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The Political Economy in India: Interest Groups and Development (1947-1990)

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Abstract

The purpose of this study is to analyze the impact of interest groups on the Indian development effort since independence. The theoretical framework used is Mancur Olson's theory that coalitions organize to influence government policy and the market system to secure benefits for themselves, impacting productivity and ultimately the evolution of society itself.

The Indian case study is carried out by examining two important areas of planned economic growth: the state and agriculture. In each of these sectors a network of understanding has been established between the educated, social and economic elites to share the benefits of development among themselves. The poor who, with little social standing, depend almost exclusively on the existing power structure to represent their interests, have been left out of this arrangement.

There is evidence to show that interest group action in India has resulted in the consolidation of vested interests and a thriving black market in a stagnant economy. As Olson predicted, this is quite different from the evolution of a rapidly growing economy and egalitarian society that economic planners had envisaged.

The Political Economy in India: Interest Groups and Development (1947-1990)

Introduction

The following thesis is a case study of the political economy of independent India. Its purpose is two-fold. The first is to establish that elites of the society have used official legislation and regulation in a democratic system to further group interests. The second is to show how such interest group action has caused economic stagnation and encouraged a thriving black market, perpetuating existing social disparities and making the existence of the underprivileged even more precarious.

Chapter I lays down the theoretical framework of the thesis. Mancur Olson's study of coalition action in post-World War II western democracies is used to discuss why interest groups organize themselves to influence government policy and the market. And further, how this interaction between the government and interest groups changes the direction of social evolution, almost always in an manner unfavorable for growth and for the poor. This section also identifies the salient features of Olson's theory which are distinguishable in the political economy of India. Detailed discussion of these attributes will reveal the correspondence between theory and evidence. To facilitate this, the analysis of the Indian case is divided into two parts: the state and the agricultural sector. These two areas were selected because of their prominent roles in determining the direction and pace of economic growth. Under the prevailing socialist ideology, the state dictates every aspect of development and, in an agrarian economy, the agricultural sector provides sustenance to the vast majority of the population.

Chapter II deals with the state in India. It describes the political ideology and economic planning that envisaged a socialist direction to the evolution of society. To implement such a development strategy, the state was empowered with extensive legislative and administrative powers in the economy. This provided a strong incentive for the formation of a coalition within the state, politicians and bureaucrats willing to use official authority to manipulate regulations on behalf of the private sector. Industrialists and traders have been quick to capitalize on this situation and have organized an extensive and growing black market, preserving illegal incomes by transferring a portion to the state as 'rent' of post, official positions that allow administrators considerable discretion in enforcing the law. This understanding among the elites has left the poor out in the cold, prices are artificially inflated by shortage brokers and for those without much purchasing power, this means little or no entitlement in the market.

Chapter III reveals the growth of a second interest group in the agricultural sector. These are elites who have used their social standings to promote themselves in the political hierarchy. And, a strong political lobby has allowed them to capture substantial economic advantages as well. However, such benefits from the political process have been at the expense of the poor who have no incentive to organize themselves in a similar way. And, with no political leverage, they continue to rely almost exclusively on the elite-run power structure for representation of their interests.

Chapter V concludes by re-identifying the features of the Indian political economy that correspond with Olson's theory and that have caused society to evolve as he predicted. The elites in India have assimilated and used their positions to bargain for improvements in their own situations. As a result, rather than establishing an egalitarian society in a growing economy, state regulation that was specifically targeted for the underprivileged has actually contributed to the concentration of power and wealth under retarded growth.

Chapter I

The Impact of Interest Groups

In laying the theoretical framework of the following discussions, this chapter summarizes Mancur Olson's study of coalition groups.[1] Olson uses evidence from developed countries to illustrate how interest groups influence the direction of society, no matter where the process of evolution initially started. The following chapters will show that evidence from the Indian development effort supports Olson's theory and, as he predicted, although planned growth was based on a strongly socialist ideology, interest group intervention in the implementation of policies has actually perpetuated the inequalities of society.

Olson's theory begins with the suggestion that groups with access to selective incentives will be more likely to act together to obtain collective goods than those who do not. He argues that in no country are large groups without access to selective incentives generally organized: for example, there are no organizations for the poor or for those with relatively low incomes. By contrast, almost

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[1]Mancur Olson, The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities (New Haven: Yale University Press, 1982).

everywhere the social prestige of the learned professionals and their limited numbers has helped them to organize. Moreover, professional organizations are often able to determine who is qualified to practice the profession and thereby they can control that their selective incentive.

Coalitions use their power to influence government policy or the market place. These two influences, Olson predicts, affect not only efficiency, economic growth and the exclusion of entrants into society but, also, the relative importance of different institutions and activities.

Lobbying by coalitions increases the complexity of regulation and the scope of government by creating special provisions and exceptions. The more elaborate the regulation, the greater the need for specialists to deal with them, such as lawyers, accountants or other consultants. When these specialists become significant enough, there is even the possibility that specialists with a vested interest in complex regulations will collude or lobby against the simplification or elimination of the regulations. Also, someone has to administer the increasingly complex regulations that result from lobbying. This increases the scope of both bureaucracy and government. Olson labels this interaction as 'complex understandings' among the various agents.

