Democracy and authoritarianism in South Asia

A comparative and historical perspective

Ayesha Jalal
Columbia University

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4 The state and political economy, 1947 to c.1993

The study so far has alluded to the ways in which the state and economy influence social dynamics underlying political processes in India, Pakistan and Bangladesh. Exploring this relationship further and making the implicit more explicit is the task to which this chapter now turns. Instead of looking at economic factors to the exclusion of the political, the analysis merges the two in a broad approximation of the approach adopted by the practitioners of political economy. The concept of political economy, located as it is at the interstices of state and economy, assists analyses of social structures and political processes on economic policy choices which for their part seek to mould the patterns of social change. A focus on the political economies in each of the three countries lends an added dimension to the comparative assessments based on an examination of the unfolding dialectic between state structures and political processes.

Since the end of the second world war, most states in the post-colonial world have laid emphasis on planning for development. The experience of the great depression and the war had underscored the merits of state interventions in the economy. With the onset of decolonization the state's role in development processes came to pervade the theory and practice of development economics. Development was to be overseen by the centralizing state which was considered to be the ultimate leveller of inequities and injustices and, by extension, the myriad diversities rooted in developing societies. By planning for development and monitoring the production and distribution of economic resources in society, the centralized state was expected to also expedite processes of national integration. Singular or unitarian concepts of sovereignty were obvious corollaries of the pious hopes the modernization paradigm raised among economists and state managers alike. The accent on the centralization of state structures and the ensuing dysfunctional effects on political processes in much of subcontinental South Asia owed not a little to these grandiose notions of planned economic development leading to national integration. Before considering the implications of centralized states pursuing specific develop-

ment strategies on the integration of heterogeneous societies, the link between politics and economics needs to be drawn more closely.

As elsewhere, states in the subcontinent engage in economic development processes with a twin-fold purpose: to hasten the pace of capital accumulation and to implement redistributive reforms. Yet the demand for rapid capital accumulation entails that the state win the support of at least a fraction of the dominant social classes, a requirement which not infrequently constrains its ability to bring about redistributive reforms for the subordinate classes. The contradiction is never easy to overcome, much less resolve, whatever the balance between state and society or the particular type of regime in power. One way to establish how the contradiction plays itself out in different contexts and with what effect on decision-making priorities is to consider the extent to which the state is dependent on or, to use a familiar concept in political theory, relatively autonomous from dominant social classes. Far from being a hollow concept induced by abstract theoretical imaginings, the relative autonomy of the state from social classes is a useful way of historically contextualizing the political economies of development in any country. The ideological leanings of those occupying strategic positions within the state apparatus bear upon development policies adopted by ruling configurations. But while ideology certainly merits attention, it is no substitute for real intention and the actual impact. Distinguishing the rhetoric from the substance of state policies aimed at economic transformation is indispensable to a meaningful historical interpretation of development strategies. It is equally necessary to have a sense of the state's organizational capacities – its cohesiveness or fragmentation, and the balance between elected and non-elected institutions.

An investigation of the state–class relationship in the different phases of the post-independence history of India, Pakistan and Bangladesh abets comparisons of their relative capacities in addressing and redressing the gnawing problems of economic inequalities and social injustices. The absence of any significant restructuring of existing associations of dominance and privilege in civil society have since the late 1960s served to magnify competition and conflict in ever-expanding political arenas and sharply increased the transactional costs of governance, forcing greater reliance on the state's coercive apparatus, irrespective of its formally democratic or authoritarian façade.

India's political economy of development

The case of India raises the intriguing question whether state power can be used in an essentially capitalist society, recourse to socialistic rhetoric

notwithstanding, to bring about redistributive justice without abandoning the path of democracy. Centralized state power in India has always had to contend with the varied and conflicting interests of its regional political economies. The high degree of political infractions along lines of class, caste, community and the rural–urban divide in the different regions has tempered challenges to the centralized state. Combined with its own broader imperatives, these have prevented the state exclusively reflecting the interests of any specific regional political economy. Both the Janata party's and the Janata Dal's mainly north Indian-based agrarian economic orientation had to be reconciled with the state's broader sectoral imperatives – the need to promote the interests of the industrial and financial magnates as well as those of the non-elected institutions. So the relative autonomy of the Indian state from dominant social classes, its own administrative requirements and the ideological protestations of the national leadership have all contributed to the shaping of its political economy of development.

Among the particularly notable features of India's political economy of development is that in spite of its enormous diversities, which of late have erupted in a veritable epidemic of social conflicts along class, caste, linguistic, regional and religious lines, the central state has until recently remained firmly wedded to the ideals of democracy and planned economic development. Over the years the strains on its social fabric have been reflected increasingly in the workings of civil and police services and placed untold burdens on the state's overall administrative capacities. Without internal administrative coherence many of the basic goals of economic development have badly miscarried. The domestic obstacles to development have been exacerbated by tensions with neighbours, especially Pakistan, which have steeled India's determination to project itself as a major regional military power. Despite a decidedly non-aligned posture, the imperatives of the international capitalist system have not failed to impose their constraining influence on the Indian economy. The history of India's political economy of development is, therefore, best analysed in the context of the interplay of domestic, regional and international factors.

