

Democracy and Distributive Politics in India

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To most theorists of democracy in the West, India is an embarrassing anomaly and hence largely avoided. By most theoretical stipulations India should not have survived as a democracy: it's too poor, its citizens largely rural and uneducated, its civic institutions rather weak. It is a paradox even for those who believe in a positive relationship between economic equality or social homogeneity and democracy: its wealth inequality (say, in land distribution, and even more in education or human capital) is high -- may be less than that of Latin America but higher than in east and south-east Asia, and its society is one of the most heterogeneous (in terms of ethnicity, language, caste and religion) in the world.

Yet this country, with the world's largest electorate (it is now larger than the electorate in North America, Western Europe, and Japan combined), keeps lumbering on decade after decade as a ramshackle, yet remarkably resilient,

democratic polity¹. Of course, depending on the defining features of democracy the depth of Indian democracy may be rather limited. It is useful to keep a distinction between three general aspects of democracy: (a) one relates to some basic minimum civil and political rights enjoyed by citizens, (b) another to some procedures of accountability in day-to-day administration under some overarching constitutional rules of the game, and (c) to periodic exercises in electoral representativeness. These aspects are of varying strength in different parts of India. In general the performance in much of the country over the last half a century has been really impressive in terms of (c), some pitfalls and electoral malpractices notwithstanding. If uncertainty about the outcome of elections, giving the opposition some chance of winning office, is key to a polity's minimum democratic character², India comes off in flying colors, at least in the last three decades or so. If, however, you care as much or more about (a) and (b), India's performance has been somewhat mixed, satisfactory in some respects but not in others. Also, except in three or four states in India, all these aspects of democracy are weaker at the local village or municipality level than at the federal or provincial levels.

¹ India is an obvious outlier in the empirical rule cited in Przeworski (1999): the expected life of democracy in a country with per capita income under \$1,000 (in 1985 Purchasing Power Parity) is about 8 years.

² This, for example, is suggested in Przeworski (1999).

There are several ways in which the historical and social origins of democracy in India are sharply different from those in much of the West, and the indigenous political culture has fundamentally reshaped the processes of democracy. These differences are reflected in the current functioning of democracy in India and its impact on distributive politics, making it somewhat difficult to fit the Indian case to the canonical cases in the usual theories of democracy. In the rest of this paper we point out some of these differences (as well as similarities) and spell out their effects, particularly in terms of economic reform, governance and distributive policies and transfers.

A. While in Europe democratic rights were won over continuous battles against aristocratic privileges and arbitrary powers of absolute monarchs, in India these battles were fought by a coalition of groups in an otherwise fractured society against the colonial masters. Even though part of the freedom struggle was associated with on-going social movements to win land rights for peasants against the landed oligarchy, the dominant theme was to fight colonialism. And in this fight, particularly under the leadership of Gandhi, disparate groups were forged together to fight a common external enemy, and this required strenuous methods of consensus-building and conflict management (rather than resolution) through co-opting dissent and selective buyouts. Long before

Independence the Congress Party operated on consensual rather than majoritarian principles. The various methods of group bargaining and subsidies and 'reservations' for different social and economic categories that are common practice in India today can be traced to this earlier history. This has also meant that in India, unlike in much of the West, democracy has been reconciled with multiple layers of nationality, where a pan-Indian nationalism coexists with assertive regional nationalisms in the same citizenry.

B. Unlike in Western Europe democracy came to India before any substantial industrial transformation of a predominantly rural economy, and before literacy was widespread. This seriously influenced the modes of political organization and mobilization, the nature of political discourse and the individual's relation to the public sphere, and the excessive economic demands on the state. Democratic (and redistributive) aspirations of newly mobilized groups outstripped the surplus-generating capacity of the economy, demand overloads sometimes even short-circuiting the surplus generation process itself. In my book, Bardhan(1984[1998]) I had described the political equilibrium underlying a broad pattern of economic deadlock in India, which in spite of recent deregulations and liberalizations and the higher growth rates in the last two decades, has persisted in some basic features. This is generated by the usual

collective action problems for large and heterogeneous coalitions in pulling together in their long-run collective interest, yielding more easily to short-run particularistic compromises in the form of sharing the spoils of the system to the detriment of long-run public investment, particularly in improving India's creaking infrastructure (power, ports, railways, roads, irrigation, etc.), which acts as a severe bottleneck for private investment and growth. With national elections sometimes taking place before the usual five-year period (due to unstable political coalitions) and the state elections held on a rolling basis across states on a cycle disconnected with the national elections, at any given time some important election somewhere is never too far, preoccupying the minds of politicians with short-run expediencies, and the need for long-run commitments in policy gets shortchanged.

