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Governance reform in a weak state: Thirty years of Indian experience

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The last three decades have witnessed governance transformations in India and China. China gave up autarkic communism and engaged the world. India gradually gave up its somewhat more liberal import substitution-based closed economy model and engaged the world by giving greater primacy to private companies. India began to open up the economy to private investment from the mid-1970s but trade and international orientation arrived only after 1991 (Mukherji, 2014a). By this time, the Chinese economy had become a powerhouse. India's rates of economic growth surpassed China's only in recent years, when the Chinese economy had become much larger than India's. India is the most rapidly growing economy among the Group of 20 countries that discuss the globe's financial architecture.

The Indian state grew from a within a colonial apparatus quite unlike the Tilly-esque war-making and tax collection route to statehood (Tilly, 1990). Nor did it evolve from struggles between labor and capital, impacted deeply by the arrival of capitalism (Acemoglu & Robinson, 2006; Moore, 1966). India chose a democratic path in 1947, when its middle class was thin and the institutional pillars of capitalism were weak. There was a hegemonic view within the state of marrying democracy with socialism (Ganguly & Mukherji, 2011; Kaviraj, 1997).

India is home to a weak state in an eco-system powerfully shaped by social forces. The state can neither make a Dengist nor a Lee Kuan Yew type move to swiftly turn the page toward a new policy paradigm. Comprehending India's path requires reconciliation of two apparently contradictory views of the state. The first is the view that India is a weak state. Second, despite being a soft state, policy ideas and changes in worldviews within the state, matter. Third, and consistent with the second point, the Indian model is neither a coerced version of the Washington consensus nor is it a veneration of the Beijing consensus. Policy makers are acutely aware of global developmental paths. What paths they choose, and how gradually such paths get entrenched, despite social forces, lies at the heart of India's developmental journey. This article discusses the nature of India's gradual model governing growth and welfare.

1 | INDIA'S GLOBALIZATION AND DEREGULATION

Why did India gradually embrace globalization and deregulation? The class-based literature on India's political economy provides a good explanation for India's long tryst with import substituting within a fairly closed economy. Pranab Bardhan, for example, argued persuasively that the dominant and proprietary classes of India benefited from and defended the closed-economy model of import substitution. Industrialists benefited from a large and closed home market, professionals regulated the economy for their benefit, and farmers demanded subsidies within a closed market. The voting power of farmers successfully earned them considerable clout (Bardhan, 1998). A weak state found it difficult to tame these powerful social forces.

Ashutosh Varshney, following Pranab Bardhan, demonstrated that India's mass politics continues to be a thorn in the process of economic reforms. Large voting constituencies like farmers, especially when they are well organized, can obstruct economic reforms. Farmers in India do not have to pay electricity bills in many states because they constitute a large voting block (Mukherji, 2014a, pp. 147–180; Varshney, 2010, pp. 146–169). Economic reforms have powerful opponents in India and class- or interest-group-based explanations enjoy significant explanatory power.

Powerful social forces, however, cannot totally undermine hegemonic policy ideas within the state. I have argued that India experienced an ideational *tipping point* within the state in 1991 (Mukherji, 2014a). An institutional tipping point is a moment of radical policy change driven largely by a gradual and home-grown transformation in policy ideas. The tipping point refers to a threshold of largely endogenously motivated change that produces an abrupt result after the threshold has been reached. To elucidate with one example, we know that earthquakes are likely in the Himalayan region, even though we may not be able to precisely predict one. Tectonic plates move slowly, a process that occurs quite surreptitiously within the earth's surface. When a certain amount of pressure has accumulated, we experience a sudden earthquake. The reasons for the earthquake, however abrupt and disruptive, lie in endogenous movements within the earth's crust.

India experienced an ideational tipping point within the state at the time of a balance-of-payments crisis in 1991. India's policy community around 1991 wanted to embrace globalization and deregulation. Technocrats had a good understanding of what needed to be done and were being thwarted in their attempts by powerful social forces. They were able to make excellent use of external pressure to implement largely their own vision of globalization in 1991.

This was the result largely of a tipping point of policy ideas within the Indian state around 1991 (Mukherji, 2014a, pp. 16–37, 63–107). Policy ideas counter to import substitution and exuding a preference for engaging globalization and private investment acquired salience during the 1980s. 1991 was the tipping point. The technocratic view favoring globalization and deregulation was substantially entrenched by then. A state convinced about the merits of engaging globalization leveraged a balance-of-payments crisis to deal with powerful social forces ranged against it.

That India implemented its own model is clear from policy decisions implemented around 1991 and 1992. The reform program with the International Monetary Fund (IMF) and World Bank, which is now renowned for its success, was implemented in a manner that respected India's view. The idea of homegrown conditionality within the IMF became widespread after the success of the Indian program. One of the architects, Montek Singh Ahluwalia, was designated as the first Director of the IMF's Independent Evaluation Office (Mukherji, 2014a, pp. 63–107).

