

regulatory commissions almost uniformly include an administrative background, and this has been taken full advantage of, given the numbers of retired and serving civil servants in these commissions. Moreover, there is some evidence that a lack of suitable aggressiveness in their approach might prolong their existence more than is warranted by advances in competition.

The Securities and Exchange Board of India has been a notable success, partially due to its supervision of a sector where the government recognized the correct structure and devised, more or less, the right policies to foster competition and efficiency. Securities markets in India have been transformed beyond recognition. However, much more could have been achieved by more stringent punitive action. In its third year of existence, the Central Electricity Regulatory Commission has still not been able to make substantive progress on the establishment of a competitive bulk electricity supply market. The continued existence of the Tariff Authority for Major Ports is the least justifiable, given the current state of inter- and intra-port competition.

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11

A Rising Tide of Demands *India's Public Institutions and the Democratic Revolution*

SANJAY G. REDDY

I. INTRODUCTION

This is a volume on India's public institutions. However, public institutions take shape in the context of social relations and political economy. States are embedded in societies. This chapter argues that India's public institutions function in the context of a shifting pattern of social demands caused by its experience of a 'long democratic revolution'. A factual and theoretical account of changes in India's political economy is needed to illuminate this shift and its implications.

The problem will be approached here by way of a 'macro-history' of India's post-Independence political economy. This 'macro-history' will first offer an account of the glacial but fundamental shift in India's political regime, originating in widespread changes in social relations, which is called here India's 'long democratic revolution'. Second, it will explore the implications of this 'democratic revolution' for the nature and scale of the economic and social demands on the Indian state, and on its capacity to meet these demands. Third, it will examine the future of India's public institutions in light of this transformation.

II. A LONG DEMOCRATIC REVOLUTION?

From Mediated to Direct Appeal

India at its Independence established an electoral democracy in conditions of relative social 'backwardness', accentuating the extent of its apparent 'democratic exceptionalism'. However, India's democratic exceptionalism was in fact accounted for in part precisely by its backwardness, which led to a form of electoral politics that limited challenges from below. By most accounts, low levels of urbanization combined with the continued salience of dense ascriptive ties, interlocking social obligations, and widespread patron-client relations in rural areas, to define a political culture in which electoral power derived pre-eminently from the ability of local notables to mobilize votes on the basis of such ties.¹ The presence of this regime, which we will refer to as *mediated mobilization* was exemplified by a variety of features of Indian electoral politics in the first two decades after Independence. One such feature was the high proportion of rural landowners and members of dominant castes active in formal politics.² Another such feature was the dominance of the Congress party and the high prevalence of intra-party factionalism within it.³ This reflected the relative homogeneity of interests among the political elite, embodied in a cooperative consensus within the Congress party over key elements of development strategy, combined with an element of conflict over rights to participate in the governing coalition.

By all accounts, the regime of mediated mobilization began to unravel beginning in the mid-1960s. In particular, a mounting although still nascent rural social transformation caused the undermining of the hold of the rural dominant castes over the electoral process, and created the social basis for challenges to Congress dominance.⁴ This unravelling gained force through the 1960s,

¹ For example, 'Congress under Nehru relied on the personalized and caste-based networks of local bosses to deliver the support of the lower social orders in the rural areas' [Jalal (1995), p. 41].

² For evidence in this regard see for example Frankel and Rao (1990).

³ See for instance Brass (1997), Manor (1997), Morris-Jones (1978), and Weiner (1967).

⁴ Thus, for example, Kothari (1995) writes '...1962 revealed that new social formations had emerged as a result of shifts and mobility in the caste basis of politics. Both the rise of the Swatantra party—ideologically right wing but

leading to the loss of power in six states by the Congress in 1967. That this was more than simply a shift in the coalitional basis of existing patron-client politics is testified to by the ideological orientation of some of the new alternatives to the Congress (in particular the United Front government in West Bengal and the DMK government in Tamil Nadu, as well as arguably Charan Singh's Bharatiya Kranti Dal). These ascendant alternatives to the Congress provided a more direct appeal to new classes of voters who exercised a higher level of autonomous political agency than in the past.