Olson argues that the growth of coalitions with an incentive to try to capture a larger share of national income and, the increase in regulatory complexity and governmental action this encourages, alters the pattern of incentives and the direction of evolution in a society. Increases in the payoffs from lobbying and cartel activity, as compared with the payoffs from production, means more resources are devoted to politics and cartel activity and fewer devoted to production. The incentive to produce is diminished while the incentive to seek a larger share of what is produced increases. These changes in the pattern of incentives deflects the direction of society's evolution. Olson further suggests that in such an environment, the poor and unemployed with no incentives to enable them to organize will suffer the most. "Every society, whatever its institutions and governing ideology, gives the greatest rewards to the fittest-the fittest for <u>that</u> society...(B)ut no society rewards those who are least fit to thrive under its arrangements."[2]

In India, development was initiated by the formulation of an exhaustive economic plan that closely adhered to the professed socialist ideology of the government. There were two features of underlying importance in this plan. First, to ensure rapid economic growth, the state had to assume responsibility as the initiator and controller of all economic activity. Second, the benefits of state guided

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[2]Ibid., 74.

growth were to accrue increasingly to the less privileged of society. To realize a reduction in inequalities, economic policy was accompanied by extensive regulations and policy instruments to prevent the concentration of power and wealth. From this initial situation four attributes of Olson's theory may be identified: an explicitly desired direction to the evolution of society, complex official regulations, 'specialists' associated with such regulation and the selective incentives accessible to these specialists.

First, nationalist leaders attempted to pave the way toward an egalitarian, socialist society. This was the direction planned economic growth was to take. Second, the plan itself established a complexity of regulations in the economy at the very start of the development process. Third, to implement these regulations, a large and authoritative bureaucracy was appointed. Along with politicians, they were the 'specialists' equipped to deal with the elaborate red tape of a highly regulated economy. Finally, in addition to the power and prestige this gave politicians and bureaucrats, it also provided them with the opportunity to earn illegal incomes. This was the set of special incentives accessible to the elites.

Later chapters will show how the 'specialists' have used their positions to preserve and enhance their own interests. Clive Crook suggests that in Indian industry, it is often more important to know which strings to pull than any business skills.[3] The extent of regulations imposed on private industry has prompted business houses and trading establishments to use their financial power to escape legislation via special provisions and exceptions. This has been the foundation of the illegal incomes commanded by bureaucrats and politicians for their specialized skills in dealing with official restrictions. There is, therefore, a reluctance to change the status quo and the state continues to endorse complex industrial regulations. The elites have further guarded their selective incentives and limited entry into the profession by supporting a bias toward higher education in the education policy of a country where over 30% are illiterate.[4] In agriculture, where the majority of the votes come from in any election, elites have used their position to capture political prominence and strong bargaining power at all levels of government.[5] They have successfully lobbied to secure concessions and subsidies for the sector in the name of the rural poor. In reality, these have been pre-empted by the dominating classes to enhance their own economic well-being.

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[3]Clive Crook, "Body Politics," Economist, 4 May 1991, p. S8.

[4]Ibid., S15.

[5]Over 60% of the population is employed in agriculture or related activities in the rural sector. See Michael Todaro, Economic Development in the Third World (New York: Longman, 1985), 27.

In India, as in Olson's theory, the growth of groups with selective incentives, regulation complexities and government action have had an impact on the pattern of incentives and attitudes that have evolved in society. Evading or exploiting regulations, politics and the bureaucracy and asserting rights through this network has become far more important than recognizing one's obligations to society. As the rewards of corruption have risen, politicians and bureaucrats have been increasingly reluctant to revise state regulations and alter the established 'complex understandings'.

For India, this has meant, as Olson predicted, a complete diversion from the envisaged egalitarian society with a rapidly expanding economy. Over 40% of the population remains below the poverty line and per capita income has increased at an overall pace of only 1.6% for the decade 1970-81.[6] The poor, without the social standing or political clout to come together and assert their rights, have suffered the most while the educated elites have consolidated their positions; the rural rich have become richer; large business houses are stronger and there is a thriving black market, even in essential consumer products. In fact, the network of understanding among these elites has begun to undermine the legitimacy of state authority itself.

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[6]Ibid., 50.

In the sections below, this thesis will apply Olson's ideas to the Indian case and examine in detail the vulnerability of the economy to pressures from the political economy.

Chapter II

State Guided Development

In Asian Drama, Gunnar Myrdal argued that a plan for development is in essence a political plan; plan-making, therefore, is itself a part of the political process in a country.[7] This chapter highlights three such stages in Indian development planning. First, the ideology behind the Indian development plan is described. Second, the integration of political ideology into planning, the development strategy adopted and the policy instruments used to implement it are discussed. This process gave the state the right to reserve extensive autonomy in public affairs and the enormous power that it assigned itself made it possible for the state to be not only relatively self-determining but also self-interested. The third stage describes how in exercising this power, politicians and bureaucrats have used official authority to promote and safeguard their own interests, deflecting the evolution of society from the essential ideological principles behind economic planning.

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[7]Gunnar Myrdal, Asian Drama (New York: Pantheon, 1968), 1889.

The Ideology

Post-independence economic planning in India was an attempt to right the wrongs of colonial rule as soon as possible. Nationalist leaders believed that capitalism could not solve the problem of directing investment to desired sectors, nor did they believe that free market forces could alleviate the chronic problems of poverty and unemployment that faced the country.[8] Communism they saw as antithetical to India's newly won freedom. Inspired by the Soviet model of planned development and industrialization, Jawaharlal Nehru and other Congress party leaders sketched a 'middle path' for India, values and objectives that have been summed up in the phrase 'socialist pattern of society'.[9]

A 'socialist pattern of society' meant that the basic criterion for determining the allocation of resources must not be private profit but social gain. The pattern of development and the structure of socio-economic relations should be so planned that they result in not only

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[8]Jawaharlal Nehru and the other planners "thought of imperialism and capitalism as two faces of the Janus of our time and of nationalism and socialism as the two weapons of destruction" cited in Mike Shepperdson and Colin Simmons eds., The Indian National Congress and the Political Economy of India 1885-1985 (Hampshire, England: Gower Publishing Group, 1988), 272.