During the 1950s India was held up as a model for Asian economic development. The Indian development effort based on Nehru's vision of a mixed economy was seen as the best answer to the challenge posed by Mao-Zedong's communist experiment in China. Post-colonial India possessed an effective administrative structure, a stable government dominated by a relatively well-organized nationally based political party, an educated elite of sizeable dimensions and an ideological commitment to planned development. Yet by the 1960s the optimism had all but evaporated.

Even with scores of disappointments and failures the Indian development

experience, nevertheless, is a most instructive one. When independence was won in 1947 the annual growth rate was a mere 1 per cent and an Indian could on average expect to live for no more than 33 years. In 1943 a famine in Bengal had killed over three million people. By the 1980s, life expectancy in India had gone up to 55 years; there have been no major famines since independence and the annual growth rate was about 4.8 per cent while population grew by 2 per cent. So India clearly had some successes to report. Yet in comparison with other low to middle income countries, many of India's most notable achievements pale into insignificance. Malnutrition as distinct from acute starvation stalks the Indian countryside. More than a third of the rural population suffers from nutritional inadequacies although India has attained self-sufficiency in food. The state has been able to turn a blind eye to the fact of 30 to 40 per cent of the rural population going to bed each night hungry and malnourished because, to quote Amartya Sen, 'persistent orderly hunger does not upset the system'.[1] Although ethnic conflict has ripped apart its social and economic texture, Sri Lanka still compares favourably with India on almost all counts. Endemic hunger is rare and life expectancy stands at 68 years for men and 72 years for women. After forty-seven years of independence, a mere 40 per cent of adult Indians are literate and this in a country with a well-advertised nuclear capacity and well-developed scientific know-how. By contrast, the adult literacy rate in Burma and Sri Lanka is 78 per cent and 87 per cent respectively. While some regions within India, notably Kerala, do creditably on these indicators, the aggregate picture has remained quite dismal.

What all this suggests is that while development has undoubtedly taken place in India, it has occurred alongside rather than broken the vicious cycle of poverty perpetuated by an inequitable distribution of power and assets, high population growth rates and mass illiteracy. Although couched in 'socialist' terms, India's macro-economic efforts have by and large followed the liberal model of planning for capitalist development. An historical assessment of the state–property nexus reveals the political as well as the structural constraints that have hampered the Indian state's ability to carry out any significant redistributive reforms. Without these reforms winning the battle against widespread poverty has remained a distant dream, albeit one which the rising political costs of exploitation and discrimination along lines of class, caste and gender have made more and more unconscionable and perilous for Indian state managers to ignore.

Under the influence of men like Jawaharlal Nehru and Subhas Chandra Bose a segment of the nationalist movement had been spurred on by hopes of rapid economic development under the auspices of a sovereign, indepen-

[1] Amartya Sen, 'How is India Doing', *The New York Review of Books*, 16 December 1982.

dent and centralized Indian state. This essentially socialist ideal was countered by Gandhian notions of decentralized and self-sufficient village republics, but had gained the upper hand by the late 1930s in the face of growing disaffection with the colonial state's financial manipulations and indifference towards India's basic development needs. It was towards this end that in 1938 the All-India Congress Committee sanctioned the creation of a national planning committee. Chaired by Nehru and consisting of socialists, communists and leading industrialists, the committee's brief was to prepare blueprints for India's post-independence economic recovery. To avoid ideological disagreements by committing independent India to either the socialist or capitalist road to development, Nehru contented himself with securing the committee's endorsement for central economic planning.

So vagueness about ultimate economic objectives did not extend to the Congress's immediate goal of wresting control over the centralized colonial state. And indeed it is the assumption of the centralized power of the British raj by the Congress, professing an ideology of reformist class conciliation but in fact representing the interests of specific though historically shifting dominant classes and regional bases of support, which provides the crucial context in which to assess India's actual development experience. Despite Nehru's vocal effusions about socialism, his years as prime minister, spanning three national development plans, are marked by a commitment to consolidating the state and initiating import-substitution industrialization through not only a large public sector but also support for the private sector. During the fifties agrarian reforms were initiated with a view to eliminating intermediary landlords or *zamindars* who under the colonial system collected rent from the actual cultivators and paid a prescribed amount as revenue to the state. But the disappearance of the top strata in agrarian society, mostly absentee landlords, worked mainly to the advantage of the Congress's middle to rich peasant supporters rather than peasant smallholding families and landless labourers. In 1959 although Nehru resoundingly failed to secure the party's approval for a blueprint to promote cooperative farming on the Chinese model, the mere suggestion provided the grounds for a serious rift in Congress's north Indian agrarian support base.