Other evidence of the social foundations of the challenge to Congress dominance is offered by the mounting rates of electoral participation throughout India—most markedly in the states in which non-Congress governments came to power (see Table 11.1).⁵ It is telling that the first state to elect a non-Congress government, Kerala, had by far the highest rate of electoral participation in the first four general elections (and fully twenty-five per cent higher than the all-India level in the first). Other states that mounted challenges to Congress governance in 1967 (in particular West Bengal and Tamil Nadu) also had sharply rising electoral participation rates in the preceding years (see Table 11.1). These facts lend credence to the view that greater autonomous political decision-making led voters increasingly to challenge existing dominant coalitions.

Underlying factors in the demise of the regime of mediated mobilization were the economic empowerment of a class of middle peasants in certain rural areas as a result of the Green Revolution, and arguably, increasing urbanization.⁶ Congress support fell precipitously in urban areas between the general elections of 1952 and

socially drawing on rural awakening, particularly of lower-middle caste peasant groups that had been excluded by the dominant castes—and the considerably increased sway of the socialists, who had lately acquired a rural base among the Backward Classes, posed a new challenge to Congress hegemony.'

⁵ On the role of the breakdown of the influence of rural notables and of mounting electoral participation in making possible the victory of non-Congress governments in West Bengal and Tamil Nadu respectively see Kohli (1997) and Washbrook (1989).

⁶ On the role of the former in the rise of Charan Singh's Bharatiya Kranti Dal see 'Party Politics and Electoral Behavior: From Independence to the 1980s' in Weiner (1989).

TABLE 11.1
Rising electoral participation

Year	1952	1957	1962	1967	1971	1977	1980	1984	1989	1991	1996	1998
All India	45.7	47.7	55.4	61.3	55.3	60.5	57.0	64.1	62.0	56.7	57.9	61.9
Andhra Pradesh	44.7	43.9	64.7	68.7	59.1	62.5	56.9	69.0	70.4	61.4		
Arunachal Pradesh	47.7	46.6	52.8	59.3	50.7	56.3	68.6	75.5	59.2	51.3		
Assam	40.5	42.9	47.0	51.5	49.0	60.8	51.9	58.8	60.2	60.4	78.6	62.1
Bihar											59.5	64.8
Goa				68.4	55.9	62.8	69.5	71.8	58.2	42.4		
Gujarat			58.0	63.8	55.5	59.2	55.4	57.9	54.6	44.0	36.5	60.7
Haryana				72.6	64.4	73.3	64.8	66.8	64.4	65.8	70.8	69.2
Himachal Pradesh	25.3	37.6	35.6	51.2	41.2	59.2	58.7	61.5	63.9	57.4	57.6	66.5
Jammu and Kashmir				55.2	58.1	57.9	58.7	61.5	63.9	57.4	57.6	66.5
Karnataka	51.9	52.8	59.3	63.0	57.4	63.2	57.7	65.7	67.5	54.8	60.5	65.3
Kerala	71.0	66.6	70.6	75.6	64.5	79.2	62.2	77.1	79.3	73.3	71.2	70.7
Madhya Pradesh	45.0	38.0	44.8	53.5	48.0	54.9	51.9	57.5	55.2	44.4	54.5	62.8
Maharashtra	52.4	55.7	60.4	64.8	59.9	60.3	56.8	61.7	59.9	48.8	53.7	58.4
Manipur	51.0	52.7	65.3	67.2	48.9	60.1	81.7	85.7	71.8	69.7		
Meghalaya					49.9	49.9	51.2	54.5	51.9	53.6		