[9]For a fuller explanation see Government of India, Second Five Year Plan, (New Delhi: Planning Commission, 1956).

appreciable increases in national income and employment, but also greater equality in incomes and wealth. As the economy grew, the benefits of economic development were to accrue more and more to the relatively less privileged classes of society and there was to be a progressive reduction of the concentration of wealth and economic power.[10]

In pursuit of these goals, the state had to assume the 'commanding heights' of the economy; it had to take on heavy responsibilities as the principle agency speaking for and acting on behalf of the community as a whole. The public sector of the economy was to expand rapidly. It had not only to initiate development which the private sector was unwilling or unable to undertake; it had also to play the dominant role in shaping the entire pattern of investment in the economy, whether it made the investments directly or whether these were made by the private sector. The private sector had to play its part within the framework of the comprehensive plan accepted by the community. Private enterprise, private pricing and private management were considered mechanisms for the advancement of what were truly social ends and were thought to be justified only in terms of social results.

The development of a mixed economy with a strong public sector, particularly in the key areas of the economy, was

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[10]For a summary of the Second Plan see Government of India, Approach to the Second Plan (New Delhi: Planning Commission, 1956).

viewed as an instrument for achieving the broader objectives of growth and equity.[11] And, to realize these goals, the consequent neglect of consumer goods industries was seen as a necessary but temporary sacrifice. The argument was one of forced savings and self-reliance: "if you produced capital goods and steel, thus increasing the share of investment goods in GNP, that would automatically mean a higher savings rate since 'one cannot eat steel'."[12] This was regarded as a feasible way to achieve a high rate of economic growth leading to improvement in living standards and reduction of inequalities. It was, in fact, an accelerated effort to remove poverty at a pace faster than would be achieved solely through the normal growth process.[13]

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[11]The 'key areas' (also referred to as heavy, core, basic or priority industry) over which the state had almost complete monopoly included defence, railways, iron and steel, aircraft manufacture, ship-building, communications, banking and, mineral oils. These areas involved large and lumpy investments and long gestation periods. Often, as with infrastructure facilities, benefits are in the form of externalities which cannot be easily and directly associated with the investment. However, these industries are a necessary prerequisite for a program of industrialization. Due to the scale of capital involved and the uncertainty regarding profitability, the state was the only agency in a position to undertake such investment.

[12]Jagdish Bhawati and Padma Desai, India: Planning for Industrialization (London: Oxford University Press, 1970), 118.

[13]Sukhamoy Chakravarty, Development Planning: The Indian Experience (Oxford: Clarendon Press, 1981), ch. 1.

The achievement of self-reliance has been an important objective of economic planning in India.[14] The term itself is used in two senses. In one sense, self-reliance has meant that development must be financed as far as possible from domestic savings, avoiding excessive dependence upon external assistance, an inward looking strategy. Self-reliance has also meant a conscious effort to develop a broad domestic production base and indigenous technological capacity, both of which were felt to be essential requirements for building a strong industrialized economy, an import substitution strategy. And, all this was ultimately to lead to social and economic justice.

Planning, Policy and Policy Instruments

The Planning Commission was established in India on March 15, 1950. In the period since, it has formulated eight successive Five-Year Development Plans.[15] The planning process has been 'rolling' in that there has been no abrupt or drastic reversal of ideology or strategy.

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[14]For a more detailed discussion of the objectives of planning see Robert E.B. Lucas and Gustav F. Papanek, The Indian Economy: Recent Developments and Future Prospects (Boulder: Westview Press, 1988), ch. 16.

[15]There are two exceptions. In the wake of the serious food crisis of the 1960s, 1966-68 saw annual revisions to the Third Plan. Also, in 1977-79, the first non-Congress government broke away from the fifth Congress party plan. These two gaps in otherwise uninterrupted five-year plan periods have been labelled 'plan holidays'.

There have been evaluations of policy and policy instruments and corresponding reappraisals of plan targets. Provision has been made to allow for such adjustments in annual budgets formulated within the framework of the overall plan.[16]

The broad objectives of industrial policy that have emerged from these strategies have been periodically reiterated in the Industrial Policy Resolutions of 1948, 1956 and 1973 and in the Industrial Policy statement of 1980.[17] The objectives included (1) increasing production and productivity, especially in the priority sectors, (2) encouraging small scale industries with a view to generating more employment and fostering entrepreneurial talents, (3) bringing about regionally balanced industrial growth, (4) preventing concentration of economic power by the control of monopolies and 'large' houses and, (5) controlling foreign investment in domestic industry.

The policy instruments deployed to guide industrialization into desired patterns included both domestic and foreign instruments.[18] The domestic policy

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[16]Features of Indian economic planning in fact correspond to those of Myrdal's 'ideal' plan. See Myrdal, 1878-1896.

[17]Isher Ahluwalia, Industrial Growth in India: Stagnation Since the Mid-Sixties (Delhi: Oxford University Press, 1985), 147.

[18]For a detailed description see Bhagwati and Desai, ch. 13 & 14.

instruments consisted mainly of a powerful and comprehensive industrial licensing system, occasionally combined with prices and distributional controls.[19] The rapid growth of the public sector also provided a significant means of influencing the pattern of new investments in the targeted direction. These policies were buttressed by policies relating to trade and payments. Industrial targets were supported by quantitative restrictions which automatically shielded domestic production from foreign competition; and the framework of import and export policies, in turn, provided the incentives which affected non-targeted industrialization.

