

Political Economy

By

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Political economy refers to the distribution of political and economic power in a given society and how that influences the directions of development and policies that bear on them. In India where the vast masses of the people are poor and often socially disadvantaged, a relatively small minority holds much of the power, although in recent years democratic expansion has started to loosen the grip of elite control.

In terms of economic interests the groups which have often been identified as powerful include large and medium business houses, large and medium sized farmers, the upper echelons of the salaried class, and the top layer of unionised labor. There have been learned, and sometimes intense, debates, particularly among Marxist scholars on the nature of class formation and mode of production in India. Since empirical data on different categories are often limited to size groups of land holdings, or to asset holding groups and to corporate market shares, it is not easy to clearly demarcate the different economic interest groups, and it is even more difficult to delineate the cross-cutting cleavages of economic and social stratification. And on how the groups get organised and exercise their power, we usually have mostly anecdotal and case-study evidence. We have more quantitative evidence on wealth distribution, which, of course, is highly unequal in India. According to National Sample Survey data, in 1991 while more than half of the households had less than Rs. 50 thousand in assets (physical, including land, and financial), only about 10 per cent of rural households and 14 per cent of urban households had assets exceeding Rs. 2.5 lakhs. (The Market Information Survey of Households carried out by National Council of Applied Economic Research, NCAER, suggests that in terms of income, about 12 per cent of households in India in 1998-9 had

annual income of above Rs. 1.05 lakh, while 40 per cent of households had less than Rs. 35 thousand of annual income).

But the inequality in human capital (e.g. education) is much more than in physical or financial capital. According to World Bank estimates, inequality in adult schooling years among people in India is much higher than that in not just Sri Lanka, China, Vietnam or Indonesia, but also than in most Latin American countries including Brazil and Mexico. The gulf between the educated and the uneducated in India is largely reflected in the social and economic disparity between those who do manual work and those who do not. This is the big dividing line in India, and is much too frozen over time, as education (particularly, at secondary levels and above), which is the main route of intergenerational mobility is available (or affordable) to a small group of people, whose boundaries expand much too slowly. In terms of occupation categories, the above-mentioned NCAER data suggest that salary-earners, professionals and businessmen constituted the heads of about 22 per cent of households in 1998-9 (since this excludes some unmeasured number of those described as cultivators who may also avoid manual work, the actual proportion of households with heads in non-manual occupations is likely to be higher). Since the overwhelming majority of manual workers are not organised, they hold little political power as workers. Of course, they are at election times often mobilised as social groups (divided on caste, community, religion or regional lines) which give them some intermittent collective electoral power.

Even when social and economic interest groups (belonging largely, say, to the top two deciles of the population) are influential, their influence is somewhat dissipated by extreme fragmentation. In terms of social and economic divisions the Indian elite may be more fragmented than the elite in most other countries, reflecting the fact that India has one of the world's most heterogeneous societies. This gives rise to what political scientists call a 'collective action' problem, i.e. the actors find it difficult to get their act together. It is more difficult for them to agree on a goal, and even when they agree on a goal, it is difficult for them to coordinate their actions to achieve that goal. This becomes

a particularly acute political-economic problem in the matter of long-term public investment in infrastructure (power, roads, transport, telecommunication, ports, irrigation, etc.). Infrastructure is widely regarded as the crucial bottleneck for Indian economic growth, and the Indian elite is to largely benefit from any improvement in infrastructure. Yet substantial public investment in infrastructure which takes a relatively long time to fructify may require, in the current situation of fiscal deficits, giving up on the part of the elite on government subsidies or benefits of underpriced public goods and services (like water, electricity, fertilizer, cooking gas, university education, and so on), or on major raises in salary or perks in government jobs. But coordinating on short-run sacrifices or curbing particularistic demands on the public fisc (it has been estimated that about two-thirds of all government subsidies go to the relatively rich) for the sake of long-term elite goals has been very difficult to achieve in India. Over the years this collective action problem has become more severe. As more and more of hitherto subordinate social groups have come up to be politically important particularly at the state level (in a welcome expansion of political equality and democracy in India), the sources of demands on the polity have become more diverse. In the first two decades after Independence the massive country-wide organization of the Congress Party used to coordinate the transactional negotiations among different groups and leaders in different parts of the country. That organization has fallen into disarray. The proliferation of small and regional parties and their increasing importance for the survival of coalition governments at the centre have often meant that catering to particularistic demands overrides coordination for the long haul. At any given moment an important election somewhere in the country is never too far-off, and the short-run issues trump the long-run ones.

When the interest groups are socially and economically fragmented, pulling in different directions with none dominating the whole show, state policies get buffeted around, and any steps towards economic reform are likely to be halting and hesitant. But such fragmentation may also give the state somewhat more autonomy, in the sense that it does not have to march to the tune of one dominant interest group, and an astute political leadership can play off one group against the other to some extent and earn its own rent in the form of special power and privileges. In any case as the old debates among Marxist

scholars on the 'relative autonomy of the state' made clear, in most countries the state leadership retains a great deal of potency as an organisational actor in goal formulation, agenda-setting and policy execution, even when they act within the broad constraints of interest group politics. In India over the years the state has accumulated a great deal of power in direct ownership and regulation of the economy, and in spite of economic liberalisation still controls the production, assets and employment in large parts of the organised non-agricultural sectors. There is a growing body of public opinion that the state should reorient its role away from public ownership and control of business enterprises towards more on health, education and other basic social services for the poor, and even when the state is to be the major funding agency for some of these services, it does not necessarily mean that the actual provision of the services has to be bureaucratically managed, instead of being contracted out to the private sector or some form of private-public partnership. But the political implementation of this view in India has been slow.