TABLE 11.1 *contd.*

TABLE 11.1 *contd.*

Year	1952	1957	1962	1967	1971	1977	1980	1984	1989	1991	1996	1998
Mizoram						49.9	56.1		58.3	58.6		
Nagaland					53.8	52.8	63.9	66.5	74.7	77.1		
Orissa	35.4	36.1	23.6	43.7	43.2	44.3	46.3	56.3	59.3	53.8	59.2	58.0
Punjab	55.3	55.0	65.4	71.7	59.9	70.1	62.7	67.6	62.7	24.0	62.3	61.6
Rajasthan	38.4	40.6	52.4	58.3	54.0	56.9	54.7	57.0	56.5	47.2	43.3	60.2
Sikkim							44.7	57.6	72.0	71.6		
Tamil Nadu	56.4	49.1	68.8	76.6	71.8	67.1	66.8	73.0	66.9	63.9	67.3	58.6
Tripura	47.7	64.7	68.0	74.8	60.8	70.1	80.0	77.3	83.9	67.3		
Uttar Pradesh	38.4	47.8	51.0	54.5	46.0	56.4	50.0	55.8	51.3	49.2	46.5	55.7
West Bengal	40.5	48.6	55.8	66.0	61.9	60.2	70.7	78.6	79.7	76.7	82.7	79.3

Source: Butler, Lahiri and Roy (1995), Rao and Balakrishnan (1999).

1967 although the all-India urbanization rate rose only marginally from 17.1 per cent in 1951 to 19.9 per cent in 1971.⁷ Diminishing support for the Congress led to a crisis within the party ranks, embodied in the rise of a 'defectors market' among legislators after 1967 and ultimately the dramatic party split of 1969.

The epochal significance of the Congress party split of 1969 and the pursuant general election of 1971 is that it marks the end of the period of the *centrality* of mediated mobilization as a political strategy. Although mediated mobilization continued to be salient in subsequent Indian politics, these developments mark the gradual but determined emergence of a new and ascendant alternative logic of politics. In particular, Indira Gandhi chose to pursue centrally for the first time in India's post-Independence history a strategy of *direct appeal* to voters, unmediated by traditional patron-client relations. Whereas the 'Syndicate' of powerful regional party bosses was losing its ability to deliver votes to the Congress, Indira Gandhi attempted to use the same factors that were undermining its power to her own advantage. In particular, she de-linked the parliamentary from state assembly elections and chose to seek an electoral majority on the strength of her nationally charismatic political identity and a popular political slogan: 'garibi hatao' or 'abolish poverty'. Indira Gandhi's strategy, viewed as risky due to the Congress party's historically essential party machine being primarily in the hands of the Syndicate members' Congress (O), proved an astute reading of India's emerging new social conditions—a reading that rewarded her with a decisive victory.⁸

Indira Gandhi's strategy of mass politics was a pioneering instance on a national scale of the politics of direct appeal, but took place in a context in which mediated mobilization continued still

⁷ The Congress share of the all-India urban vote fell from 45.6 to 38.2 per cent between 1952 and 1967 whereas it only fell from 43.2 to 41.6 per cent in rural areas (Weiner 1989).

⁸ This first national effort at 'direct appeal' led to a marked rise in the Congress party's share of the vote between 1967 and 1971 from 38.2 per cent to 48.7 per cent in urban areas and from 41.6 per cent to 46.2 per cent in rural areas (Weiner 1989). The urban-rural differential suggests the comparative efficacy of the political strategy of direct appeal in urban conditions as compared to rural ones, in which the slowly changing character of rural society gave a substantial continuing role to mediated mobilization, even as it continued a slow and steady descent.

to be greatly influential. A central hypothesis of this chapter is that the last thirty years of Indian political life have been characterized by the gradual and now near-complete demise of mediated mobilization and its replacement by the strategy of direct appeal in all sections of the Indian polity.⁹

Toward 'Massified Mobilization'

Electoral conditions since 1971 have demonstrated the heightened significance of the politics of direct appeal and the demise of mediated mobilization making use of stable social structures. This is evidenced both in the changed qualitative content of politics (as discussed further subsequently) and in its increased quantitative volatility. One measure of the latter is that the level of 'swing' in Indian elections (defined as the 'increase or decrease in the Congress percentage of the vote between one election and the next') has been steadily increasing. Whereas 'the average swing till 1971 was 3.2 per cent, (in the interval from 1971 to 1995) this has more than doubled to 6.9 per cent' (Butler, Lahiri, and Roy 1995).