Public Sector Performance

The public sector, as discussed above, occupies a hegemonic position in the Indian economy and its performance is central to the economic and political character that evolved in the country. It is important therefore, to take a short digression here and briefly discuss the outcome of state-guided industrialization. In keeping with the Industrial Policy Resolution of 1956, the scope of the

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[19]There has been a vigilant evaluation of these instruments and, in the late sixties review of the industrial licensing system showed that the existing apparatus under the Industries Development and Regulation Act (1951) was not sufficiently effective in attaining its objectives. The Monopoly and Restrictive Trade Practices Act (MRTP) was enforced in 1970 to further check the expansion of large industrial houses. Ibid., 265-272.

public sector has been steadily increased in the plan periods since.[20] This is evident from the investment and employment statistics shown in Tables I and II; they have a distinct anti-private sector bias. In spite of this, as figures on savings and capital formation suggest (see Table III), public sector performance has consistently fallen behind that of the private sector.

Table I

Compound Growth Rates of Gross Fixed Investment

	Fixed Investment Total	Public	Private (in percentages)
1956-57 to 1965-66	6.1	10.0	3.2
1959-60 to 1965-66	9.0	9.9	8.2
1966-67 to 1975-76	2.9	3.3	2.6
1966-67 to 1979-80	4.1	5.2	3.1
1967-68 to 1975-76	2.8	4.2	1.9
1967-68 to 1979-80	4.0	5.8	2.8

Source: Isher Ahluwalia, <u>Industrial Growth in India: Stagnation since the Mid-Sixties</u> (Delhi: Oxford University Press, 1985).

Table II

Employment in the Organized Sector of the Indian Economy

	Private Sector	Public Sector (in percentages)
1961	41.7	58.3
1971	39.3	61.4
1981	32.3	67.7

Source: Isher Ahluwalia, <u>Industrial Growth in India: Stagnation since the Mid-Sixties</u> (Delhi: Oxford University

[20] In 1960 there were 63 public sector undertakings. This increased to 1571 by 1980.

Press, 1985).

Criticism of the performance of public sector enterprises can be grouped most conveniently into those relating to investment or creation of capacity and those relating to output or capacity utilization.[21] On the investment side, three major criticisms are that the actual costs of projects have by far exceeded the original estimates, that the projects have taken very much longer to complete and bring into operation than originally planned and, that they have embodied inappropriate technological or product mix.

Table III

National Savings and Capital Formation by the Government and Private Sectors.

	Gross Domestic Savings		Gross Domestic Capital Formation	
	Govt.	Pvt.	Govt.	Pvt.
			(in percentages)	
1950-55	18	82	32	68
1955-60	15	85	41	59
1960-65	24	76	49	51
1965-70	17	83	42	58
1970-75	18	82	41	59
1975-80	21	79	46	54

Source: Isher Ahluwalia, Industrial Growth in India: Stagnation since the Mid-Sixties (Delhi: Oxford University Press, 1985).

On the operational side, there are two criticisms of

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[21]Pramit Chaudhari, The Indian Economy: Poverty and Development, (London: Crosby Lockwood Staples), ch. 6.

fundamental importance. One is that low capacity utilization has failed to utilize optimally the scarce capital resources of the economy. The low, and declining capacity utilization ratios are shown in Table IV. Second,

Table IV

Capacity Utilization Ratios

Industry Group	1960	1970	1980
		(in percentages)	
Basic Goods	86.0	82.0	77.2
Capital Goods	85.9	66.4	62.4
Intermediate Goods	89.3	81.9	82.5
Consumer Goods	86.6	82.2	80.1

Source: Isher Ahluwalia, Industrial Growth in India: Stagnation since the Mid-Sixties (Delhi: Oxford University Press, 1985).

the public sector industries have failed to make profits and have in fact accumulated substantial losses over the years, as can be seen in Table V. As a result, instead of being a source of re-investable surplus, India's public sector enterprises have become a source of negative savings in the economy. Failure of the public sector has caused severe shortages in the core sectors. Repercussions in the rest of the economy have resulted in a continued neglect of consumer goods and sluggish agricultural production, jeopardizing the entire development effort.

Table V

Gross Public Sector Savings in the Economy

	Consumption of fixed capital	Net Savings Financial enterprises	Non Financial enterprises.*	(in Rs. crores)
1960-61	52	20	-9	(net)(11)
1961-62	71	21	-24	(-3)
1962-63	86	23	-23	-
1963-64	97	31	-5	(26)
1964-65	125	36	-23	(13)
1965-66	134	66	-16	(50)
1966-67	173	37	-38	(-1)
1967-68	214	54	-59	(-5)
1968-69	224	36	-57	(-21)
1969-70	290	53	-34	(19)
1970-71	337	84	-12	(72)
1971-72	394	93	-73	(20)
1972-73	445	145	-84	(61)
1973-74	361	204	-84	(120)
1974-75	553	336	83	(419)
1975-76	667	327	- 105	(222)
1976-77	814	503	98	(601)
1977-78	977	561	- 234	(327)
1978-79	1091	682	- 240	(442)
1979-80	1297	710	- 337	(373)
1980-81	1571	865	- 681	(184)

Source: Isher Ahluwalia, Industrial Growth in India: Stagnation since the Mid-Sixties (Delhi: Oxford University Press, 1985).

* Non financial enterprises includes all public sector undertakings other than banking and financial institutions. The 'core' industries would come under this category.

