of the electorate, urban and rural, literate and illiterate, rich and poor, were aware of the 1992 mosque demolition in Ayodhya; 80% expressed clear opinions of whether the country should have a uniform civil code or religiously prescribed separate laws for marriage, divorce, and property inheritance; and 87% took a stand on the caste-based affirmative action.

Further, economic reforms were also a nonissue in the 1996 and 1998 elections. In fact, Manmohan Singh, India's star reformer, lost his election in 1996. And in the 1999 elections, the biggest reformers either lost or did not campaign on reforms.⁴⁵

Did the 2004 elections end the relative nonsignificance of economic reforms in electoral politics? The question is relevant because the BJP-centered National Democratic Alliance ran on an "India Shining" campaign. Further, two of the biggest reformers at the state level, Chandrababu Naidu in Andhra Pradesh and S.M. Krishna in Karnataka, lost power in 2004 elections. The former was, in fact, routed.

Studies are unclear as to whether reforms single-handedly accounted for the National Democratic Alliance's election defeat, but it is clear that the political pressure on politicians to make reforms relevant to the masses is rising.⁴⁶ Based on the largest-ever sample drawn for election studies in India, the statistics collected by the National Election Study 2004 give us the materials to understand how the masses are beginning to view economic reforms (Yadav 2004).

Table 3.8 summarizes some key results.⁴⁷ More people believed that reforms benefited only the rich, not the whole nation, and the more we climbed down the social ladder, the greater was that belief. Upper castes were nearly evenly split on whether the reforms helped the whole nation or only the rich. But among those segments placed lower on the socioeconomic scale—the OBCs, the Dalits (SCs), Adivasis (STs), and the Muslims—the belief that reforms have mainly benefited the rich was held by a huge margin. One should also add that the upper castes constitute an overwhelming proportion of India's middle class. The fit between the two categories—upper castes and middle class—is not perfect, but it is very substantial.

Further, in a dramatic contrast to 1996, when a mere 19% of the citizens had any opinion on reforms, a little over 85% expressed clear judgments in 2004.⁴⁸ It should be obvious that in 1996 there was no understanding of reforms beyond elite levels, but the reforms were now entering mass consciousness.

The first post-2004 government (2004–2009), generally called United Progressive Alliance 1 (UPA1; another UPA government, UPA2, followed elections in 2009), had some of the ace reformers of post-1991 India, including Prime Minister Manmohan Singh, Finance Minister P. Chidambaram, and Planning Chief Montek S. Ahluwalia, but two of the biggest initiatives of that government were distinctly antimarket: the National Rural Employment Guarantee Act (NREGA) and the extension of affirmative action to the so-called OBCs in higher education. The first gave a guarantee to every rural household that 100 days of annual work will be given to at least one member of the household, if no one in the household was employed. The second sought to reserve 27% of seats in government-aided higher education institutions, including the Indian Institutes of Technology and Indian Institutes of Management, for the OBCs. Whether these are the right ways to bring benefits to the masses may be debatable, but it should be obvious why the government took these measures.

Did such measures make a difference to the mass perceptions about economic reforms? For the 2009 elections, a similar question was again asked by the National Election Study. The results, summarized in Table 3.9, are not dramatically different from 2004. Two points, however, should be noted. Dalits and Muslims appeared to be not so heavily aligned in favor of the view that reforms had only benefitted the rich. Why this is so remains unclear, but the fact remains that on the whole, those who believe that reforms have benefitted only the rich continue to outnumber those who think reforms have helped the entire country. In short, a significant pressure to include the excluded remains in the polity.

The middle classes, mostly if not wholly upper caste, are no more than 25%–30% of India's population. They are electorally not very attractive to political parties. The number of votes in the two other categories—the middle castes (OBC) and the lower segments (SC, ST, and Muslims)—is much higher.⁴⁹ These strata, by and large, though not entirely, below the middle classes, also tend to have higher turnout rates.

Thus, in the pure arithmetic of votes, unless they begin to participate in elections more and/or become roughly 50% of the electorate, India's middle classes, the

Table 3.8 Perceptions of Economic Reforms According to Community: 2004 (Percentage of Row Totals)

	Upper caste	OBC	Dalit	Adivasi	Muslim	Other	<i>n</i>
Economic reforms benefited:							
The whole country	38	29	19	20	16	27	6,387
Only the rich	36	42	51	44	53	42	9,755
No one	13	14	14	16	17	13	3,143
No opinion	12	16	16	20	13	19	3,263

Source: National Election Survey (2004).