Congress's overwhelmingly middle to upper class and caste composition meant that in spite of a seemingly cohesive national party organization it could not but promote the interests of the propertied strata at the expense of the subordinate. The decision to pursue development in a particular kind of liberal democratic context merely expedited the trend and further weakened the Congress's ability to deploy the state's capacities in the interests of redistributive justice. According to the Nehruvian development vision, a gradual and non-violent transformation of the existing social order would

not only be the more democratic way to proceed but would at the same time sow the seeds of the socialist principles he held so dear. In other words, the autonomy of the state was circumscribed in the interests of establishing the Congress party as the organization presiding over a 'democratic consensus' or, more aptly, a majoritarian consensus fashioned around the middling to upper strata in rural and urban areas alike.

It is hardly surprising that the early fruits of Indian economic development were reaped mainly by the privileged social groups. Committed to rapid industrialization and only marginally concerned with the agrarian sector, which in any case was a state subject and so outside the direct purview of the centre, Nehru compromised his socialism and endowed it with the logic of the mixed economy. Nehruvian socialism was perfectly consistent with indirect state support for private enterprise. So state ownership and national economic planning in the name of socialism promoted private enterprise in the best capitalist tradition. Much the same sort of policy was adopted towards the agrarian sector. With over two-thirds of the Indian electorate huddled in the agrarian sector, it was politically inexpedient and administratively unfeasible to press hard for a socialist transformation and much simpler to settle down to nurturing existing alliances with landed groups who dominated the countryside. Nehru envisaged a gradual enhancement of the state's economic power without altering the basic ownership pattern. The policy emphasis in the industrial and, to a more limited extent, the agricultural sector was on production and capital accumulation, here and now, and shelving efforts at redistribution and the redressal of poverty for the future.

With the 'morality of postponed gratification'[2] as the guiding principle of the political centre, early Indian planners adopted a supply-side approach to development. The main concern was to achieve higher rates of saving and, in this way, to push up the aggregate levels of public investment in three main areas – infrastructure, industry and agriculture. This primarily long-term view of development ignored the constraints which domestic demand could place on the growth process in the short term.

Operating under Nehru's personal direction the planning commission carried enormous prestige and stature. During Nehru's long tenure in office less than two dozen men directed the commission's work, evidence not only of the highly centralized nature of the exercise but also the limited field of decision-making in a putative effort involving hundreds of millions. In 1952 the national development council was established with a view to giving voice to the chief ministers of the states in the national planning operation. Yet,

[2] Lloyd and Susanne Hoeber Rudolph, *In Pursuit of Lakshmi: the Political Economy of the Indian State*, Chicago, 1987, p. 215.

with Nehru in the chair, the NDC was a more effective institutional channel for those setting the scope and targets of the plan than for those entrusted with the implementation. There was much ado about creating a village-level leadership, free of manipulation by political parties and exclusively engaged in extending the development effort through the education and organization of the lower levels of the rural strata. Yet for all practical purposes, the development effort at the local levels was squarely in the hands of block development officers and a team of badly trained and underpaid workers who took their orders from mainly conservative IAS officers and state ministers. The top-heavy character of the national planning organization and the flimsy vehicles of implementation at the local levels of society flew in the face of the inherently disparate and decentralized tendencies informing India's expanding political arenas at the level of the different regional economies.

While obstacles to implementation certainly played a large part in the problems which came to stymie India's development efforts by the early sixties, there is reason to question the very wisdom of centralized planning in a sprawling country dotted by enormous variations. For one thing, it is debatable whether the goals set by the planning commission entirely corresponded to the realities at the base or were based on broad suppositions. For another, it seems far more plausible that the principles guiding the planning exercise owed more to the imperatives of the centralized state than with those of the constituent units. So to the bottlenecks in implementation and the ambiguities of political will must be added a third possibility of the central planning exercise being at odds with the forces propelling social dynamics at the level of the regional economies, a contradiction often sought to be invoked by the India versus Bharat dichotomy. This is not to imply that the Gandhian ideal of self-sufficient village communities was a closer approximation of Indian realities, but to suggest that although the Nehruvian agenda kept abreast with the more focused, if broadly, construed requirements of the centre it was quite as ahistorical as that of the Mahatma's borrowings from Western misperceptions about an unchanging past. Both views failed to take account of the historically shifting, more diffuse, yet narrowly based, needs of post-independence India's diverse regional political economies.

A cursory glance at the three plan documents written and adopted during the Nehru period reveal some of the pitfalls of centralized planning based on a crude intermingling of the socialist and capitalist modernization paradigms. Bracing themselves for the sacrifices required to transform India into an industrialized country and a major military power in the shortest possible time, the planners paid little heed to the hard realities of resource constraints, inequities enmeshed in the social structures of different

regional political economies and the bare-bone needs of a swarming population. The first five-year plan, covering the years 1950 to 1955, was less of a plan than a motley bunch of public investment projects, most of which were already underway as part of the colonial post-war reconstruction effort. Its main focus was on developing industrial infrastructure and public irrigation projects in the agrarian sector. Given a very low base to start from, the plan's achievements were impressive. The 12 per cent targeted increase in national income was surpassed largely due to a sharp jump in the production of food grains from about 52 million tons to 66 million tons.