In catering to these short-run demands a large part of public resources get frittered away in the form of implicit or explicit subsidies, galloping amounts of what are called non-development expenditures (mainly salaries, pensions, and debt servicing), and largely politicized mismanagement of capital in the bloated public sector and over-regulation of the private sector. The fiscal deficit of the central and state governments taken together in 2003-4 was about 10 per cent of

GDP³ (up from 7.5 per cent in 1980-81), while public investment declined from 8.4 per cent of GDP to 5.6 per cent in the same period. Except for some improvements in investment in highways and ports, public investment in infrastructure as a proportion of GDP has declined significantly, and the hoped-for private investment to fill the gap has not materialized (largely on account of anticipated political problems of recovery of user fees and tolls, and frequent political interventions in regulatory institutions).

The central government budgetary subsidies (explicit subsidies like those for food, fertilizer, petroleum and interest rate and implicit subsidies in the form of unrecovered costs of public provision of goods and services that are not public goods) as a proportion of the fiscal deficit of the central government amount to nearly 90 per cent. According to estimates by the National Institute of Public Finance and Policy two-thirds of these budgetary subsidies are what they call ‘non-merit’ (largely accruing to the relatively rich). Apart from their inequity, they are also inefficient. For example, a large part of the money lavished on subsidizing fertilizer, water and electricity would have been much better spent (in terms of both promoting agricultural growth and reducing environmental damage from the resultant over-extraction of groundwater and overuse of

³ India’s public debt to revenue ratio is one of the highest in the world, and yet most macro-economic indicators are relatively stable, primarily because most of the debt is not in foreign currency and the domestic debt market is sheltered by capital account controls. But the long-term risks of such a situation are large. The recently legislated Fiscal Responsibility and Budget Management Law is a step in the right direction but political pressures to postpone its effective implementation are substantial.

chemicals) instead in public investment in irrigation and watershed management. Yet the lobby of middle and large farmers is much too strong and very few politicians can or want to take them on. Even left political parties (which largely represent public-sector office workers and unionized industrial labor) find it easier to enter essentially 'logrolling' arrangements with them. These problems are, of course, familiar from pork-barrel politics in many democracies, but they are more acute in a country of such extreme heterogeneity reflected in a bewildering crisscross of interest alignments, and much less affordable at India's level of extreme poverty and appalling infrastructure. When the surplus generated in the system is small and the claimants on the public fisc are too many, the common pool problem is particularly severe.

The collective action problem has become more acute in the last three decades as more newly mobilized groups started asserting themselves, and as the massive country-wide organization of the Congress Party which used to coordinate transactional negotiations among different groups and leaders in different parts of the country fell into disarray. One reason of the decline of the Party is the erosion of the mechanisms of intra-party democracy since the 1970's, as a result of which the organizational channels of demand articulation and conflict resolution got clogged. The lack of inner-party democracy in all

major parties in India in recent years has led to a proliferation of small and regional parties, as ambitious politicians found it more difficult to rise through the usual channels and ladders inside a national party; they staked their claims from outside forming their own parties and strategically used their support for advancing their personal and regional or group agenda.

C. In the evolution of democracy in the West the power of the state was gradually hemmed in by civil society dense with interest-based associations. In India groups are based more on ethnic and other identities, although the exigencies of electoral politics have somewhat reshaped the boundaries of (and ways of aggregating) these identity groups (thus two sub-castes in the population may not accept food or marriage connections with each other, but they coalesce into a generic caste group for electoral purposes). This has also meant a much larger emphasis on group rights than on individual rights.⁴ A perceived slight of a particular group (in, say, the speech or behavior of a political leader from another group) usually causes much more of a public uproar than crass violations of individual civil rights even when many people across different groups are to suffer from the latter. There is a distinctly low sense of public outrage (except among a handful of urban liberals)

⁴ One of the early leaders who carried in him the tension between individual and group rights was B.R. Ambedkar, a constitutional lawyer and a founding father of the Indian Constitution, but who was also a major spokesman of an oppressed caste group.

when the state violates an individual's freedom of expression, the police routinely beat up or torture a suspect, or the authorities ban a book or film on the alleged ground that it might offend the sensibilities of some group.