Table 3.9 Perceptions of Economic Reforms According to Community: 2009 (Percentage of Row Totals)

	Upper caste	OBC	Dalit	Adivasi	Muslim	Other	<i>n</i>
Economic reforms benefited:							
The whole country	27	24	24	19	32	26	1,854
Only the rich	35	36	37	35	31	34	2,541
No one	11	8	7	9	8	8	640
No opinion	27	32	32	37	29	32	2,229

Note: *N* = 7,264.

Source: National Election Survey (NES), 2009.

principal beneficiaries of economic reforms, will be less than fully consequential in electoral politics. The middle classes control the press, especially the English-language press, and have a preponderant presence in the corporate sector. As a result, they can still generate a vigorous debate in the country, strengthening the public sphere of democracy. But their electoral significance does not match their power over instruments of public criticism.⁵⁰ The middle classes have so far been the mainstay of the anticorruption movement that burst on the political scene in 2011. The electoral significance of the movement is still to be determined (Varshney 2011).

8. CONCLUSION

India has come a long way since independence in 1947. To be sure, India's independence was a moment of joy, "a tryst with destiny," as Nehru, India's first and

longest-serving prime minister, memorably put it. But it was also a moment of pain and agony. Partition violence killed a large number of people; India's literacy rate was a mere 16%–17%, and though exact estimates are hard to come by, most analysts would concede that more than a majority of the population was below what we have come to call the poverty line. Beyond the princes and the maharajas, the middle class was very small, and the manufacturing sector miniscule. A half century of virtual economic stagnation had preceded independence.

Today, with savings/GDP and investment/GDP ratios touching 35%–38%, India is undoubtedly going through an economic boom, building up further on an annual growth rate of roughly 6% since 1980. Mass poverty has come down, especially in the last two-and-a-half decades; the literacy rate has crossed 73%; the middle class numbers anywhere between 200 to 300 million people, the exact magnitude depending on the indicator chosen; the country had more than 750 million cell phone connections by the end of July 2011; foreign investors have put in a lot of capital; internationally competitive firms are emerging—not only in the information technology industry, but also in several other capital-, skills- and knowledge-intensive product lines, such as pharmaceuticals, steel, tractors, and auto components. Finally, India's corporate leaders are acquiring major firms abroad, creating new international synergies in their supply chains.

But a lot of Indians, and certainly most of India's political leaders, including those who champion market-oriented economic reforms, believe that poverty and deprivation have not come down rapidly enough. *What is an acceptable rate of decline in poverty is not, fundamentally, an economic question.* A nation's politics decides what is acceptable. The impression that India's boom has mainly benefited the upper Hindu castes, the cities, and the southern and western states is inescapable. On the whole, the lower Hindu castes, the STs, the large Muslim minority, the villages, and the northern and eastern states have lagged considerably behind. India's postindependence leadership had undertaken to abolish mass poverty. That pledge remains only partially redeemed. Half the battle still lies ahead.

Under such circumstances, a universal-franchise democracy, where the deprived, defying standard democratic theory, have come to vote at least as much as the privileged, if not more, is bound to feel inclusionary pressures. Many more would like the fruits of the economic boom to come to them. The greatest challenge for India's policy makers today is to balance the growth momentum with inclusionary policies.

ACKNOWLEDGMENTS

We would like to thank Chetan Ghate, Roberto Zagha, and an anonymous reviewer for comments on earlier drafts of this chapter and Sana Jaffrey for research assistance.