The second five-year plan (1955–60) made a more concerted break with the past. It was heavily influenced by the planning commission's statistical adviser, P. C. Mahalanobis, and bore some resemblance to the first Soviet five-year plan. Indian planners were convinced, wrongly it could be said with hindsight, that Indian export commodities could not penetrate the protected markets of the advanced industrialized countries. So it was thought wise to impose strict restrictions on imports and concentrate on expanding the productive capacity of the capital goods sector. The goal was to raise savings from the initial low level of 5 per cent in 1950 to 20 per cent by 1975. In other words, the capital goods sector – heavy metals and machinery – would have to grow at an accelerated rate in order to convert higher savings into additional public investments. Here it is worth mentioning that the Mahalanobis model deviated from the 'textiles first strategy' of industrial development followed by a number of countries – Japan being a prominent example – who were late comers in the nineteenth-century race towards industrialization. Convinced that India's poor record of industrialization was part of a determined strategy by imperialism and capitalism to keep it dependent on the advanced countries of the West, the planners banked on the abilities of a huge indigenous market to absorb the outputs of a highly protected domestic capital goods sector. With this rationale, efficiency and competitiveness were relegated to the sidelines of India's capital intensive import substitution drive.

Yet in betting on the capital goods sector, the planners inadvertently contributed to a slowing down of the rate of growth of the consumer goods sector. The second five-year plan was unduly optimistic in its approach towards the agricultural sector, hoping to achieve growth targets without corresponding investment outlays. Agriculture's share of the total investment was slashed by nearly half that of the first five-year plan. The result was predictable. Within fifteen months of the plan Indian agriculture was in the throes of a serious crisis with foodgrain production well below expectations. By the summer of 1957 a 50 per cent hike in food prices sent the wholesale price index spiralling, forcing the central government to import huge quantities of wheat. The planning commission ascribed the miserable

failure to enforce price controls and initiate state trading in the unorganized agrarian sector of the economy to hoarding and black marketeering by surplus farmers. Both the food ministry and the states in turn faulted the principle of central planning and market forces – stagnant levels of production due to the absence of adequate agricultural inputs and remunerative prices for commodities which could give incentives to private investment, the increase in urban incomes due to imprudent development outlays and high rates of population growth.[3]

Accusing India's surplus farmers, who formed the backbone of the Congress party in key electoral states like UP, of avidity and illegal profiteering was necessary to justify the soundness of the goals of central planning but awkward for the future cohesion of the dominant ruling configuration. The social effects of a deepening financial crisis, worsened by the food imports and the high costs of defence procurement as well as steel and iron all contributed to the escalation of political rancour between the centre and the states. And this at a time when the central government had reluctantly given way to strident demands for the linguistic reorganization of existing state boundaries. Severe shortages of essential consumer items did little to mollify political tempers stirred by appeals to linguistic identities. Mahalanobis's calculation that labour-intensive village and small-scale industrial production would be sufficient to deliver adequate quantities of consumer goods simply failed to materialize. Besides, the emphasis on capital-intensive public investments did not boost the employment generating capacities of India's labour surplus economy. Finally, the continued need to import intermediate raw materials – essential for the production of many agricultural and industrial consumer items – plunged India into an acute balance of payments crisis which lasted well into the 1970s. An import substitution drive without requisite support from the export sector inevitably created a serious shortage of foreign exchange.

Yet during this period India had built a heavy industrial base and made some strides in establishing its own research and development facilities, a useful accompaniment to the defence procurement effort. By the time the next five-year plan was launched the general index of industrial production had risen from 139 in 1955–6 with 1950 as the base line to 194 in 1960–1. The machinery index had leapt from 192 in 1955–6 to 503 in 1960–1. There was a spectacular growth in the production of iron, steel and chemicals. By contrast, cotton textile manufacturing had languished badly, increasing from 128 in 1955–6 to only 133 in 1960–1.

As the results of the 1957 parliamentary and state assembly elections showed, the cosy assumptions of planners sitting in the comfortable con-

[3] Frankel, *India's Political Economy, 1947–1977*, pp. 131–47.

fines of Lutyens' central secretariat buildings in New Delhi had slowly begun backfiring in the rustic expanses. With the political opposition as divided as ever, the Congress improved its tally of the total votes cast in the national as well as the state elections. But quite as much as the statistical manoeuvres of its chief planners, the election figures masked a distinct erosion of the Congress's support base in a number of states. The central planning logic of postponed gratification of needs and sacrifices today for a rosier tomorrow was not one to kindle enthusiasm among parlously poor segments of society. Even the middle strata had reason to be dismayed at the slow to non-existent improvement in the quality of life. The opposition parties in UP, Bihar and Bombay improved their position at Congress's expense, which failed to win a majority and had to form coalitions with independent members of the assembly.