The issues that catch public imagination are the group demands for preferential treatment (like reservation of public-sector jobs) and protection against ill-treatment. This is not surprising in a country where the self-assertion of hitherto subordinate groups in an extremely hierarchical society takes primarily the form of a quest for group dignity and protected group-niches in public jobs.⁵ More on this later.

D. In Western history expansion of democracy gradually limited the power of the state. In India, on the other hand, democratic expansion has often meant an *increase* in the power of the state. The subordinate groups often appeal to the state for protection and relief against the tyrannical ways of dominant groups in their localities. With the decline of hierarchical authority in the villages and with the moral and political environment of age-old deference to community norms changing, the state has moved into the institutional vacuum thus left in the social

⁵ One of the triumphant slogans of BSP, a major party mobilizing the historically oppressed low castes in North India used to be: *vote se lenge PM/CM, arakshan se SP/DM* (we'll take the offices of the Prime Minister and the Chief Minister through votes, we'll take through reservation the offices of the Superintendent of Police and the District Magistrate).

space. For example, shortly after Independence popular demands of land reform legislation (for the abolition of revenue intermediaries, for rent control and security of tenure), however tardy and shallow it may have been in implementation, brought in the state in the remotest corners of village society. In more recent days, with the progress of the state-supported Green Revolution, in matters of loans, tubewells, fertilizers, seeds, agricultural extension, land records, etc. the state is implicated in the texture of everyday village life in myriad ways.

With the advantage of numbers in electoral politics as hitherto backward groups get to capture state power, they are not too keen to weaken it or to give up the loaves and fishes of office and the elaborate network of patronage and subsidies that comes with it.⁶ This serves as a major political block to the (largely elite-driven) attempts at economic liberalization of recent years. Not merely fiscal consolidation is particularly difficult at the state government level where these groups are dominant (with serious under-pricing of water and electricity, over-manning of the public payroll, and a long-standing refusal to tax the better-off farmers), but some of the remaining obstructive industrial regulations (for example, in the matter of getting electricity or water connection and land registration in starting a factory) are in the jurisdiction of these governments. Of

⁶ In some sense this is familiar in the history of American municipal politics in big cities when one after another hitherto disadvantaged ethnic group captured the city administration and distributed patronage.

course, economic reforms are not generally popular in India as they are often perceived to benefit mainly the rich⁷. Even ruling politicians who support reforms play them down during election time; a party that initiates some economic reforms is quick to oppose them when out of power. The electorate does not seem to mind such inconsistency; in several elections (both national and provincial) those who believe reforms do not help them have voted against whichever is the ruling party. The anti-incumbency sentiment (which is likely to be a reaction to inept or corrupt governance and failed delivery of public services) has merged with a general grievance about the perceived inequity in the effects of reforms carried out by ruling parties.

Jenkins (2000), however, has pointed out that the Indian political system has clever, if sometimes clandestine, ways of diffusing resistance to reform. He correctly points out how reformers in a government may enjoy some autonomy in the context of the great malleability and fragmentation in the Indian interest group structure, how accommodations arranged through informal political networks mediate conflicts between winners and losers, and how particular reform measures

⁷ See for some evidence of public opinion on this question the survey results of the Lokniti-CSDS team after the 2004 elections: Suri (2004). It is not, however, obvious that people always have a clear understanding of what is meant by economic reforms. If reforms mean reduction of subsidies, thus raising the user charges for many publicly provided goods and services or loss of jobs in some old firms or occupations as a result of increased competition, one can see why people involved will be opposed. But if it were to be made clear that a higher electricity price means the ability of the public utility to provide less erratic power supply and fewer power cuts, or if more competition means the rise of new firms expanding employment opportunities, or if deregulation means loosening the grip of corrupt inspectors over small enterprises, some of this opposition may melt away.

generate a chain reaction of demand for more reform from within. He cites cases of ‘backdoor reforms’ in public sector companies and of some pro-business state governments deliberately looking the other way as some of the rigid labor laws are violated. It is not clear, however, how such ‘reform by stealth’ can be sustained in the long run. As our discussion above of the staggering burden of subsidies and public debt and the continuing fiscal crisis endangering the prospect of any massive and much-needed improvement in the public infrastructure suggests, the changes Jenkins refers to are as yet not substantial and purposive enough to break the basic political logjam in the macroeconomy.