NOTES

- 1 These sections draw heavily on Ahmed (2007).
- 2 The calendar year data are approximated by using the closest fiscal year data. Thus, 1950 refers to FY 1950/1951, which includes nine months of 1950 and three months of 1951 (fiscal year ends in March), and so on.
- 3 For a more nuanced and detailed review of India's long-term growth experience and phases of growth, see Virmani (2004a).
- 4 The state data refer to net state domestic products.
- 5 This result is not dependent on the choice of starting and end years or any reflection of special factors. On a long-term basis, for some 30 years after independence, there was no poverty reduction in India (Datt 1997).
- 6 For a good review of growth and equity issues, see World Bank (2005a).
- 7 By now, India's savings and investment rates are touching 38%–40% of GDP.
- 8 Foreign investment data were obtained from *Economic Survey 2005–6*, by the Ministry of Finance (Government of India 2005).
- 9 That over one-fourth of the population is still below the poverty line and India's human development record is mediocre constitute a different kind of analytic problem. Under certain conditions, it can be demonstrated that a gap is possible between inclusiveness as a political principle and the economic outcomes of that principle (Varshney 2005).
- 10 A caste census, not available since 1931, was taken in 2011. Until the 2011 census results are out, exact caste numbers are virtually impossible to derive for any castes other than the SC, whose numbers the census does collect.
- 11 The Muslims, according to this narrative, are not oppressed by the Hindus but by the upper Hindu castes; Muslims, thus, can join the lower-caste alliance in a struggle to overturn the political, social, and economic hegemony of the upper castes.
- 12 On several occasions, politicians have sought to displace these narratives with various other constructions of the fault lines of Indian society and of the goals the nation ought to pursue. But no alternative attempt has succeeded more than briefly. In the 1950s, linguistic divisions drove politics for some time; by giving each major language group a state in the Indian federation, Delhi successfully dislodged the salience of linguistic issues. "Banish poverty" was Mrs. Gandhi's electoral slogan in the late 1960s; it disappeared in the political background in the 1970s. An anticorruption platform brought V. P. Singh to power in 1989, but once in power, he chose the third narrative— caste injustice—to build a winning coalition. In the 1980s, the urban–rural cleavage was also defined as India's principal cleavage, but it lost to politics based on religion and caste in the 1990s. Of these constructions, two were economic: banish poverty, and urban–rural contradictions. Neither survived as a major platform in politics. Recently, a strong anti-corruption movement has yet again started to put corruption on the political agenda.
- 13 The exact magnitude of poverty, needless to add, depends on the definition of *poverty* that one uses. Some estimates, as a result, put the number of poor at higher than one-third of the population.
- 14 For example, in the state of Kerala, where a coalition of the poor was put together, land reforms became the principal method of poverty alleviation. For a whole variety of historical reasons, Kerala did not go for a market-oriented approach to poverty reduction. For an understanding of Kerala's strategy, see Heller (2000) and Herring (1983).

- 15 Greater precision on OBC percentages is not possible because, as already reported, India's census does not publish statistics on any castes other than the SC. This may change with the proposed 2011 caste census.
- 16 For a study of the Nadars of Tamil Nadu on these lines, see Hardgrave (1970).
- 17 For an account of how the search for equal citizenship in a highly unequal society can generate unusual democratic forms, see Mehta (2003).
- 18 The overall size of the economy complicates the meaning of low trade/GDP ratios. Smaller economies tend generally to have a high trade/GDP ratio, making trade very important to their political economies. With the striking exception of China, however, the largest economies of the world—the United States, Japan, Germany—are less trade-dependent. Still, trade politics, as we know, have aroused a great deal of passion in the United States and Japan. The meaning of the same ratios can change, if the leading economic sectors (autos, computers) or “culturally significant” economic sectors (rice for Japan, agriculture in France) are heavily affected by trade.
- 19 It should also be noted that compared to economic policy, ethnic disputes tend quickly to enter mass politics because they isolate a whole group, or several groups, on an ascriptive basis. They also directly hit political parties—both ethnically based parties (which may defend, or repel attacks on, their ethnic group) and multiethnic parties (which may fiercely fight attempts to pull some ethnic groups away from their rainbow coalitions). Because they invoke *ascriptive*, not *voluntary*, considerations, the effects of ethnic cleavages and ethnically based policies are obvious to most people and, more often than not, ethnic groups are either organized, or tend to organize quickly. On why ethnic groups find it easier to develop group action, see Hardin (1995).
- 20 The workers in these sectors were basically protected against layoffs, given India's labor laws.
- 21 It can be hypothesized that by focusing so much on privatization and contraction of public sector, policy makers in Latin America and Africa ended up investing their political energies on matters where the cost-benefit calculus was not as straightforward.
- 22 Excerpt from Pan (2003). For a general discussion of labor-state relations in contemporary China, see Gallagher (2005). For a comparison of Indian and Chinese capitalism, see Huang (2008) and Bardhan (2010).
- 23 See Frankel (1978), Lewis (1995), and Varshney (1995).
- 24 Two more points should be noted. First, the 1930s experience of market-based economies was quite disastrous. Second, the Soviet Union, not the United States, placed the first satellite in space. In retrospect, we can see what was wrong in Soviet economic planning. But until the late 1960s, the impression in many political as well as economic quarters was that the Soviet economic model was quite viable.
- 25 The charisma instead was used in the political realm. See Rudolph and Rudolph (1987) and Weiner (1989).
- 26 This account of policy change in the mid-1960s below is a summary of the argument developed in Varshney (1995). For details, see his chapter 3.
- 27 Ghate and Wright (2011) document the case that the real break in India's growth performance took place in the mid-1980s.
- 28 *Lok Sabha Debates*, Series 10, July 24, 1991, p. 272.
- 29 *Lok Sabha Debates*, *ibid.*, p. 276, emphasis added.
- 30 For a detailed political analysis of how Rajiv Gandhi's reform program stalled, see Kohli (1987).