The time lag between economic grievances and electoral realignments appeared superficially to give the central leadership something of a breather. But the economic objectives set by the central planners were coming to clash with the political imperatives of the Congress party. Despite growing pressure from within the party and big business to give even more incentives to the private sector, Nehru argued that greater investment in the heavy industries orientated public sector was necessitated by India's security requirements. So the third five-year plan for the period 1960 to 1965 continued to follow the logic of the Mahalanobis model for a capital-intensive industrialization. But the planners gave more explicit recognition to the needs of the agrarian sector. While emphasizing the urgent need for reorganizing the rural social structure, the plan perked up investment outlays for agriculture. Rural works programmes received special attention, but did little to transform the agrarian structure. Instead of reaching the lowest strata in rural society, the funnelling of greater development resources to the countryside expedited the commercialization of agriculture, a process in which the main beneficiaries were the rural upper-class supporters of the Congress. Another notable feature of the plan was the allocation towards family planning. Yet for all the platitudes about the state's intention to eventually obliterate illiteracy, the planners seemed in no great hurry to make education the primary goal of development. At any rate, many of the plan outlays were based on hypothetical estimates of available resources. Foreign aid had to be included as an essential ingredient in plan projections to cover the huge budgetary deficits. Since self-reliance was the cornerstone of India's development planning ideology the planners claimed that the aid would be used to expand production in import-substituting industries and promote exports.

Stagnant resources chasing dreams of grandeur are wont to exacerbate problems in any society. The illusion of political stability, administrative

cohesion and controlled corruption which Nehru's presence in high office served to keep alive are wholly belied by the facts on the ground. Growing state interventions in the economy created fantastic opportunities for non-elected officials in the civil, police, judicial, revenue and development services to extort favours in cash or in kind in exchange for granting access to public assets and services. The age-old contradiction between rule-bound institutions and a highly personalized social order took on new proportions under the rubric of state-induced economic development processes. Needing access to the state for most things, big and small, businessmen, small contractors, men of trade and commerce, landed groups and politicians all relied on the personal discretion of government officials only too willing to skirt around the rules in order to combat inflationary pressures on their modest monthly salaries. The institutionalization of corruption was one of the more intractable legacies of the centralized planning efforts during the Nehruvian era, compounding the political difficulties flowing from unrealized economic objectives and growing regional disparities.

Although Congress survived at the hustings in 1962, its share of the total vote in parliamentary and state elections was appreciably less than in 1957. Regional, communal, right and left leaning parties all gained at the Congress's expense, especially among the economically least privileged strata – those denied education, unemployed youth and lower income groups. Had Nehru taken concerted steps towards arresting the Congress's decline at this stage and carried out the necessary organizational reforms in the party, the worst effects of the 1967 electoral débâcle might conceivably have been averted. But the stubborn reluctance to reorient planning objectives or countenance a break with the old rural party bosses, whose control over the vote banks had been substantially compromised by unmet economic expectations, is a telling comment on a basic inability to keep in step with his ideals.

In the event, exogenous factors rescued Nehru from taking full responsibility for the inappropriateness of the goals chalked out in the third five-year plan. Its faltering beginning, notwithstanding, the plan went off the rails largely on account of the Indo-China war of 1962 and the Indo-Pakistan war of 1965 which saw a sharp increase in defence spending. Nehru's death in 1964 removed the great steadying hand which had inspired so much confidence in India's development potential. Economists painted a gloomy scenario of the crisis in India's development planning. Some held urban bias to be responsible for this sorry state of affairs, others pointed to the total disregard of foreign trade and the neglect of human resource development. There were elements of truth in all of this. Yet in the final analysis India's development effort was foiled by managers of a centralized state who in reaching for national glory through brisk

industrialization and projections of military prowess ended up being hoist by their own petard.

That said, the crisis of Indian planning in the late 1960s should not obscure the achievements of the early development planners. The period of the second and third five-year plans witnessed a remarkably high rate of public investment in proportion to total expenditure and rapid growth rates in industrial production. India was able to diversify its industrial structure and build up a heavily industrial base. There was a substantial increase in the skills base of the Indian population even though little was done to alter the elitist nature of the colonial educational system by directly addressing the problem of mass illiteracy. Given the long-standing stagnation of the agrarian sector under colonialism, post-independence India under Nehru could boast a striking turnabout owing mainly to the expansion of both irrigation and land under cultivation. Among the notable failures was the underestimation of the costs of the import substitution process and indifference towards improving the quality of life for substantial segments of society, in particular those occupying the lowest rungs of the economic pyramid.