This was not a coercive adjustment at the time of a balance-of-payments crisis. Let me explain why external pressure does not work in India by comparing two economic crises. First, when President Lyndon Johnson and the World Bank forced India to devalue the rupee and increase the weight of the private sector in India's industrialization, India adamantly took the opposite route. The country devalued the rupee closer to the market rate temporarily in June 1966, bowing to external pressure. This was considered a trade-friendly gesture. The balance-of-payments crisis at that time could have produced a famine in India, given the country's dependence on subsidized American grains, during consecutive years of poor rainfalls.

India protested against what it considered U.S. coercion in 1966. Economic policy from 1967 to 1974 witnessed the country's most serious experiment with state-controlled import substitution. Sectors such as coal, steel, and wheat production were nationalized. There was heightened trade protection. Multinational companies (MNCs) were discouraged from participating in the Indian economy after the

Foreign Exchange Regulation Act (1973). Consequently, the Act of 1973 inspired the exit of companies like Coca-Cola and IBM in the 1970s (Mukherji, 2014a, pp. 38–62).

The endogenous roots of economic policy change favoring globalization and deregulation can be traced to the mid-1970s, after the policies described above did not deliver expected results. It was gradual changes that brought India to the threshold of a tipping point around 1991. Reports of the Government of India became critical of the past. It was reported that the economy was stifled with excessive of controls. Trade was to be viewed as an engine of growth. The public sector needed to be freed from political control. Foreign investment was needed for access to technology and capital.

Shifting policy ideas engendered gradual but significant changes in policy during the 1980s. The currency began depreciating surreptitiously. Indian companies now enjoyed a freer domestic investment environment. This was especially true in the information technology and pharmaceuticals—two sectors that became globally competitive. Telecommunications equipment production was opened up for private production (Mukherji, 2014a, pp. 66–74).

These policy changes, however, did not change the basic nature of India's policy paradigm during the 1980s. The ratio of India's trade to gross domestic product was less than 20% in 1991, when China's exceeded 50%. The gradual policy changes of the 1980s reflected the momentum gained by the alternative policy paradigm favoring globalization and deregulation.

The tipping point came at the time of the second serious balance-of-payments crisis in 1991, when the state in India made virtue of necessity to transform India's policy paradigm (Blyth, 2002; Hall, 1993, pp. 275–296). The policy response was exactly the opposite of what India had betted for in 1966. India exploited dependence on the IMF to initiate its tryst with globalization and deregulation in 1991.

The Industrial Policy Resolution and the budget of July 1991 constituted a watershed in India's economic history. The rupee was devalued substantially. Industrial licensing—or the power of the central government to dictate where, how much, and what should be produced—was abolished. Tariffs were reduced. And the foreign investment limit was raised to 51% for foreign companies in most sectors. India's stock markets were reformed. The famous saga of India's successful telecom deregulation was initiated (Mukherji, 2014a, pp. 66–74; Shin, 2014, pp. 66–71).

India's reform program was largely homegrown. The country did not reform labor laws. Subsidies on power and fertilizers, inputs that are used intensively by farmers, were respected. India's fiscal deficits grew in the mid-1990s. The Fiscal Responsibility and Budget Management Act (2003) was a legislative initiative devoid of external compulsion (Mukherji, 2014a, pp. 86–89).

Clearly, Indian policy makers were aware of the Asian growth story and the collapse of the Soviet Union. These events, especially the rise of China, made a powerful impact on ideational changes that occurred within the Indian policy community. What was important, however, was that the consensus in Delhi did not mimic Washington. An influential technocrat favoring globalization and deregulation in India, Montek Singh Ahluwalia, has praised the Indian model of gradualism for engendering stable institutional change (Ahluwalia, 2010, pp. 87–116).

What was true at the level of the central government was also true in the states as well. Sub-national states such as Tamil Nadu, Gujarat, Andhra Pradesh, and Maharashtra were convinced reformers also attracted investments and grew rapidly. Economic reforms that produced rapid economic growth accompanied heightened interstate inequalities (Rudolph & Rudolph, 2001; Sinha, 2005).

2 | POLITICAL ECONOMY OF WELFARE

India's growth story is substantially more spectacular than its saga of citizen well-being. It is a paradox that a vibrant procedural democracy where incumbent parties routinely lose elections and coalition governments are invariably formed, where poverty-stricken citizens participate aggressively in voting, the citizen has been neglected. This has posed a puzzle for political scientists. India is 130th on the Human Development Index (2016). The same figures are 73 and 90 for Sri Lanka and China, respectively. India's record is only slightly superior to neighboring countries such as Bangladesh (142), Nepal (145), and Pakistan (147).

India possesses great diversity regarding welfare provision. A province such as Kerala, for example, could look like Ukraine, whereas Bihar resembled sub-Saharan Africa. Averages in India mean very little.