- 31 Since 1998, a substantial section of the non-Marxist, lower-caste, left, and the BJP have come together. However, by the time this happened, the reforms were firmly in place.
- 32 One should add that the western states of Gujarat and Maharashtra have historically been also more business-oriented.
- 33 For a thoughtful and concise analysis, see Sinha (2008). Also see Jenkins (2000).
- 34 In August 2010, Delhi canceled a Vedanta mining project in Orissa.
- 35 See Weintraub (1991).
- 36 Shastri (1995) gives the most systematic account of the influences on top economic bureaucrats in the 1980s, covering (a) senior career bureaucrats such as Abid Hussain, Venkitraman, N. K. Singh, A. N. Verma, , and (b) lateral entries such as Montek Singh Ahluwalia, Shankar Acharya, and Rakesh Mohan. The former had stints at ESCAP, Bangkok, or at the World Bank; the latter were brought in directly from the World Bank..
- 37 Weintraub (1991). Repeated references were also made to South Korea in interviews given to *The Economist* (May 23, 1991) and *India Today* (July 31, 1991).
- 38 Some of these citations are for security and defense issues, however.
- 39 *Lok Sabha Debates*, October 5, 2005.
- 40 *Lok Sabha Debates*, October 5, 2005.
- 41 For a fuller development of ideas contained in this section, see Varshney (2007).
- 42 See for example Lindblom (1977), Polanyi (2001), and Przeworski (2003).
- 43 This point may be generally true, but the obvious exception of Cuba exists. Moreover, significant pockets of poverty remain in a heavily market-oriented United States.
- 44 The survey was conducted by the Center for the Study of Developing Societies under the leadership of Yogendra Yadav and V. B. Singh. For the larger audiences, the findings are summarized in *India Today*, August 15, 1996. All figures cited are from the Center for the Study of Developing Societies survey.
- 45 See Sachs, Varshney, and Bajpai (2000: preface).
- 46 For why reforms cannot be held accountable for the National Democratic Alliance's defeat, see Varshney (2007).
- 47 The National Election Study studies have been led by Lokniti, a project headquartered at the Centre for the Study of Developing Societies, Delhi.
- 48 Only 3,263 people out of a sample of 22,500 had no opinions.
- 49 For details, see Deshpande and Yadav (2006).
- 50 It should also be noted that the BJP, should it return to power, cannot entirely escape these inclusionary pressures. If the BJP has to expand further, it must move resolutely downward for support. That is where the biggest numbers of votes exist. Unsurprisingly, the BJP did not oppose the NREGA, nor did it resist the 2006 affirmative action plan. All parties participating in India's electoral politics today can testify to the rise of inclusionary pressures.

REFERENCES

- Acharya, Shankar. 2006. *Essays on Macroeconomic Policy and Growth*. New Delhi: Oxford University Press.
- Acharya, Shankar, Isher Ahluwalia, K. L. Krishna, and Ila Patnaik. 2003. "India: Economic Growth, 1950–2000." Draft. New Delhi: Indian Council for Research on International Economic Relations.