But the biggest failure by far was the state's inability to bring about effective agrarian reforms in the early 1950s because of the unwillingness of Nehru's government to alienate the rural elites who dominated the party at the provincial and district levels. While the *zamindari* or landlord system of rent and revenue collection was abolished and tenants given greater security of tenure, there were too many loopholes in the land ceilings legislation and its implementation. In anticipation of the reforms, which were carried out piecemeal by the different states, many *zamindars* bribed the *patwari* – or the local revenue official – and the police to take advantage of the legal lacuna allowing them to hold on to land proven to be under their self-cultivation. Timely evictions of tenants saw *zamindars* acquiring ownership rights over land from which they had previously only exacted rent. Since the ceilings in the early decades were on an individual rather than a family basis, huge amounts remained within the ambit of the very *zamindars* the reforms were supposedly targeting. Others were generously compensated for the land resumed, enabling the more enterprising among them to set up highly profitable agro-based industries. So for all practical purposes the abolition of intermediary interests did not alter the basic contours of the agrarian structure.

Indeed, there is reason to believe that some of the legislation passed was singularly inappropriate. The incongruence between legal categories and rural social classes ensured that reformist legislation remained unclear about who it was supposed to empower. Dominant landholding classes could not only use ambiguities in the law but also deploy their control over

the product, credit and even the labour markets to shift the burden of acquiring the benefits of the legislation on to the small peasant, sharecropper and landless labourer. Much the same sort of constraints dictated the state's relations with the industrial classes. Despite the expansion of the public sector, the government and the ruling party, supported by civil bureaucrats, were beholden to the industrial capitalist class. Throughout the time that Nehru remained at the helm, India's private entrepreneurs continued to carp and complain about the barriers to their investing in the heavy industrial sector which, because it was linked with the defence procurement effort, held out the promise of handsome profits. Yet the capitalist classes had much to thank the state for building an industrial infrastructure and curbing the bargaining power of the industrial labour force.

So although the Indian National Congress emerged from the colonial era as a legitimate, if heterogeneous political force, the national leadership chose to consolidate its position by forging an alliance with the civil bureaucracy and compromising with dominant social classes. This assured the stability of the Indian state and preserved a liberal democratic tradition, albeit one which co-existed with authoritarian strains in the institutional structures inherited from the colonial period. But in the long run the ruling party's symbiotic relationship with the civil bureaucracy and promotion of private propertied groups seriously undermined the state's capacity to intervene on behalf of the dispossessed with forceful measures of redistributive justice. The Congress leadership avoided conflict with the dominant social groups and made measured uses of state coercion in accordance with their preferred strategy of class accommodation. This tacit agreement between India's leadership in government, state officials and the owners of property led to a state-supported capitalist rather than a state-sponsored socialist pattern of development.

With Nehru's departure from the political scene, Indira Gandhi continued to rely on the administrative arms of the state and the tacit support of the industrial classes. But unlike her ideologically and, to a lesser extent, politically more obstinate father she blended pragmatism with realpolitik while trying to broaden the Congress's social base of support. After the late 1960s Indira made the removal of *garibi* or poverty the central theme of her populist cum socialistic policy. Sadly for the many millions floundering at the brink of poverty, disease or death, it was a makeshift strategy for the continued survival of Congress hegemony at a time when both Indian politics and economy were manifestly in the throes of a crisis. The pessimism surrounding the social costs of centralized planning had deepened with a sharp fall in food production after two consecutively bad monsoon seasons in 1965–6 and 1966–7. The inevitable cut-back in public investment put the

brakes on India's industrial engine and led to the emergence of unused capacity in the heavy capital-goods sector. American wheat aid under the PL 480 programme temporarily alleviated the food crisis. Yet it had become patently evident that a chronic imbalance had arisen between the demand and supply of food, the combined result of high rates of population growth and the exhaustion of possibilities of expanding the area under actual cultivation. In a disquieting development for non-aligned and proudly independent India, Mrs Gandhi's government had to agree to an unpopular devaluation of the rupee in 1966 under strong pressure from Washington. The decision to declare a three-year 'plan holiday' pricked the bubble of India's initial leap towards centrally planned development.

The political sea-changes following the emergence of Indira Gandhi as the populist stabilizer were only partly reflected in the objectives of the fourth five-year plan for the period between 1969 and 1973. In a major departure from the Nehruvian years, planners no longer placed much hope in augmenting agricultural production through a fresh round of land reforms. Though land scarcity had no doubt become an important constraint, there was much to be said in favour of reforming the inequities in India's rural product, credit and labour markets. Yet any such suggestion would have placed the planning commission and the political centre at loggerheads with middling to richer farmers, considerable segments of which continued to provide the Congress's main support base while others had parted company and contributed in no uncertain way to the 1967 electoral shock. The discrepancies between political alignments and economic interests had been considerably sharpened by the time the fourth five-year plan was on the anvil. So far from matching Mrs Gandhi's anti-poverty rhetoric and initiating redistributive programmes for the rural and urban downtrodden, the plan plumped for a technological package aimed at inducing the middling to upper landed strata to enhance their production of agricultural commodities. It is widely known that the US president Lyndon B. Johnson pushed Indian planners in this direction by his refusal to deliver shipments of grain to India in 1968 unless the government adopted new policies bolstering the interests of middling to rich farmers. Increased use of fertilizers and high-yielding varieties of seeds were supposed to usher in a 'green revolution'. Handsome benefits accrued to America's agro-based industries upon gaining entry into India's huge market. But since land reforms in the early 1950s had barely grazed the agrarian power structure, the new technological innovations in Indian agriculture at best produced regionally disparate results. Parts of north-western India with better irrigation facilities, Punjab and Haryana in particular, saw a rapid growth in agricultural output but paid the price of increasing political polarization in the countryside and greater rural–urban

migration. There were large parts of rural India which were simply not visited by the 'green revolution' of the late 1960s.