The progressive breakdown of traditional patron-client relations and their replacement by new social relations has continued to take place, if at a differential rate throughout the country [For the case of transformed agrarian relations in south Gujarat, see Breman (1985, 1993, 1996). For evidence on the decisively changed character of rural labour contracts in Uttar Pradesh, see Lanjouw and Stern (1991)]. Alongside this process of changing social relations through rural transformation has been that of changing social relations through increasing urbanization (rising from 20 per cent in 1971 to 23 per cent in 1980 and 28 per cent in 1999).

The rising average level of electoral participation rates since 1971 is a testament to the breakdown of mediated mobilization and the rise of direct appeal in Indian politics, as individual voters have come to believe that their votes have significance. Electoral participation rates among women, rural voters, uneducated workers, and lower castes in particular have risen sharply. In a departure from the experience of other democracies, rural voters are now more likely to vote than urban voters and lower caste voters are more

⁹ Direct appeal refers here to the effort to gain the allegiance of voters on the basis of both their interests *and* their identities.

likely to vote than upper caste ones.¹⁰ This unusual pattern, and sharp rise in rates of voting among otherwise disprivileged groups suggests an increasing sense among these groups that voting is a politically relevant act, that is suggestive of a shift from the politics of mediated mobilization to the politics of direct appeal.

The glacial but all important shift from the politics of mediated mobilization to that of direct appeal only partially describes the historic transition in the character of the Indian polity. In order to understand more fully the transition it is useful to introduce the concept of *massified mobilization*. Massified mobilization may be defined as the specific form of direct appeal to individuals that proclaims collectively shared interests or identity.

Since 1971, India's political system has increasingly seen the emergence of the politics of massified mobilization. In this form of mass politics, contestatory direct appeals are made to voters on the basis of imagined identities and interests, projected on a large scale. As with the demise of mediated mobilization and the rise of the politics of direct appeal in general, the pace of development of this form of politics has been gradual and uneven, but its rise is highly significant. In particular, its rise marks the supplementation (though not supplantation) of traditional interest-group politics with more broad-based and diffuse demands that emerge from mass politics.

A number of disparate facts concerning India's post-1971 political regime seem to cohere with this observation.

First, the spectacular rise of parties that make reference to collective identities—language, region, religion, and caste—is suggestive of the rise of the contestatory politics of massified mobilization in India. Political parties with an element of identitarian self-definition increasingly contest for the space of the mass polity.

The political trajectories of Tamil Nadu and Andhra Pradesh in the 1980s offer particularly stark examples of this phenomenon, which has been taking place throughout the country. Under M. G. Ramachandran and N. T. Rama Rao respectively, state power was captured symbolically for a linguistic group called 'Self-Respect'. Charismatic politics and cult of personality were amalgamated with a populist redistributive discourse (emblemized by such state programmes as 'mid-day meals' and 'two rupee rice') bespeaking the

¹⁰ For substantiation of each of these claims, see Yadav (1999).

charismatic political figure's ostensible identification with the poor.¹¹ This combination proved a powerful formula for electoral success, in a manner and to an extent that would not have been conceivable in the era of mediated mobilization. In one way or another these figures still overshadow regional politics. In north India, the political regimes of Mayawati in Uttar Pradesh and of Laloo Prasad Yadav in Bihar have shared some of these elements—in particular the symbolic triumph of capturing state power for 'backward' classes—although both their regional and their redistributive dimensions have been comparatively muted.¹² The BJP also struggles to capture the 'symbolic centre' of state power for a shared identity on a national scale, partially so as to defend its comparatively upper caste constituency against strong redistributive claims, especially from lower caste groups, that may emerge from competing political identities.¹³ Although the BJP has aspirations of mobilizing voters nationally, it is fair to say that the currently prevalent arena of massified mobilization is the state. This is hardly surprising. For instance, Yadav (1999) notes that

The rise of state politics has been viewed with considerable suspicion...as the beginning of political fragmentation if not balkanization of India. Such a reading fails to note that this development is a function of an aggregative rather than disintegrative process at work in our polity. It is better interpreted as the first step on the Indian path towards the creation of a mass society through the mechanism of competitive politics. In a continental size polity like ours, it is precisely by articulating rather than suppressing the distinctiveness of states that a context for massification is prepared.