The paradox is that while the state in India has been powerful (and often heavy-handed) in its regulatory and interventionist role, it will not be described as what the political economy literature calls a 'strong state'. The latter essentially refers to a state that can credibly commit to, for example, a long-term policy and not deviate from it under short-term populist pressures. In the recent history of development, South Korea in the 60's and 70's is often cited as an example of a strong state, which stuck to its commitment, for example, to export performance as a pre-announced criterion for helping industries, thus using international market discipline in raising cost and quality consciousness in the economy otherwise marked by a great deal of state intervention. Of course, South Korea was then an authoritarian state, and one may think democracies are prone to succumb more to populist pressures. But authoritarianism is neither necessary nor sufficient for credible commitment. That it is not necessary is illustrated by democratic Japan and Scandinavian countries often successfully committing to pre-announced long-term policies; that it is not sufficient is, of course, amply illustrated by many African authoritarian regimes. But the success of Japan and Scandinavia as 'strong' democratic states and the failure of democratic India to be one may have something to do with the

fact that social homogeneity and relative economic equality in the former countries enable them to resolve some collective action problems more easily and coordinate on long-term policies in a way which is much more difficult for extremely heterogeneous and unequal India.

But there is clearly a trade-off between credibility and accountability in state affairs. The institutional insulation that may be required to follow through on commitments may over time make the leadership impervious to the felt (and changing) needs and demands of common people. Even well-intentioned state-directed technocratic development projects, which do not involve the people at the ground level but simply treat them as objects of the development process, often end up primarily as conduits of largesse for elite groups—middlemen, contractors, officials and politicians—and very little reaches the intended beneficiaries. Even when a significant amount reaches the latter, the benefits are sometimes of the wrong kind, inappropriate technologically and unsustainable environmentally, corrosive of local institutions of community bonding and self-help, and always leaving untapped the large reservoir of local initiative, ingenuity and information.

Of course, accountability can be exercised through the periodic elections in which common people give their verdict on politicians' performance, and the Indian electorate has been quite assertive in throwing out incumbents. But general elections constitute a rather blunt instrument for economic performance monitoring. Elections are fought on multi-dimensional platforms, and even vital economic issues often do not get salience in electoral mobilization. A particular leader who is perceived to uphold a hitherto marginalized caste group's dignity may win elections after elections, even though the same leader's policy neglect may be responsible for the dismal education and health environment of most children in that caste group.

One can say that federalism and decentralization are ways of making the state more responsive to local needs. The rise of regional parties and the strength of local autonomy movements at the state levels certainly reflect that, although the major Indian states are larger than most countries in the world, and as such the state governments are still quite

distant from local communities. Indian federalism is currently afflicted by two major dilemmas. One is that while the regional governments are becoming more important in national politics, their fiscal dependence on the central government is steadily increasing: catering to the various particularistic demands, many of them are near fiscal bankruptcy which certainly limits their economic power and ability to carry out various important social service functions. The other dilemma is that with economic liberalisation and increased regional competition, the disparity between economically advanced and backward states is growing: the advanced states increasingly resent the redistributive functions of Indian federalism (through the dispensations of the Finance Commission and the Planning Commission) which to them look like rewarding inefficiency and creating dependency, and yet no Indian polity can ignore the fact that some of the populous backward states hold a very large number of seats in the Lok Sabha and a coalition government is unlikely to survive any large-scale withdrawal of their support. How the Indian polity tackles these two dilemmas will shape the political economy of Indian federalism in near future.

The 73rd and 74th constitutional amendments in the early 90's have given some potency to the movement towards decentralisation below the state level, all the way down to gram panchayats. While this is a major step towards local accountability, as yet effective decentralisation is largely absent in most parts of India (outside three or four states). Very few administrative functions (and even fewer sources of independent finance) have been devolved to the local governments, and the state-level bureaucrats and politicians still largely hold sway. That in states like Kerala and West Bengal this decentralisation has been somewhat more effective than in other states has much to do with the fact that prior land reforms and political awareness movements in these two states have made capture of local governments by the oligarchic local elites somewhat more difficult. While fiscally responsible and locally accountable governments at the panchayat level remain one of the major ways of deepening Indian democracy, much will depend on how far we can proceed in our campaigns for land reform to weaken the powers of the local oligarchy, expansion of education, a more vigorous devolution of finances to the local government, and regular auditing and activation of local NGO's and media as watchdogs on local-

level corruption. There is some evidence that the active freedom of information movement and reservation of panchayat leadership positions for women and scheduled castes is having some salutary effects in this respect in some areas.