Beyond the direct economic consequences of short-run distributive politics are the consequences for democratic governance. The diminishing hold of elite control and the welcome expansion of democracy to reach the lower rungs of the social hierarchy have been associated with a loosening of the earlier administrative protocols and a steady erosion of the institutional insulation of the decision-making process in public administration and economic management. This has affected not just the ability to credibly commit to long-term decisions, but the whole fabric of governance itself. It is now common practice, for example, for a low-caste chief minister in a state to proceed, immediately upon assuming office, to transfer away top civil servants belonging to upper castes and get pliant bureaucrats from his/her own caste. Some of the new social groups coming to power are even nonchalant in

suggesting that all these years upper classes and castes have looted the state, now it is their turn. If in the process they trample upon some individual rights or some procedural aspects of democratic administration, the institutions that are supposed to kick in to restrain them are relatively weak. Highly corrupt politicians are regularly reelected by their particular ethnic or local constituencies (which they nurse assiduously even while fleecing the rest of the system). Personal extravagance at state expense by particular ethnic leaders is often a source of community pride for historically disadvantaged groups.

This is part of a fundamental tension between the participatory and procedural aspects of democracy in India: the unfolding of the logic of populist democracy has itself become a threat to democratic governance. Kaviraj (1996, p.119) has described this as a strange Tocquevillian paradox: “democratic government functioned smoothly in the early years after 1947 precisely because it was not taking place in a democratic society; as democratic society has slowly emerged, with the spread of a real sense of political equality, it has made the functioning of democratic government more difficult”. Some people are not too worried by this, and they regard it as part of the initial necessary turmoil of democratic movement forward and group self-assertion. The writer V. S. Naipaul (1997, p.39), who is fascinated by the ‘million mutinies’ in contemporary India, says: "When people start moving, the first loyalty, the first identity, is always a rather small one....

When the oppressed have the power to assert themselves, they will behave badly. It will need a couple of generations of security and knowledge of institutions and the knowledge that you can trust institutions -- it will take at least a couple of generations before people in that situation begin to behave well."

I wish I could share in this optimistic belief in democratic teleology. The breakdowns in democratic governance and economic management structures are not easy to repair and there are irreversibilities in institutional decay. Besides, in India's multi-layered social structure, by the time one self-aware group settles down, and learns to play by the institutional rules, other newly assertive groups will come up and defy those rules, often in the name of group equity.

E. In the theories of democracy socio-economic cleavages are often regarded as obstacles to the functioning of democracy. John Stuart Mill (1861[1951], p.486) considered democracy as "next to impossible in a country made up of different nationalities". In the *German Ideology* Marx and Engels also had traced the persistence of German absolutism to divisions among the social classes in the Germany of their time. In the last chapter of Bardhan (1984[1998]), I offered a somewhat contrary hypothesis: the Indian experience seems to suggest that the very nature of socio-economic heterogeneity may make the divided groups somewhat more interested in the procedural usefulness of democratic processes. In

a country with an extremely heterogeneous society and the elements of even the dominant political coalition quite diverse, and most importantly, where no individual group is by itself strong enough to be able to hijack the state, there may be some functional value of democracy as a mutually accepted mode of transactional negotiations among contending groups and as a device by which one partner in the coalition may keep the demands of other partners within some moderate bounds⁸. I would not, however, go to the other extreme of Lijphart's claim (1996) that India is actually an impressive example of his brand of 'consociational' democracy. While India, after Independence, has always been ruled by some form of political coalition (sometimes even within the same ruling party), I doubt if it conforms to at least two important criteria of power-sharing democracies, one relating to proportionality in political and civil service representation, and the other to minority veto powers.

F. Democracy, at least in theory, is associated with the supremacy of the 'rule of law' (as opposed to rule by persons). To this day this is a rather alien concept in much of Indian political culture, in spite of what the pious statements in the Indian Constitution (or judicial activism in many remarkable instances of public interest litigation against abuses of power) may suggest. The law as actually enforced is

⁸ For a similar argument about the persistence of democracy in another extremely heterogeneous country, Papua New Guinea, see Reilly (2004).