Even as the technological innovations accentuated existing inequalities in the distribution of rural power and resources, and created greater disparities in the development of the different regional political economies, India as a whole was able to shore up its food grain production. So regional variations notwithstanding, the 'green revolution' left a decisive imprint on India's economic and political future. Not only was the political centre drawn more closely into monitoring a largely unorganized agrarian sector but had to so without undermining the interests of the middling to upper rural classes. Needing to keep down agricultural prices for political purposes, and pump food through a public distribution system to the rural poor, the Indira Gandhi government initiated the economically costly policy of adopting price-support schemes on a fairly remunerative basis for wheat and later also for other crops. The origins of what Pranab Bardhan has dubbed India's 'subsidy raj' and 'spoils system'[4] can be traced to this period. The growing monetization of Indian agriculture flowing from the use of energy, oil-based fertilizers and pesticides established a two-way linkage between the agrarian and industrial sectors, making them more sensitive to fluctuations in the international economy. Without subsidizing the rising costs of agricultural inputs and providing cheap credit through government lending agencies to the rural elite, no political configuration could expect to govern from New Delhi.

The contradictory pulls underlying the reformulation of Indian development strategies in the early 1970s owed as much to Indira Gandhi's populist strategy for political mobilization as to the changing structures of economy and society. Her policy preferences were reflected in the fifth five-year plan stretching over the years 1974 to 1979, which put the issue of poverty into the foreground of political discussion. Thus began an era of Indian development plans emphasizing redistribution with growth. The bottom 30 per cent of the impoverished population became a special target group. But forced to maintain subsidies to the agrarian middle and upper classes, the state soon ran into severe resource constraints. It was apparent that without steady inflows of aid, India could not attain a growth rate of more than 5 to 6 per cent, which simply did not allow for any significant reduction in the level of poverty. The dilemma was made worse by the oil shock of 1973 and compelled the redrafting of the fifth five-year plan, especially since it came in the wake of a serious harvest failure in 1972–3.The plan had to be constantly readjusted, an indication of the clear divergence of objectives and performance during the period of the plan. At the height of the inflationary

[4] Pranab Bardhan, *The Political Economy of Development in India*, Oxford, 1984.

spiral during 1974–5 India's balance of payments was in a shambles. The deficit was up to nearly $1.2 million, nearly one and a half times in a single year, forcing the government to introduce severe restrictions on imports. Setting appropriate investment levels for commodity producing sectors was clearly no answer to India's economic problems and wholly inadequate for the eradication of poverty.

It was against the backdrop of countrywide labour strikes and rural class struggles that Mrs Gandhi temporarily abandoned the Congress's commitment to democracy and declared an emergency in June 1975. The economic 'successes' of the emergency era were, however, too modest to vindicate the recourse to authoritarianism. By the late 1970s, rates of savings and investments were rising even though there was no corresponding increase in the rate of growth of the gross domestic product. Another positive feature of Mrs Gandhi's period of emergency was the creation of a food reserve and a large increase in foreign exchange reserves. The latter rose from Rs.7.5 billion in 1970–1 to Rs.57.5 billion in 1975–6 in nominal terms.

During the brief Janata interregnum between 1977 and 1979 the central government seemed to loosen its grip on macroeconomic management. The government responded in more uncertain fashion to the second oil shock of 1979 than in 1973. Part of the reason for this lack of resolve and direction was the contradiction between the bureaucratic arms of the state and the interests of the regional political economies whose representatives had managed temporarily to wield central power from New Delhi. Charan Singh's budget of 1979 was an unabashed attempt to promote the interests of surplus farmers in northern India. At a time when the international economic environment imposed a serious resource constraint, the political decision to hike up agricultural subsidies was not something the Indian bureaucracy embraced with enthusiasm.

Indira Gandhi changed some of the economic priorities following her return to power. The sixth five-year plan of 1980 to 1985 proposed a range of measures to eradicate poverty. Emphasis was placed on rural employment programmes aimed at eventually increasing the productivity of small and marginal peasants as well as rural artisans. But other than keeping the huge armies of India's underemployed labour alive from one harvest to another, the employment programmes were too haphazard to be able to raise productivity in the long run. The procurement of food grains for public distribution at low prices served to alienate important groups of surplus peasants and rich farmers despite the rising costs of subsidies. Already during the late years of Indira Gandhi's rule the national leadership had come to the conclusion that with a growing population and limited resources, productivity could only be raised through a wide and effective diffusion of technology. This began a period of tentative liberalization of the import regime from 1982–3 onwards.