- Ahluwalia, Montek S. 2002a. "India's Vulnerability to External Crises: An Assessment." In *Macroeconomics and Monetary Policy: Issues for a Reforming Economy*, ed. Montek S. Ahluwalia, Y. V. Reddy, and S. S. Tarapore. New Delhi: Oxford University Press, pp. 183–214.
- . 2002b. "State-Level Performance under Economic Reforms in India." In *Economic Policy Reforms and the Indian Economy*, ed. Anne O. Krueger. New Delhi: Oxford University Press, pp. 91–129.
- Ahmed, Sadiq. 2006. *Explaining South Asia's Development Success: The Role of Good Policies*, Washington, DC: World Bank.
- . 2007. *India's Long-Term Growth Experience*, Delhi: Sage Publications.
- Bajpai, N., and Jeffrey Sachs. 1996. "Trends in Inter-State Inequalities of Income in India." Development Discussion Paper No. 528, Harvard Institute for International Development, Cambridge, MA.
- Bardhan, Pranab. 1984. *The Political Economy of Development in India*. New York: Basil Blackwell.
- . 2010. *Awakening Giants, Feet of Clay*. Princeton, NJ: Princeton University Press, and Delhi: Oxford University Press.
- Basu, Kaushik. Ed. 2004. *India's Emerging Economy*, Cambridge: MIT Press.
- Bhagwati, Jagdish. 1993. *India in Transition: Freeing the Economy*. New York: Oxford University Press.
- Bhagwati, Jagdish, and Padma Desai. 1970. *India: Planning for Industrialization*. New York: Oxford University Press.
- Bhattacharya, B. B., and S. Sakthivel. 2004. "Regional Growth and Disparity in India: A Comparison of Pre and Post-Reform Decades." Draft, ICRIER (Indian Council for Research and International Economic Relations), New Delhi.
- Bosworth, B., and S. Collins. 2003. "The Empirics of Growth: An Update." *Brookings Papers on Economic Activity* 2: 2003. Washington, DC: Brookings Institution Press, pp. 113–205.
- Datt, Gaurav. 1997. "Poverty in India 1951–1994: Trends and Decomposition." Mimeo. Washington, DC: World Bank.
- Deaton, Angus, and Jean Dreze. 2002. "Poverty and Inequality in India, A Re-examination." *Economic and Political Weekly*, September, pp. 3729–3748.
- Deshpande, Satish, and Yogendra Yadav. 2006. "Redesigning Affirmative Action." *Economic and Political Weekly*, June 17.
- Dev, S. Mahendra, and C. Ravi. 2007. "Poverty and Inequality: All India and States, 1983–2005." *Economic and Political Weekly*, February 20, pp. 509–521.
- Dreze, Jean, and Amartya Sen. 2011. "Putting Growth in Its Place," *Outlook* (November 14).
- Frankel, Francine. 1978. *India's Political Economy (1947–77)*. Princeton, NJ: Princeton University Press.
- . 2005. *India's Political Economy (1947–2004)*. Delhi: Oxford University Press.
- Gallagher, Mary. 2005. *Contagious Capitalism: Globalization and the Politics of Labor in China*. Princeton, NJ: Princeton University Press.
- Ghate, Chetan, and Stephen Wright. 2011 (forthcoming). "The "V-Factor": Distribution, Timing and Correlates of the Great Indian Growth Turnaround." *Journal of Development Economics*.
- Government of India. 2005. *Economic Survey 2005–6*. New Delhi: Ministry of Finance.
- . 2009. *Economic Survey 2009–10*. New Delhi: Ministry of Finance.