often not above elected politicians. In many states the institutional independence of the police and the criminal justice system is quite eroded, leading to criminalization of politics in parts of the country. Some of the criminal elements have figured out that once elected on a ruling party ticket they can neutralize the police, who will not press the criminal charges against them with any alacrity. Police officers are often rewarded, for example with plum postings, if they do the elected politicians' bidding. The National Police Commission forcefully pointed out these problems in its eight-volume reports in 1979 and 1981-82, without making much headway in action taken. The politicization of police and civil administration has been the institutional background of the state-abetted pogrom in Gujarat in 2002. The participation of the urban middle classes in this pogrom in a state where capitalism is more advanced than in most other states, has led some commentators to point to the unorthodox combination of economic liberalism and political illiberalism. This combination is contrary to the traditional idea of middle classes promoting liberal values, but it is not unfamiliar to readers of Karl Polanyi or observers of the Latin American political scene over decades.

Even in non-criminal aspects of social life democratic participants often accept benefits from a politician's decisions as personal favors to them as individuals or as members of a favored group, rather than as part of their constitution-protected rights. The political process is a way of linking up with powerful patrons who act

as elected ‘godfathers’ (this is akin to the way Christian Democrats used to function in Sicily). The emphasis is not on impersonal procedures of accountability, more on politically legitimized ways of manipulating the network of patronage distribution.

This is, of course, to be expected in a society where an individual’s community bonds are stronger than his/her role as a citizen, where s/he is sometimes better protected against all kinds of hazards by his/her community than by the impersonal forces of a distant and corrupt state. After all, the rule of law means little for the weaker sections of society when these laws in the way they are formulated (even in some industrial democracies with their vaunted rule of law, the laws themselves, when they are made, are ‘for sale’ to the highest corporate or special-interest contributors to the legislators) or enforced, have at best weak links to the politicians’ promises on the basis of which electoral mobilizations take place. The judicial process is massively clogged and corrupt in India, and the poor often feel that the law is just another ‘stick’ with which the resourceful rich can beat them. In contrast the community arbitration processes⁹ can sometimes provide some measure of protection for the weak against the strong; as long as all parties belong to the same moral community, there are usually some accepted limits and symbolic sanctions against the kind of ruthless exercises of power that sometimes

⁹ Even in the Western judicial system the trial by jury is a recognition of the role of the community in the judicial process.

accompany the cut-throat impersonality of the legal system. On the other hand, community arbitration can often be highly oppressive (as, for example, in the case of *jat* or *rajput* caste panchayats in North Indian villages severely punishing young people contemplating inter-caste marriages), and the state may be the only, though clumsy and heavy-handed, protector of the disadvantaged minority.

In Indian democracy the legislative process is often relegated to a second order of importance, giving short shrift to the deliberative process in the legislature that John Stuart Mill and other theorists of democracy valued so much. More often than not the legislature becomes an arena for slogan-mongering, shouting matches, and a generous display of the theatre of the absurd. Sometimes breath-takingly radical pieces of legislation on complex issues get passed without much discussion, with their potential opponents reasonably sure that they will be able to undermine the laws at the enforcement stage.

On many controversial issues the opposing parties do not try to resolve them in legislative deliberations but quite literally go to the streets for this purpose. They (including the ruling party) concentrate on organizing mass rallies and counter-rallies and a show of strength in popular mobilization, in the process bringing normal life in the cities and towns to a stand-still for the day. Contrary to what happens in most democracies, Indian political leaders, who should be spending time debating in the legislature, think first of a general strike or *bandh* to register

their protest and flex their muscles of mobilization, taking pride in how their followers have paralyzed the daily life of a city. By and large India is less of a legislative or deliberative democracy, more one of popular mobilization. This usually means short-run populist measures or patronage distribution are at a political premium, not long-gestation attempts at structural transformation of the constraints in the lives of most people.

Chatterjee in a recent book (2004) has distinguished between the legally constituted domain of civil society (where the elite wants to maintain the structure of constitutionality and modernity) and the mobilized, if somewhat contingent, terrain of what he calls ‘political society’ of the poor in the Indian cities, where an entire subculture of paralegal arrangements have been recognized and administered by the state. Some of these poor people live as squatters on public land, travel ticketless on public transport, regularly steal water and electricity from public connections, and in other ways encroach on and reconstitute the public space. The logic of political mobilization and of social welfare claims drives the government agencies to look away from some of the pilfering and even provide some public services to these people “on a case-to-case, *ad hoc*, or exceptional basis, without jeopardizing the overall structure of legality and property”(p.136). These paralegal arrangements do not quite belong to the terrain of relations between the state and the demand of its citizens asserting their rights. Chatterjee considers these

negotiations between the state and political society as part of ‘the encounter between modernity and democracy’ (p.51), where the elite pursuit of modernity is seriously compromised by the compulsions of popular sovereignty or legitimacy.