III. IMPLICATIONS

The Political Economy of Fiscal Deficits

Through the early 1980s India was fairly successful at maintaining internal and external fiscal discipline. Since the early 1980s, the

¹¹ See for example Dickey (1993), Pandian (1997), Pinto (1999), Washbrook (1989). Following the classic Weberian postulate, in both instances the charisma of these leaders has proved partially transferrable to their successors.

¹² On the central role of the symbolic objective in backward caste politics see for instance Chandra (2000).

¹³ For evidence of the BJP's comparatively upper caste support base see for example Jaffrelot (1998). On the extent to which this is changing see Yadav (1999).

fiscal deficits of the central and state governments together have shifted sharply upward (See Table 11.2), to a point where they are now among the highest in the world.

TABLE 11.2
Consolidated fiscal deficit of central and state governments
1960/61 to 1999/2000
(percentage of GDP at market prices)

1960/61 to 1964/65	1965/66 to 1969/70	1970/71 to 1974/75	1975/76 to 1979/80	1980/81 to 1984/85	1985/86 to 1989/90	1990/91 to 1994/95	1995/96 to 1999/2000
5.7	5.5	4.7	5.4	8.0	10.0	10.4	9.2

Source: Joshi and Little (1994), World Bank (1998), IMF (2001).

A more detailed view leads moreover to the observation that the rise in fiscal deficits is overwhelmingly due to a rise in consumption and interest expenditure. This may be observed in Table 11.3, which represents the changing proportion of the fiscal deficit of the Centre and the states made up by their 'revenue deficits', which are defined as the excess of non-capital expenditure over current receipts (tax and non-tax revenue from all sources including inter-governmental transfers). It may be observed from the table that whereas low revenue deficits or even revenue surpluses has been the norm, beginning in the early 1980s, central and then state revenue deficits have mounted sharply. Moreover, the rising share of the revenue deficit as a percentage of the fiscal deficit implies that capital expenditures have been falling rapidly as a share of expenditure over the period.¹⁴

It is not entirely easy to identify the budgetary origins of the rising revenue and fiscal deficits. For instance, it is quite clear that rising interest payments (both because of higher interest rates faced by government, and the effect of previously accumulated debts) have been a major component of the increased revenue deficits. The stock of debt of the state governments as a proportion of GDP has risen from 16.4 per cent in 1975-6 to 21.5 per cent in

¹⁴ Lahiri (2000) finds that for the states as a whole, 'Capital expenditure as a proportion of total revenue receipts have progressively declined from 19.6 per cent to 11.5 per cent between 1980-1 and 1996-7'.

TABLE 11.3
Revenue deficit and fiscal deficit

Year	Fiscal deficit as % GDP (states)	Fiscal deficit as % GDP (Centre)	Revenue deficit as % GDP (states)	Revenue deficit as % GDP (Centre)	Revenue deficit as % fiscal deficit (states)	Revenue deficit as % fiscal deficit (Centre)
1970-1	2.01	2.83	0.04	-0.36	1.99	-12.72
1971-2	2.17	3.51	-0.02	0.20	-0.92	5.70
1972-3	2.58	4.66	0.13	-0.03	5.04	-0.64
1973-4	2.23	0.24	0.18	-0.36	8.07	-0.36
1974-5	1.63	2.74	-0.52	-0.98	-31.90	-35.77
1975-6	1.34	3.06	-1.14	-1.06	-85.07	-34.64
1976-7	1.71	4.15	-1.22	-0.31	-71.35	-7.47
1977-8	2.04	3.61	-1.00	-0.42	-49.02	-11.63
1978-9	2.44	4.93	-1.03	-0.26	-42.21	-5.27
1979-80	2.41	5.26	-1.28	0.57	-53.11	10.84
1980-1	3.01	5.85	-0.62	1.18	-20.60	20.17
1981-2	2.53	5.11	-0.77	0.17	-30.43	3.33
1982-3	2.70	6.53	-0.47	0.66	-17.41	10.11
1983-4	2.95	6.11	-0.10	1.09	-3.39	17.84
1984-5	3.37	7.05	0.36	1.42	10.68	20.14
1985-6	2.79	8.38	-0.19	1.99	-6.81	23.75
1986-7	2.99	8.40	-0.01	2.48	-0.33	29.52
1987-8	3.09	7.61	0.29	2.57	9.39	33.77
1988-9	2.68	7.30	0.43	2.48	16.04	33.97
1989-90	3.03	7.31	0.72	2.44	23.76	33.38
1990-1	3.19	7.85	0.90	3.26	28.21	41.53
1991-2	2.82	5.56	0.87	2.49	30.85	44.78
1992-3	2.68	5.38	0.68	2.49	25.37	46.28
1993-4	2.28	7.01	0.40	3.81	17.54	54.35
1994-5	2.64	5.71	0.55	3.07	20.83	53.77
1995-6	2.71	5.10	0.74	2.52	27.31	49.41
1996-7	2.67	4.90	1.18	2.40	44.19	48.98
1997-8	2.86	4.83	1.10	3.06	38.46	63.35
1998-9	4.15	4.54	2.29	3.43	55.18	75.55