The State as an Autonomous Actor

In developing countries where private capital markets and insurance markets are inadequately developed, the state is the only agency that can provide capital and underwrite the risks involved in large initial investment ventures in the early stages of industrialization.[22] In India, the elites who inherited power at the time of independence shared a coherent ideology; they enjoyed enormous prestige and a unified sense of purpose about the desirability of using state intervention to promote national economic development. They redirected and restructured the economy and in the process, put pressure on existing prominent social and business classes. As the aura of special legitimacy derived from participation in the freedom movement waned (and as some of the widely respected leaders of the struggle for independence passed away), demands from vested interests could less easily be ignored. And today, "the autonomy of the Indian state is reflected more often in its regulatory and patronage-dispensing than developmental role."[23]

Robert Wade illustrates how selective incentives and complex understandings work among India's elite in his study of the pressures exerted by money and influence in the irrigation department.[24] Wade suggests that there are two ways to secure an irrigation contract, for example. First, bribe the local MLA (Member, Legislative Assembly at the

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[22]Pranab Bardhan, The Political Economy of Development in India (Oxford: Basil Blackwell, 1984), ch. 5.

[23]Ibid., 39.

[24]Robert Wade, "Money-go-round," Economist, 4 May 1991, p. S9.

state level) to use his influence on engineers in the administration. The amount of money involved depends on the scale of the contract. If the stakes are high and high level of authority is required to exert influence, the amounts in question will be high as well. The alternative would be to pay the engineers in the bureaucracy 'rent' of post which gives them access to the appropriate official authority. Once again, the amounts involved depend on size of the contract and the level of bureaucrats and politicians whose cooperation is needed. In either case, for every irrigation contract, contractors, bureaucrats and politicians have a clear understanding and network to distribute the 'selective incentives'. In fact, such 'complex understanding' among elites is estimated to support a parallel black economy during 1973-1982 of as high as half of the official GNP, with an annual compound rate of growth of 18%.[25]

Aside from the individual economic incentives that drive the 'complex understandings' in the system, there is also a political and partisan incentive involved, arising from the strategic requirement of funds in conducting a successful political campaign in a large democracy.

The infiltration of the official machinery has been made easier by the government's decision in 1968 to ban

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[25]Report of the Wanchoo Panel cited in K. N. Kabra, India's Black Economy and Maldevelopment (New Delhi: Patriot Publishers, 1986), 67.

business concerns from giving donations to political parties. The immediate motive of the Congress(I) party government was to deny funds to the opposition, notably, the Swantantra Party, which commanded a good deal of support from the industrialists in Bombay and Ahmedabad. But, more significant, it was not accompanied by any attempt to set up an alternative method of financing political activity and meeting election expenditures.[26] As a result, with the ever increasing needs for funds, all parties were forced to go back to the very same business concern and trade and industrial associations to ask for funds but this time in black money. The move allowed the ruling party virtually to blackmail business concerns into meeting its demands on the one hand, and to set the law enforcement agencies on any concern which it suspected of giving funds generously to an opposition party. In the search for influence, this gave a decided edge to those whose control of their company's finances was so complete that they could raise black money easily: closely held Indian family concerns.[27] In fact, Prem Shankar Jha argues that the tirade against foreign equity participation arises as much from this concern as from any avowed leftist ideology or fear of foreign

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[26]Prem Shankar Jha, India: Political Economy of Stagnation (Bombay: Oxford University Press,1980), 114.

[27]In the 1980s, only four of the top twenty-five companies were foreign firms.

domination.[28]

The government's apathy towards taxing the trading community springs too, at least in part, from its knowledge that when a manufacturer gives a donation in black it usually does so by collecting black from its selling agents. An illustration of this is the students revolt in Gujarat in February 1974. It was sparked by allegations of deals struck by a Congress Chief Minister with wholesale traders in edible oil which allowed them to rig the prices of groundnut oil in exchange for contributions to the state Congress party.[29]

Action in self-interest by the state at both the individual and partisan levels has had two significant implications for the economy in direct contradiction to what planned development was to achieve. The first has to do with the concentration of wealth and power in the private sector, which has been a specific target in all the Industrial Policy Resolutions. The second involves the unprecedented growth of the service sector.

In 1976 the top 20 business houses in India were reported to have controlled nearly two-thirds of the total productive capital in the private corporate sector.[30] This

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[28]Jha, 115.

[29]Indian Express (New Delhi), 20 February 1974, p. 1.

[30]Bardhan, 105.

concentration of assets has not diminished in recent years as even the pretence of government control over monopoly houses was more or less given up by the mid-70s.[31] Another feature of the organization of industrial capital is the substantial expansion of small-scale industry and a possible increase in the incidence of subcontracting.[32] Such arrangements not only help large companies avoid excise taxes and labor laws under the special provisions set up for cottage or small scale industry, they also line up for them a numerically strong vertical alliance that may prove useful in putting pressure on the government.

The intermediate class has grown stronger both absolutely and in relation to other classes and over time has used its growing economic strength to capture political power by means of bribery and political donations in black money to the ruling parties at the center and the states.[33] This service sector consists of those involved in retail, trade and transport. In his definition of modern economic growth, Simon Kuznets has argued that only in mature, developed economies does the tertiary sector compete with agriculture and industry for the dominant share of national

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[31]Gita Piramal, "Industry Feels Worried," Financial Times (New York), 26 June 1992, p. XVI.

[32]Bardhan, 42.

[33]Atul Kohli, India's Democracy (Princeton: Princeton University Press, 1988), 15.

income.[34] In India, the service sector accounts for 39.6% of GNP while the share of agriculture is 37% and that of manufacturing 18%.[35]

In the Indian context, a prosperous service sector is parasitic in nature. Most of its members actually gain from shortages that are caused by economic stagnation or natural disasters. They have the capacity to shift the burden of these shortages onto other segments of society by, for example, raising transport and distribution margins in an economy. In consumer goods, such an artificial hike in prices poses a serious dilemma for the poor. Their demand for food is not translated into a market demand because it is not backed by the ability to pay, especially at inflated prices. They have simply been left out of the market process while the economy has been erroneously considered self-sufficient in food-grains for over a decade. As A. K. Sen points out this self-sufficiency is only a market phenomenon, it completely leaves out those most in need but without adequate purchasing power to have any entitlement in the market.[36]

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[34]Simon Kuznets, Modern Economic Growth: Rate, Structure and Spread (New Haven: Yale University Press, 1966).