I am, however, not persuaded that the rule of law is such an inescapably elitist project. Its absence actually hurts many of the marginalized groups: ask the street vendor who has to pay protection money to the local goons or the small shop-keeper or petty producer who has to pay the corrupt policeman or inspector. Some of the development projects that require eviction of squatters have the potential of expanding job prospects for the poor. That the government or the private contractors often get away with renegeing on the commitments to adequately rehabilitate the oustees¹⁰ is a failure of the mechanisms of accountability, but the development project itself is not necessarily an elite conspiracy. Political connivance at the large-scale stealing of electricity in some slums that in the end makes the general supply of electricity unviable or unreliable renders the livelihoods of many poor producers elsewhere more precarious. Short-run populist mobilization is not a sure safeguard for the long-run health of democracy.

G. In the electoral process the Indian masses, particularly the poor and the socially disadvantaged, take a much more participatory role than in advanced industrial

¹⁰ In a recent judgment on the Narmada dam the Supreme Court has ruled that rehabilitation of people displaced by the Sardar Sarobar project has to be completed one year before the submergence of their villages.

democracies. While John Stuart Mill emphasized the aspects of moral education flowing from democracy, in India the more important impact of democracy has been on the political awakening and enhancement of group self-esteem. Democracy has clearly brought about a kind of social revolution in India. It has spread out to the remote reaches of this far-flung country in ever-widening circles of political awareness and self-assertion of hitherto subordinate groups. These groups have increased faith in the efficacy of the political system and they vigorously participate in larger numbers in the electoral process. In the National Election Study carried out by the Centre for the Study of Developing Societies, the percentage of respondents who answered positively to the question, “do you think your vote has effect on how things are run in this country?”, went up between 1971 and 1996 from 45.7 per cent to 57.6 per cent for ‘backward caste’ groups (designated as OBC in India), from 42.2 per cent to 60.3 per cent for the lowest castes (designated as scheduled castes), 49.9 per cent to 60.3 per cent for Muslims, and from 48.4 per cent to 58.7 per cent for all groups taken together.

The increased faith in politics is not, however, matched by faith in politicians. The Indian electorate is often regarded as reflexively anti-incumbent, particularly in contrast with the electorate in the US. While, as we have noted before, some of the anti-incumbency may be related to the government’s failure to deliver basic social services, for an extremely poor country like India the electorate does not *in general*

punish the politicians for the continual scourge of poverty, unemployment, disease and illiteracy which afflict the lives of the common people. It is possible that endemic poverty is regarded by common people as a complex phenomenon with multiple causes, and they ascribe only limited responsibility to the government in this matter. The measures of government performance are rather noisy, particularly in a world of illiteracy and low levels of civic organization and formal communication on public issues. As we have indicated before, a perceived slight in the speech of a political leader felt by a particular ethnic group will usually cause much more of an uproar than if the same leader's policy neglect keeps thousands of children severely malnourished in the same ethnic group.

The same issue of group dignity comes up in the case of reservation of public sector jobs for backward groups which, as we have said before, fervently catches the public imagination of such groups, even though objectively the overwhelming majority of the people in these groups have no chance of ever landing those jobs, as they and their children largely drop out of school by the fifth grade. Even when these public job quotas mainly help the tiny elite in backward groups, as a symbol and a possible object of aspiration for their children, they ostensibly serve a valuable function in attempts at group upliftment, even though it is a divisive and inefficient way of achieving that objective.

Particularly in North India there seems to be a preoccupation with symbolic victories among the emerging lower-caste political groups; as Hasan (2000) points out with reference to BSP, a politically successful party of the oppressed castes in UP, these groups seem less concerned about changing the economic-structural constraints under which most people in their community live and toil. Maybe this is just a matter of time. These social and political changes have come to North India rather late; in South India, where such changes have taken place several decades back, it may not be a coincidence that there has been a lot more effective performance in the matter of public expenditures on pro-poor projects in health, education, housing and drinking water. This reflects the fact that in South India there has been a long history of social movement against exclusion of lower castes from the public sphere, against their educational deprivation, etc. in a way more sustained and broad-based than in North India. One may also note that the upper caste opposition to social transformation is somewhat stronger in North India, as demographically upper castes constitute in general a larger percentage of the population than has been the case in most parts of South India. So new political victories of lower castes in North India get celebrated in the form of defiant symbols of social redemption and recognition aimed at solidifying their as yet tentative victories, rather than in committed attempts at changing the economic structure of deprivation.