Source: Anand et al. (2001), as drawn from GOI documents.

Note: States' include UTs. Minus (-) sign denotes surplus.

1999–2000.¹⁵ Moreover, in this period, the average across states of interest payments as a share of revenue receipts rose from 9.4 per cent to 19.3 per cent.¹⁶ However, the underlying causes of debt accumulation (even in a simple accounting sense) are more cloudy. Rising expenditures under various headings appear responsible although a meaningful assessment is difficult to make without detailed expenditure data that is not readily available. It seems likely, for instance, that a rising public sector wage bill (associated with the implementation of the Fifth Central Pay Commission recommendations) has been a significant contributing factor in the 1990s.¹⁷ Similarly, large subsidies to power, water, and food consumption are likely to have been significant factors, although their respective role is difficult to isolate. Explicitly identified subsidies (which are only a small proportion of total subsidies) have increased significantly and consistently from the early 1970s to the present.¹⁸ Table 11.4 shows the level of different explicit central government subsidies as a share of GDP and in relation to the revenue deficit over this period. Between 1971–2 and 1998–9 explicit central government subsidies rose from a level of 0.29 per cent of GDP to 1.41 per cent of GDP (reaching a peak of 2.15 per cent of GDP in 1989–90). From a negligible impact on the

¹⁵ Anand, Bagchi, and Sen (2001). The authors note that ‘The debt figures on which these ratios are based do not include contingent liabilities, like unfounded pensions or the loans of the public sector enterprises guaranteed by state governments’.

¹⁶ Author’s calculations based on Anand, Bagchi, and Sen (2001).

¹⁷ Lahiri (2000) reports that ‘The government wage bill in the states as a percentage of the respective state GDPs has gone up by 2 to 4 percentage points during the decade’ and that ‘For example, salaries as a percentage of GDP went up from 7.5 in 1990–1 to 8.9 in 1990–8 in UP, from 5.5 in 1990–1 to 6.7 in 1997–8 and further to 8.4 in 1998–9 in Rajasthan, and from 8.4 in 1993–4 to over 11 in Orissa in 1998–9. The Centre’s salary bill went up by 78 per cent from Rs 14,895 crore in 1995–6 to Rs 26,484 crore in 1998–9.’ Moreover ‘In some states overstaffing led to a ballooning of the wage bill even before the recent pay revision. In Assam, for example, wages and salaries for state government employees accounted for over 10 per cent of the GSDP in 1994–5, and the wage bill for the government rose by 13 per cent per year between 1986–7 and 1994–5.’

¹⁸ Srivastava and Bhujanga Rao (2001) cite various estimates suggesting that hidden subsidies are double explicit central government subsidies, and on the order of twenty times explicit state government subsidies!