- Hardgrave, Robert. 1970. *Nadars of Tamilnad*. Berkeley: University of California Press.
- Hardin, Russell. 1995. *One for All*. Princeton, NJ: Princeton University Press.
- Heller, Patrick. 2000. *The Labor of Development*. Ithaca, NY: Cornell University Press.
- Herring, Ronald J. 1983. *Land to the Tiller*. New Haven, CT: Yale University Press.
- Himanshu. 2007. "Recent Trends in Poverty and Inequality: Some Preliminary Results." *Economic and Political Weekly*, February 10, pp. 497–508.
- Hirschman, Albert. 1981. *Essays in Trespassing*. New York: Cambridge University Press.
- Huang, Yasheng. 2008. *Capitalism with Chinese Characteristics*. New York: Cambridge University Press.
- Huntington, Samuel P. 1983. *American Politics: The Promise of Disharmony*. Cambridge, MA: Harvard University Press.
- Jaffrelot, Christophe. 2003. *India's Silent Revolution*. New York: Columbia University Press.
- Jenkins, Rob. 2000. *Democratic Politics and Economic Reform in India*. New York: Cambridge University Press.
- Joshi, Vijay, and I. M. D. Little. 1998. *India Macroeconomics and Political Economy 1964–1991*. New Delhi: Oxford University Press.
- Kochanek, Stanley. 1974. *Business and Politics in India*. Berkeley: University of California Press.
- . 1995–6. "Transformation of Interest Politics in India." *Pacific Affairs*, 68(4), Winter, pp. 529–550.
- Kochar, Kalpana, Utsav Kumar, Raghuram Rajan, Arvind Subramanian, and Ioannis Tokatlidis. 2006. "India's Pattern of Development: What Happened, What Follows." Working Paper No. 12023. Cambridge, MA: National Bureau of Economic Research.
- Kohli, Atul. 1989. "Politics of Economic Liberalization in India." *World Development*, 17 (3), pp. 305–328.
- . 2006. "Politics of Economic Growth in India, 1980–2005, Part II: The 1990s and Beyond." *Economic and Political Weekly*, April 8, pp. 1361–1370.
- Krishna, K. L. 2004. "Patterns and Determinants of Economic Growth in Indian States." Working Paper No. 144. New Delhi: Indian Council for Research on International Economic Relations.
- Krueger, Anne O., and Sajid Chinoy. 2002. "The Indian Economy in Global Context." In *Economic Policy Reforms and the Indian Economy*, ed. Anne O. Krueger, pp. 9–47. New Delhi: Oxford University Press.
- Krueger, Anne O. 1992. *The Political Economy of Agricultural Price Policy*. Vol. 5. Baltimore, MD: The Johns Hopkins University Press.
- Lewis, John P. 1995. *India's Political Economy: Governance and Reform*. New Delhi: Oxford University Press.
- Lindblom, Charles. 1977. *Politics and Markets*. New York: Basic Books.
- Lok Sabha Debates*. Various Issues. Delhi: Parliament Office.
- Mehta, Pratap. 2003. *The Burden of Democracy*. New Delhi: Penguin India.
- Mukherji, Rahul. 2004. "Managing Competition: Politics and the Building of Independent Regulatory Institutions." *India Review*, 3 (4), October, pp. 278–305.
- Nehru, Jawaharlal. 1946. *The Discovery of India*. New York: John Day.
- Pan, Philip P. 2003. "China Tries Labor Leaders Amid Protest," *Washington Post* (January 16).

- Panagariya, Arvind. 2005. "The Triumph of India's Market Reforms, the Record of the 1980s and the 1990s." Policy Analysis No. 554. Washington, DC: CATO Institute.
- . 2007. *India: The Emerging Giant*. New York: Oxford University Press.
- Polanyi, Karl. 2001. *The Great Transformation*. 2nd ed. Boston: Beacon Press.
- Przeworski, Adam. 2003. *Democracy and the Market*. New York: Cambridge University Press.
- Purfield, Catriona. 2006. "Mind the Gap: Is Economic Growth in India Leaving Some States Behind?" IMF Working Paper No.06/103. Washington, DC: International Monetary Fund.
- Reserve Bank of India. 2010. Reserve Bank of India Database. Mumbai: Reserve Bank of India.
- Rodrik, Dani, and Arvind Subramanian. 2004. "From 'Hindu Growth' to Productivity Surge: The Mystery of the Indian Growth Transition." NBER Working Paper No. 10376. Cambridge, MA: National Bureau of Economic Research.
- Rudolph, Lloyd, and Susanne Rudolph. 1967. *The Modernity of Tradition*. Chicago: University of Chicago Press.
- . 1987. *In Pursuit of Lakshmi: The Political Economy of the Indian State*. Chicago, London: The University of Chicago Press.
- Sachs, Jeffrey, Ashutosh Varshney, and Nirupam Bajpai, eds. 2002. *India in the Era of Economic Reforms*. New Delhi: Oxford University Press.
- Shastri, Vanita. 1995. "The Political Economy of Policy Formation in India: The Case of Industrial Policy, 1948–94," unpublished PhD dissertation, Department of Political Science, Cornell University.
- Singh, Manmohan. 1991. *Budget Speech to the Lok Sabha* (Lower House of Parliament), Manmohan. *Lok Sabha Debates*, Series 10, July 24, pp. 272, 276.
- Singh, Y.B., and Yadav, Yogendra. 1996 "Maturing of a Democracy." *India Today* (August 15). Survey conducted by the Center for the Study of Developing Societies.
- Sinha, Jayant. 2008. "A case of public acts and private ambition." *Outlook Business* (September 2).
- Sinha, Yashwant. 2007. *My Years as Finance Minister*. New Delhi: Penguin.
- Smith, Rogers. 1997. *Civic Ideals: Conflicting Visions of Citizenship in US History*. New Haven, CT: Yale University Press.
- Solow, Robert M. 1956. "A Contribution to the Theory of Economic Growth." *Quarterly Journal of Economics* (February), pp. 65–94.
- Varshney, Ashutosh. 1995. *Democracy, Development and the Countryside: Urban-Rural Struggles in India*. New York: Cambridge University Press.
- . 2000a. "Is India Becoming More Democratic?" *Journal of Asian Studies*, 59 (1), February, pp. 3–25.
- . 2000b. "Mass Politics or Elite Politics." in *India in the Era of Economic Reforms*, ed. Jeffrey Sachs, Ashutosh Varshney and Nirupam Bajpai, pp. . New Delhi: Oxford University Press.
- . 2002. *Ethnic Conflict and Civic Life: Hindus and Muslims in India*. New Haven, CT: Yale University Press.
- . 2005. "Democracy and Poverty." In *Measuring Empowerment: Cross-Disciplinary Perspectives*, ed. Deepa Narayan, pp. . Washington, DC: The World Bank.
- . 2007. "India's Democratic Challenge." *Foreign Affairs*, 86 (2). March–April, pp. 93–106.