[35]Financial Times (New York), 26 June 1992, p. II.

[36]Amartya Kumar Sen, Poverty and Famines: An Essay on Entitlement and Deprivation (Oxford: Claredon Press, 1981).

Preservation of the Status Quo

In contemporary India, where the overwhelming majority are illiterates or drop-outs at the primary education level, the educated elite enjoy a high scarcity value for their education and profession. Further, the nature of state-directed development gave enormous strategic and bargaining advantages to officials with authority over development funds and influence over legislation. And such license-giving powers at various levels of the bureaucracy have made the rewards for corruption quite substantial. The bigger the rewards, the fiercer is the resistance of the 'privilegensia' to reform. The substantial benefits that economic planning affords them has made bureaucrats and politicians reluctant to relinquish control of the closely administered economy. A self-interested state has been very successful in guarding its 'commanding heights'.

Like the strongly and oft-professed socialist ideology, official declarations of liberalization in the economy have been unenthusiastically implemented. In a recent country survey, David Housego found that "Prime Minister Narashimha Rao's failure as a reformer stem from his reluctance to confront the powerful lobbies that have long resisted change in India."[37] Significantly, he has had to put off promised reductions in the size of the civil service and the public

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[37]David Housego, "Chances are slipping away'" Financial Times (New York), 26 June 1992, p. I.

sector.

There is further evidence of interest protection in the manner in which the ranks of the state have been limited by directing educational investment away from the masses. A. K. Sen has presented persuasive evidence of the elitist nature of the Indian education system by highlighting the remarkable success of higher education and relative neglect of elementary education.[38] Achievements in improving literacy and primary school enrollment have been unimpressive. Literacy rates have increased from 24% to merely 36% in two decades (literacy among women remains as low as 20% in rural areas) and two-third of those enrolled in primary schools still drop out after only six years of education.[39] The government has done little in terms of investment to improve the situation, between 1970 and 1990, expenditure on education has been increased from 2.5% to 3% ($10 per capita) of GNP.[40]

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[38]Higher education enrollment as a proportion of population aged 20-24 is 8%. However, the overall literacy rate is only 36%. In neighboring Sri Lanka, a country molded by the less elitist Buddhist tradition, the corresponding statistics are 1% and 85% respectively.

[39]In the same period, Malaysia increased literacy from 23% to 60%. See Economist, 4 May 1992, p. S8.

[40]In comparison, Malaysia spends 8.5% of GNP ($156 a head) on education. Ibid., p. S15.

Conclusion

State guided industrialization in India was intended to foster a fast growing egalitarian society. To this end, the extent and nature of autonomy the state has reserved for itself prompted Rudolph and Rudolph to label it the "third actor" in the economy (in addition to the usual components of economic analysis: the owners and managers of the means of production and organized labor).[41] This advantage could have been exercised effectively to persuade adherence to a socialist ideology and the ultimate realization of planned development. However, Indian planners were not alert to the serious constraints on policy and implementation that could be posed by a failure of the large-scale, irreversible investments in the public sector and the articulate interests of the elite classes.

The failure of the public sector in fulfilling its leading role in industry has caused severe supply side constraints and opened up potential black markets and illegal profits for shortage brokers. Restrictions on private initiative in industry in the presence of a large, unsatisfied demand for industrial and consumer goods has encouraged the violation of industrial regulations by large firms and a thriving black-marketeering practice in the service sector.

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[41]Rudolph and Rudolph, <u>In Pursuit of Lakshmi</u> (Chicago, University of Chicago Press, 1987), 388.

The most crucial oversight was with respect to those who constitute the state, politicians and bureaucrats, who have willingly used the authority vested in them to promote illegal activities and who have been reluctant to make any policy revisions that might threaten their selective incentives. Jha argues that government servants and politicians have reserved for themselves more rights than any other section of society enjoys, while adding the least to the material productivity of the economy.[42]

Jha further suggests that as a result of illegal exercise of authority, there appears to be little balance between rights and obligation in society.[43] Or, As Olson might have put it, the incentive to produce is diminished while the incentive to seek a larger share of what is produced increases. And, far from being the benevolent state looking after the interests of the under-privileged, the question being asked of the Indian government today is "is it the law that rules, or black money?."[44] In chapter III, an analysis of the emergence and nurturing of elitist interests in agriculture will further illustrate this point.

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[42]Jha, 123.

[43]Ibid., 124.

[44]Clive Crook, Economist, 4 May 1991, p. S15.

Chapter III

The Agriculture Sector

In Arthur Lewis' opinion "if one were asked to pick a single factor as the common cause for a low rate of economic growth, it would have to be the absence of a vigorous agricultural policy".[45] This chapter explains the limited success of state intervention in altering the power structure in the agrarian sector. Three important policies aimed at redistributing productive assets and establishing economic and political equity in the rural economy are examined: panchayati raj, land reform and the Green Revolution. The analysis reveals that attempts at agrarian reform have actually provided additional selective incentives to the established network of social and political interests and these incentives have been actively pursued by the elites. The result has been the strengthening of the existing differentials in the community at the cost of the rural poor, the group which was targeted to benefit from reform policy.