TABLE 11.4
Explicit central government subsidies and revenue

Year	(Rs Crore)								Total as % GDP	Total as % rev. def.
	1	2	3	4	5	6	7	8		
1971–2	47		54		5		34	140	0.285	142.5
1972–3	117		62		12		14	205	0.378	-126.0
1973–4	251		66		20		24	361	0.548	-152.2
1974–5	295		80		30		14	419	0.538	-54.9
1975–6	250		149		47		24	470	0.562	-53.0
1976–7	506	60	241		66		74	947	1.051	-339.0
1977–8	480	266	324		88		129	1287	1.261	-300.2
1978–9	570	342	375		59		129	1475	1.333	-512.7
1979–80	600	603	361	56	92		109	1821	1.500	263.2
1980–1	650	505	399	69	253		152	2028	1.405	119.1
1981–2	700	381	477	78	102		203	1941	1.145	673.5
1982–3	711	603	477	97	217		157	2262	1.198	181.5
1983–4	835	1042	463	93	118		198	2749	1.251	114.8
1984–5	1101	1928	518	100	135		256	4038	1.636	115.2
1985–6	1650	1924	603	128	271		220	4796	1.711	86.0
1986–7	2000	1898	785	144	229		395	5451	1.738	70.1
1987–8	2000	2164	962	174	393		287	5980	1.683	65.5
1988–9	2200	3201	1386	207	406		332	7732	1.826	73.6
1989–90	2476	4542	2014	233	881		328	10,474	2.147	88.0
1990–1	2450	4389	2742	283	379		1915	12,158	2.138	65.6
1991–2	2850	5185	1758	312	316	1425	407	12,253	1.876	75.3
1992–3	2800	5796	818	353	113	1500	615	11,995	1.605	64.5
1993–4	5537	4562	665	412	113	500	893	12,682	1.476	38.7
1994–5	5100	5769	658	420	76	341	568	12,932	1.281	41.7
1995–6	5377	6735	318	388	34		520	13,372	1.131	44.9
1996–7	6066	7578	397	468	1222		633	16,364	1.202	50.1
1997–8	7900	9918	429	536	78		644	19,505	1.287	42.1
1998–9	9100	11,596	573	602	1452		1463	24,786	1.410	41.1

Source: Srivastava and Bhujanga Rao (2001), Anand, Bagchi, and Sen (2001) and author’s calculations.

Note: 1=Food, 2=Fertilizer, 3=Exports, 4=Railways, 5=Interest, 6=Debt Relief for Farmers, 7=Others, 8=Total. Negative (-) number indicates that revenue account is in surplus.

central government revenue deficit account (then in surplus) in 1971, explicit central government subsidies rose to account for 88.1 per cent of the substantial revenue deficit in 1989-90, falling to 41.1 per cent of the revenue deficit in 1989-90. The latter figure reflects the impact of rising interest expenditures from a sustained high debt stock as well as of reductions in the level of subsidies. It must be emphasized that implicit subsidies, on electricity, petroleum products, water, and many other factors are likely to be sizeable. When implicit subsidies are taken into account, subsidies are likely to account for the entire revenue deficit of government.¹⁹ Insofar as implicit subsidies have moved conjointly with explicit subsidies, the trend of explicit subsidies is likely to give a strong indication of the trend of subsidies as a whole.

What accounts for this slow but definitive drift? The argument of this chapter is that the shifting nature of politics, and in particular its increasingly popular character, has led to a compounding of the common pool resources problem that potentially besets any public fisc. In an era of increasingly massified politics, it has become progressively more difficult to deny a share of public resources to newly politically active constituencies. At the same time, the political constituencies with traditional influence over the Indian state continue to have substantial influence, which makes it equally difficult to shunt them aside. This quantitative rise in demands occasioned by the structural transformation of the polity is accompanied by a qualitative factor: the contestatory nature of mass politics ensures the accentuation of the common pool problem underlying the drainage of the public fisc. Tax revenues also prove difficult to raise. This is partially because there are a limited number of tax handles available to the state in a developing economy with a small organized sector and a large unorganized sector that is relatively impervious to efforts at taxation. It is also because political demands manifest themselves in part as resistance to taxation. As the base of political demands widens at a more rapid rate than does the revenue base, the net result is an increasing fiscal deficit.