- . 2011. "Has Urban India Arrived?" *Indian Express*, August 25.
- . *Forthcoming*. "Two Banks of the Same River? Social Order and Entrepreneurialism in India." In *Anxieties of Democracy: Tocquevillian Reflections on India and the United States*, eds. Chatterjee, Partha, and Katznelson, Ira, Typescript, March.
- Virmani, Arvind. 2004a. "India's Economic Growth: From Socialist Rate of Growth to Bharatiya Rate of Growth." Working Paper No. 122. New Delhi: Indian Council for Research on International Economic Relations.
- . 2004b. "Sources of India's Economic Growth: Trends in Total Factor Productivity." Working Paper No. 131. New Delhi: Indian Council for Research on International Economic Relations.
- . 2005. "Policy Regimes, Growth and Poverty in India: Lessons of Government Failure and Entrepreneurial Success." Working Paper No. 170. New Delhi: Indian Council for Research on International Economic Research.
- Weber, Max, and S. N. Eisenstadt. 1968. *On Charisma and Institution-Building*. Chicago: University of Chicago Press.
- Weiner, Myron. 1978. *India at the Polls: The Parliamentary Elections of 1977*. Washington DC: American Enterprise Institute Press
- . 1987. *Competitive Elections in Developing Countries*, Durham: Duke University Press.
- . 1989. *The Indian Paradox: Essays in Indian Politics*. Sage Publications. Michigan: University of Michigan.
- . 1991. *The Child and the State in India*. Princeton, NJ: Princeton University Press.
- . 2001. "The Struggle for Equality: Caste in Indian Politics." In *The Success of India's Democracy*, ed. Atul Kohli, New York: Cambridge University Press. pp. 193-226.
- Weintraub, Bernard. 1991. "India Is a New Ball Game Now." *New York Times*, July 8.
- World Bank. 1997. *India Achievements and Challenges in Reducing Poverty*. A World Bank Country Study. Washington, DC: World Bank.
- . 2000. *India Reducing Poverty, Accelerating Development*. New Delhi: Oxford University Press.
- . 2001. *World Development Indicators*. Washington, DC: World Bank.
- . 2003. *Sustaining Reform, Reducing Poverty*. New Delhi: Oxford University Press.
- . 2005a. *Equity and Development*. World Development Report 2006, Report No. 32204. Washington, DC: World Bank.
- . 2005b. *World Development Indicators*. Washington, DC: World Bank.
- . 2005c. World Bank South Asia Regional Database. Washington, DC: World Bank.
- . 2006a. *Inclusive Growth and Service Delivery: Building on India's Success*. Draft Development Policy Report, South Asia Region. Washington, DC: World Bank.
- . 2006b. *India's Employment Challenge: Creating Jobs, Helping Workers*. South Asia Region Draft Report. Washington, DC: World Bank.
- . 2007. World Bank Central Database. Washington, DC: World Bank.
- . 2010. *World Development Indicators*. Washington, DC: World Bank.
- Yadav, Yogendra. 2004. "The Elusive Mandate of 2004." *Economic and Political Weekly*, XXXIX (51). December 18, pp. 5383-5398.