After 1985 liberalization became one of the more striking features of Rajiv Gandhi's economic policies. Yet there were all manner of structural difficulties to be surmounted in implementing this policy. For one thing, liberalization aimed at introducing new technologies in Indian industry demanded foreign exchange resources. Since the 1950s India had shied away from playing the world market. The limited importance of the export sector helped India withstand fluctuations in the international economy during the 1970s and 1980s better than many developing countries. Having neglected to promote its export potential in the 1950s or the early 1960s, India opted to enter the world market at a time of much greater competition in the international trade regime. To make matters worse, decades of state protection had resulted in a wide range of manufactured products being of much inferior quality than those available in a consumer conscious capitalist world market. Nor could Indian goods compete in costs. In attempting to finance a liberal import policy the Indian state took a plunge into the debt trap. India had a negligible foreign debt until as late as 1982. In less than a decade it had become the largest debtor country in Asia and the second largest debtor country in the developing world. Having already piled up a foreign debt of over $80 billion the government of India in 1991 had to negotiate an IMF loan to help it tide over a severe foreign exchange crunch which had been greatly exacerbated by the Gulf war.

India's belated liberalization was intended to overcome the problems posed by sliding rates of industrial growth, sluggishness in private investment and the demonstrated limitations of domestic demand. It had to be accompanied by massive subsidies for export industries and efforts to expand the home market through more public expenditure. At the same time agricultural subsidies continued to claim a substantial chunk of the state's strained financial resources. According to one estimate, the subsidy bill rose steeply from Rs.1 billion in 1960–1 to Rs.40 billion in 1983–4 to include massive losses in public sector industries.[5] Together with escalating costs of defence and other kinds of non-development expenditure, for administration and policing purposes in particular,[6] the Indian state has had to disavow most of the guiding principles of the early planners. A more dramatic volte face would be difficult to envisage.

[5] Bardhan, 'Dominant Proprietary Classes and India's Democracy' in Atul Kohli (ed.), *India's Democracy: an Analysis of Changing State–Society Relations*, Princeton, 1988, p. 218.

[6] Defence, subsidies and interest payments constitute over 80 per cent of the Indian central government's non-development expenditure and between 50–60 per cent of total current expenditure. Defence expenditure alone increased to nearly 15.8 per cent annually during the period of the sixth five-year plan, compared to a yearly increase of 8 per cent under the fifth five-year plan. Interest payments went up from 1 per cent in the period of the fifth plan to 21.6 per cent during the sixth five-year plan. (S. P. Gupta, *Planning and Development in India: a Critique*, New Delhi, 1988, p. 93.)

Under the Congress government of prime minister Narasimha Rao, India has gone even further in the direction of liberalization and deregulation. By 1992, many of the more stringent bureaucratic barriers to the entry, expansion and diversification of firms were dismantled. Restraining the hand of a venal, lethargic and extraordinarily interventionary administrative bureaucracy was a step in the right direction, but one that is more than likely to cut into the state's already puny social welfare capacities. Many of the old controls on private and foreign investment have been removed. Even the once scorned multinationals are now permitted to own 51 per cent equity. Anti-monopoly measures have been relaxed and programmes for income redistribution put into cold storage. Under IMF directives to reduce the budgetary deficit the Indian central government has cut fertilizer subsidies. The package of reforms has been intended to reenergize industrial growth rates through the introduction of imported technologies which could eventually allow for a more realistic export promotion effort. Yet this kind of economic recovery leaves the state little room to be sensitive to the fragile livelihoods of ordinary low-income people. Without hounding industrial labour into submission and turning the full face of the state's coercive apparatus against instances of popular unrest, India's search for undiluted capitalist dynamism may not succeed in putting the economy on the chosen track. The social and political costs of the new policies may well take an even heavier toll on national unity than the goal of socialist orientated centralized economic planning for capitalist development.

Yet it is one thing to bemoan the inability of India's democratic system to bring about redistributive reforms and quite another to associate them with authoritarian regimes. The issue of redistribution has less to do with the democratic or authoritarian character of regimes than with the state–society dialectic in general and the state–private property nexus in particular. Simply put, India's choice is not one between democracy and authoritarianism so much as one involving structural changes in the relationship between a centralized state and increasingly restive political configurations at the level of the regional economies. Uneven patterns of regional economic development combined with an unwieldy concentration of power at the political centre have thwarted many of the substantive goals of democracy and, in the process, heightened the sense of alienation on the part of ever larger segments of India's diverse peoples. There would appear to be little room for further paradox in post-independence India's highly paradoxical development experience. Yet one that deserves a mention is the spectacle of a centralized state which in the wake of independence extracted sacrifices from the populace to piece together an infrastructure for an integrated economy but omitted to administer the requisite balm to heal old and emerging fractures in the national polity.