In a similar vein, Lahiri (2000) writes, commenting on the states' deficits, 'Populist policies, such as the supply of free power to farmers and cheap power to households, inadequate water charges, supply of subsidized rice, and the inability of states to mobilize additional resources promised at the time of formulating the

¹⁹ See previous note.

five-year plans have contributed to the worsening of the fiscal position....'

IV. INDIA'S PUBLIC INSTITUTIONS AMIDST THE DEMOCRATIC REVOLUTION

The weakening fiscal position of the Indian central and state governments over a lengthy period is only the most obvious manifestation of the impact of the rising demands engendered by the democratic revolution. Other consequences include increasing local struggle to acquire a share of the limited resources that are available to the state to distribute. Much of corruption, in this light, is simply the underbelly of the fiscal imperative of rationing. Increasingly widespread gaps in the provision of certain services (for example, electricity) equally reflect the inescapability of rationing in the simultaneous presence of widespread political demands for free or subsidized resources and severe fiscal constraints. These demands derive from the increasingly broad (though still minoritarian) organized constituencies as well as increasingly from contestatory mass politics.

Fiscal and service gaps can both be eliminated through a series of readily identifiable measures, from increasing cost recovery through increasing the tax take.²⁰ Properly speaking, these gaps reflect therefore not only the rising tide of demands but also the weakness of the state at carrying out the available compensatory measures. In India's case this weakness derives from two sources. The first is a phenomenon complementary to the rising tide of demands itself. Strong political constituencies resist imposition of taxes and cost-recovery as they believe (correctly) that costs can ultimately be substantially externalized on to others. The primary beneficiaries of subsidies, especially medium-sized and large farmers, public employees, and certain sections of industry, are organized constituencies on a sufficient scale in an otherwise disorganized polity to block corrective fiscal measures, although they are minorities when considered as parts of the larger electorate.

The second source of the weakness of the Indian state at undertaking revenue generation and cost recovery derives from the central structural feature of the Indian economy. This is its fundamental

²⁰ The exact balance between these will depend, inter alia, on income distribution goals.

and pervasive dualism. A relatively small organized sector supplies the most feasible 'tax handles' and provides the overwhelming majority of tax revenues (in the form of customs duties, excise taxes, corporation taxes, and income taxes). However there is an upper bound on the extent of individual tax burden that can realistically be placed on these sources, for both political and economic reasons. In contrast, it is not possible to generate substantial tax revenues from the vast unorganized and agricultural sectors without raising the level of their income and progressively drawing them into the ambit of formal sector activity. Short of combating the dualistic structure of the economy itself, through effective efforts at raising the incomes and capacities of the relatively excluded, the state cannot overcome this limit to its fiscal capacity.

These observations have significant implications for India's public institutions. In particular, they lead to the conclusion that Indian central and state governments can expect to continue to face a rising tide of potentially unperformable demands, which can threaten fiscal solvency and state capacity. There is no readymade technical or administrative solution to this challenge. Efforts to raise tax revenues and state capacity to meet the challenge of increasing demands must come to terms with the fundamental fact that increasing numbers of people are politically empowered to demand some share of available resources, and will do so, even if at times through less materially focused and more charismatic forms of populist politics. A plausible way to fill the resource gap is therefore to make these demanders themselves contributors, drawing them into fuller participation in a widened and dynamic taxable economy. In this way, the state can hope to generate the resources with which to sustain its promises.

This proposed trajectory has significant implications for public institutions. It requires that they must turn themselves toward providing progressive access for the relatively excluded to the more remunerative forms of economic opportunity, drawing them into an expanding circle of production that can ultimately generate both private incomes and tax revenues for the state. The wager that small islands of remunerative formal sector activity will by themselves provide the resources with which to fulfil the rising tide of demands emanating from a larger public has until now proven unrealistic, and there is no immediate reason to think that it will cease to be so. India's public sector institutions must

therefore not only foster the development of such islands, but also become more truly *public*, fostering the productive capabilities of the broadest number. It may be hoped that in this way they can come to terms with the features of India's democracy that threaten to overwhelm them.

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