One answer to this puzzle of democracy devoid of welfare is the idea of clientelism. Politicians often perform minimal tasks to win votes rather than provide public goods (Kitschelt & Wilkinson, 2007). Two examples will clarify this point. The political party supported by the socially most oppressed class in the poor and populated province of Uttar Pradesh is the Majority Community Party (Bahujan Samaj Party or BSP). The BSP, according to one view, wins elections largely on the basis of ethnic appeals to a particular caste within the province. Its competitor, the Socialist Party (Samajwadi Party or SP) also plays the same game with other backward caste voters. The result is that parties make only ethnically based, limited, and short-term appeals to garner votes rather than providing public goods that bring longer-term benefits for the poor (Chandra, 2004). This is quite typical of welfare politics in other states as well. Only the beneficiaries of clientelism change.

Another view holds that India has evolved into a "political" rather than a civil society. In "political society," politicians permit illegalities that help the poor, because these are required for garnering votes. For example, politicians and bureaucrats would turn a blind eye to illegal slum dwellings because slum dwellers constituted a large number of voters. Such pro-poor illegalities, however, did not get converted into the rights of the poor to a decent life (Chatterjee, 2011).

A benign view of elite leadership in rural and urban India was deployed to explain India's political stability. Village leaders ("gaon ka netas") have a significant role in legitimizing the state at the local level. Developmental interventions made by local elites in the states of Odisha and Gujarat checked modernization's propensity to spur a disgruntled citizenry toward violent protest (Mitra, 1992). Similarly, a new generation of rural leaders ("naya netas") belonging to the lower caste groups and possessing strategic information about development projects, helped the poverty-stricken citizenry deal with subsistence issues in rural Rajasthan and Madhya Pradesh. What helped the leaders perform the developmental function was their social capital—connection and information about the government's public works (Krishna, 2007, pp. 141–158).

A promising party–society linkage in the quest for welfare is the idea of private welfare. In poor and tribally populated Chhattisgarh, private welfare organizations such as Save India (Sewa Bharati) and Tribal Welfare Mission (Vanvasi Kalyan Ashram) have played a role in alleviating destitution by providing health and education services. These are technically nonparty organizations, but they work very closely with the Hindu nationalist Bharatiya Janata Party (BJP). While they cannot openly lobby for BJP votes, their subtle gestures have helped the BJP win elections in the state. This strategy, however, did not work in states where class-based or lower-caste-based parties hold sway (Thachil, 2014).

Political parties in India can also turn developmental under certain conditions. First, left parties have been praised when coherent ideology and a poor and lower-middle-class social base generated redistributive politics. When the Communist party of India (Marxist) came to power in the state of West Bengal in the late 1970s, a substantial amount of land was transferred to the poor (Kohli, 1987). Second, urban areas that have dense party networks seemed to enjoy superior governance. Dense party networks could be a function of how seriously a party predicts its winning potential in that area (Auerbach, 2016, pp. 111–148.).

These instrumental explanations, however, cannot explain the rise of welfare expenditures between 2004 and 2014, when the Congress Party was in power. India's poverty rate also fell during this period. Nor can they explain the substantial macro-level successes in India's welfare provision. Himanshu Jha and I have argued that ideas within the state favoring the poor were important for legislations such as the right to privileged government information for dealing with corruption, the right to work, and the right to become literate. The state in Andhra Pradesh, for example, played a stellar role in creating the institutional architecture for the most successful implementation of the rural employment guarantee program. How the Indian state, especially its bureaucrats, technocrats, and the judiciary, thought was significant for initiating and implementing these legislations (Herring, 1983; Jha, 2016; Mukherji, 2014b, pp. 101–156; Mukherji, 2016, pp. 87–116; Mukherji & Jha, 2015). Policy paradigms in India, although influenced by global events, depended largely on how Indian policy makers view Indian problems, in a uniquely Indian way.

3 | IN SUM

If one wishes to understand why the glass of India's development is half empty, one can easily point a finger at the power of disruptive social forces that captured the state. India is not a developmental state (Herring, 1983, pp. 306–334; Mukherji, 2016, pp. 87–116). Social forces such as industrialists and farmers thwarted economic reforms favoring globalization and deregulation. Powerful elite interest and the ethnic capture of populist developmental politics have undermined the politics of welfare in India.

If, conversely, one wishes to understand why the glass is half full rather than half empty, one needs to interrogate the state. How the Indian state viewed globalization and deregulation was essential for understanding India's closed-economy paradigm, as well as its tryst with globalization. The power of social forces renders gradualism a dominant characteristic of change. Often, one needs to invoke a tipping point when substantial ideational shifts, largely for homegrown reasons, engender paradigm shifts at the time of a crisis. The saga of welfare, like the story of industrialization, is impacted by both the ideas that reign over the bureaucratic-executive elite and the relationships between the bureaucracy and the political executive.

The Indian state and its capacity to deliver deserves serious attention. What values do bureaucrats and technocrats hold dear? Do they opine that these values are being realized within the current policy frame? What kinds of relationships between the bureaucracy and the political executive create the capacity for the Indian state to deliver on growth and welfare? These are research questions that deserve further attention alongside the robust agenda on clientelism, party networks, and local elites.

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