Political Change: Panchayati Raj

The First Plan recommended establishing a new

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[45] W. A. Lewis, Growth and Fluctuations, 1870-1913 (London: G. Allen and Unwin, 1978), 241.

development agency, the panchayats (councils), to frame and coordinate the planning and implementation of rural development projects.[46] In fact, the Plan gave the panchayats statutory responsibility for developing all resources for the rural areas.[47] Important among these responsibilities is the enforcement of land reform measures and the disbursement of development funds, a matter in which the panchayats enjoy nearly complete discretion.

Panchayats are organized at three levels: village (gram panchayats), block (mandal parishads) and district (zilla parishads). The village panchayat is constituted on the principles of universal membership and adult suffrage in an attempt to include all families in community development, regardless of caste or economic standing. Elections to the higher councils are indirect, with the village panchayats electing representatives to the mandal parishads and they in

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[46]For a detailed account of Panchayati Raj (council rule) see First Five Year Plan. Also see Guy Hunter, The Administration of Agricultural Development: Lessons from India (London: Oxford University Press, 1970).

[47]These responsibilities include (1)framing a production plan; (2)preparing budget estimates to carry out the plan; (3)acting as a channel for government assistance; (4)enforcing minimum standards of cultivation; (5)bringing wasteland under cultivation; (6)arranging for cultivation of land not managed by owners; (7)organizing voluntary labor for community work; (8)making arrangements for cooperative management of land and other resources in the village according to prevailing land management legislation; and (9) assisting in the implementation of land reforms.

turn electing the members of the zilla parishads.

Panchayati Raj (council rule) is intended to ultimately shift the balance of economic and political power away from the upper castes towards the low-status peasant majority. Francine Frankel has argued that in appointing panchayats as vehicles of democratic transformation at the grassroots, planners seriously misunderstood the potential of reconstructing the village as the basic unit of social action in rural areas.[48] She argues that in the more self-contained and interdependent subsistence village economy, a network of patron-client ties bound together the high-landowning castes and low-caste tenants and laborers. This village cohesion, even at Independence, showed signs of erosion as a result of growing class differentiation and economic disparities. The more affluent members of the dominant landowning class had turned their resources to profitable new opportunities for participating in commercial farming provided by the wider market economy. They found fewer compelling reasons, either of economic interest or social status, to use their surpluses for meeting the traditional obligations of a self-sufficient village.[49]

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[48]Francine Frankel, India's Political Economy, 1947-1977 (Princeton: Princeton University Press, 1978), ch. 13.

[49]For a detailed account of the disintegration of the traditional rural economy with the introduction of free trade under colonial rule, see Dharma Kumar, ed., The Cambridge Economic History of India (Cambridge: Cambridge University Press, 1983), section II.

The much larger numbers of marginal farmers and landless laborers, still splintered along traditional allegiances to family, caste and faction, have found it difficult to present a united front against the larger landowners in the contest for control over the new community development bodies. Many landless and land-poor families have been faced with an economic crisis that could be contained only by safeguarding even attenuated dependency relationships with more affluent members of the land owning class.[50]

In this environment, the richer landowners, already better placed in the village social hierarchy, have had little difficulty manipulating a fragmented and dependent peasantry to maintain control of the panchayat institutions.[51] From this vantage point, they are able to

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[50]'Economic crisis' is in reference to the different impact new opportunities of a wider market economy have on a village community. The potential for profits is increased for the wealthy peasants and dominant classes through participation in a larger market system. The poor are without the resources to take advantage of or, guard against, the impersonal market forces that fluctuate demand and price. This makes their small earnings even more precarious. See Joel Migdal, Peasants, Politics and Revolution: Pressures Toward Political and Social Change in the Third World (Princeton: Princeton University Press, 1974), ch. 1.

[51]Data available for Rajasthan, the first state to implement Panchayati Raj in 1959, revealed trends typical of an emerging all-India pattern. Compared to estimates showing over 68% of the rural population in Rajasthan having an annual income of less than Rs.1000,

dictate the distribution of credit, improved methods of cultivation and marketing services. Their interest in augmenting their own resources has been assisted by the legislative provision of indirect elections to higher levels of the <u>panchayati</u> system which has allowed them to maintain a strong influence throughout the political hierarchy.

One visible effect of this expanding power is the growing ability of the district bosses in the Congress Party to insist on choosing the party's candidates for the state legislature and thus securing their influence over state legislation.[52] Another is the increase in the number of agriculturists in the Lok Sabha at the center from 10.7% in 1947 to 40.1% in the 1980 (see Table VI below). Evidence shows that their growing power has been consolidated all the way to the central government over the years. They have used this strong position to bargain for high procurement rates and low fertilizer prices for the agricultural sector.

85% of all presidents of village panchayats enjoyed an annual income of Rs.1000 or more. Although Scheduled Castes and Tribes accounted for approximately one fourth of the population of the state, only ten village <u>panchayat</u> presidents out of 7,394 belong to these communities. See David C. Potter, <u>Government in Rural India: An Introduction to Contemporary District Administration</u> (London: London School of Economics and Political Science, 1964), 53-55.

[52]R. Roy, "Selection of Congress Candidates" in <u>Economic and Political Weekly</u> (New Delhi), 18 Febuary 1967, 409.