While the electorate does not seem to penalize politicians for their endemic poverty, economists cannot help noticing that they are less forgiving when there is a sharp and concentrated *deterioration* in their economic condition. Sen (1983) has commented on the political sensitivity of democracies to the threat of famine, but to me the more commonplace example for this in India is the electorate's high degree of inflation-sensitivity. It is a common presumption that a double-digit annual inflation rate, if it continues for some time, will be politically intolerable in India, and politicians of all parties universally support a conservative monetary policy to avoid this danger (even when the government stocks of food and foreign exchange are huge). The poor tend to make the government directly responsible for inflation and expect it to stop it in its tracks even at the expense of cutting budgetary programs on (physical and social) infrastructure which would have helped the poor in the long run-- as they say, contra Keynes, in the *short* run "we are all dead", when the country is poor (and incomes are largely un-indexed in the face of high inflation).

H. For a large federal democracy India, by constitutional design, differs from the classical case of US federalism in some essential features. Not merely is the federal government in India constitutionally more powerful vis-à-vis the states in many respects (including the power to dismiss state governments in extreme cases and to

reconstitute new states out of an existing state in response to movements for regional autonomy) but it has also more obligation, through mandated fiscal transfers, to help out poor regions. In classical federalism the emphasis is on restraining the federal government through checks and balances, in India it is more on regional redistribution and political integration. Stepan (1999) has made a useful distinction between “coming-together federalism” like the US, where previously sovereign polities gave up a part of their sovereignty for efficiency gains from resource pooling and a common market, and “holding-together federalism” as in multinational democracies like India (or Spain or Belgium), where compensating transfers keep the contending nationalities together.

Economic integration of regional markets is a distant goal in India, largely unachieved even in more than 50 years of federalism. There are many restrictive regulations on the free flow of goods across the state boundaries. Even though the Essential Commodities Act of 1955, that enabled the federal and state governments to impose controls on production and trade of a wide range of commodities and thus segment the Indian market, has now been largely repealed, many restrictive regulations (for example, Maharashtra Cotton Monopoly Procurement Scheme, authorizing the state government to acquire all raw cotton produced in the state) remain. While attempts are being made to replace the state sales taxes by a destination-based value-added tax, some of the entry taxes hindering interstate

trade remain. There are also strong regional movements for reserving public sector jobs for the so-called ‘sons of the soil’.

As we have mentioned before, the government at the center is increasingly dependent on the support of powerful regional parties, and this has obvious implications for the politics of redistributive federalism. Political leaders at the center who are key to the survival of a coalition government there often have an agenda that are primarily oriented to their own state. Take for example, the Ministry of Railways at the center which presides over one of the largest railway systems in the world and is *the* largest commercial employer in India. A major part of the minister’s agenda in several recent governments has been to provide jobs for people in his/her own state and add railway connections at great cost to remote locations in local constituencies, apart from keeping passenger fares below cost, often at the expense of system-wide efficiency and the gaping long-term investment needs of this vital infrastructural sector.

Regional parties also negotiate support in exchange for additional fiscal transfers to particular states. A significant part of the central transfers to the states has always been discretionary (like the numerous central sector and centrally sponsored schemes earmarked for objectives like poverty alleviation), not linked to revenue-raising efforts by the state governments. The latter also enjoy a great deal of autonomy in domestic borrowing to cover fiscal deficits, even though formally it

requires authorization by the central government. More than half of the borrowings by the state governments now are spent in covering current expenditures, pushing them toward a debt trap. The state governments also act frequently as a guarantor of bonds issued by the state-owned enterprises, generating staggeringly large contingent liabilities. And then as current revenues, transfers and borrowings are frequently not enough, the central government often has to bail out fiscally distressed states, creating perverse incentives for them not to keep their fiscal house in order. As the logic of economic reform and increased competition leads to increased regional inequality, one of the toughest political economy issues in the coming years will be how to resolve the tension between the demands of the better-off states for more competition and those of the populous backward states (which a weaker center can ill afford to ignore politically) for redistributive transfers.

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