Table VI
Occupational Background of
Congress Legislators in Lok Sabha

Occupational Category	1947	1957	1967	1977	1980
				(in percentages)	
Agriculture	10.8	24.1	36.8	36.3	40.1
Business	10.6	11.2	5.1	3.8	7.0
All Professions	50.4	30.4	35.9	32.2	30.2
-Law	(32.6)	(23.2)	(22.2)	(20.1)	(20.9)
-Other	(17.8)	(7.1)	(13.7)	(12.1)	(9.3)
Public Work	14.8	28.1	17.0	25.3	20.1
Service	9.9	3.1	2.9	1.0	1.7
Others	3.5	3.1	2.3	1.4	0.9
Total	100	100	100	100	100

Source: Parliamentary Study (New Delhi: Government of India Publication, 1982)

As part of the package of incentives and support extended to the agricultural sector to encourage increased market production, the government has placed subsidies on the price of inputs and guarantees a minimum price on agricultural products by promising to purchase all grain at a floor price announced before each season. A strong farmers' lobby at the center has compelled the government to over-subsidize inputs and over-compensate agricultural procurement.[53] And any move to revise such policy, like

[53]See P. R. Dubhashi, Policy and Performance: Agricultural and Rural Development in Post-Independent India (New Delhi: Sage Publications, 1986), ch. 8.

the recent attempt to reduce fertilizer subsidy by the persent Prime Minister, is blocked by the strong agricultural lobby at all levels of government.[54]

The Nehru government's socialist ideology envisaged _panchayats_ as the vehicle for "democratic social transformation... [and] a way to reverse the trend toward individualism and class division."[55] However, under the existing socio-political conditions, the politics of accommodation represented by _Panchayati Raj_ actually operated to strengthen the bargaining powers of the dominant castes. They have been able to strike advantageous alliances with the external sources of power in the ruling party and administration, which in turn further bolstered their strategic position as intermediaries between the land-poor peasantry and the wider economic and political system.

Social and Economic Change: Land Reform

At independence, the most important productive asset in rural India, land, was controlled by various contractual agreements between the British and the local landowners.[56] The common framework was the appointment of _zamindars_ or landlords with assigned tracts of land from which they were responsible for collecting revenue for the British. In

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[54] David Housego, _Financial Times_, p. I.

[55] _First Five Year Plan_, 164.

[56] Dharma Kumar, section II.

return, they received a fixed portion or amount of total yield and were free to enter into any leasing or crop-sharing arrangement with tenant farmers who actually cultivated the land.

In the late 1950s and early 1960s, the First Plan initiated land reform with the slogan 'land to the tiller' and a strategy which had two main features.[57] First, it placed a ceiling on individual holdings. Second, it gave tenants the right to buy land held in excess of the ceiling at fixed rates of compensation to the owner. This scheme had loopholes that consistently but lawfully left out the actual tiller of the soil from the redistribution process. Most significantly, ceilings were imposed on individual rather than family holdings. Further, the state paid a high rate of compensation for official acquisition of land over this limit, rates which tenant farmers found hard to match.

The land reform policy, as a result, permitted <u>zamindars</u> to reclaim land up to the ceiling permitted to each member of the family from the tenant who had previously cultivated it. Any surplus was sold to smaller farmers who, after counting the heads in their families, found they could still buy a good deal of land under the terms of the law. Finally, what little land was left after these adjustments was taken over by the erstwhile middlemen who had previously collected land rents from the peasants on behalf of the

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[57]Jha, 111.

zamindars. They were almost the only other people who could afford to pay the high rates of compensation fixed by the government. To safeguard against claims of hereditary tenurial rights, these three groups simply expelled all tenants, reemploying them as agricultural labor.

Data indicate that land for redistribution to marginal farmers has come from all other segments, contribution being an increasing function of the size of holding (see Table VII). Land reform has halved the share of large farms in total holdings and increased holdings at the bottom end of the scale to over 50%. However, statistics for operational holdings are not so favorable for marginal farmers; their

Table VII
Landholding

Size of holdings (hectares)	Holdings percent		Operational holdings (area %)	
	1953-54	1976-77	1953-54	1976-77
Marginal holdings (below 1.0)	39.1	54.6	5.4	10.9
Small holdings (1.0-2.0)	20.9	18.1	10.0	12.8
Semi-medium holdings (2.0-4.0)	19.7	14.3	18.6	19.8
Medium holdings (4.0-10.0)	14.4	10.6	29.3	30.3
Large holdings (10 and above)	5.9	3.0	36.6	26.5

Source: The Cambridge Encyclopedia of India (Cambridge: University Press, 1989), p. 273.

lands add up to only 10.9% of the total. The combination of these two effects implies that reform has simply transformed a fraction of poor landless agricultural labor to land poor marginal farmers, still earning only a subsistence income. And, this earning invariably has to be supplemented by continued farm labor as marginal holdings are most susceptible to being economically infeasible (particularly in terms of irrigation in case of monsoon failure). Large and medium holdings, although their share has fallen (from 65.9% to 56.8%), still account for the majority of operational agricultural area.

Thus, land reform in India, rather than protecting and promoting the cause of the tiller, allowed the consolidation of existing social and economic interests. Zamindars, the middlemen they had appointed and wealthy farmers now formed a new class of well-to-do owner-cultivators, reducing their tenants to marginal farmers or landless agricultural labor.

Technological Change: The Green Revolution

In the 1960s India faced two major food shortages that necessitated the import of substantial volumes of grain, depleting scarce foreign exchange reserves. This situation threatened the program of self-sufficiency and import substitution. Also, by the late 1960s, it was clear that the land redistribution policy was not going to provide the solution to rural inequality. The Green Revolution offered a technical approach to the problems of an agrarian economy with low land-man ratios and low productivity.

The basic characteristic of the new technology is the biological combination of a number of inputs which are complementary to one another.[58] The combination of the joint inputs of hybrid seed, fertilizer and water yields much larger volumes of output by increasing yield per acre and allowing multiple cropping. Correctly implemented, the Green Revolution technology is neutral to scale; output per unit would not differ between large and small farms. There are however economic characteristics of the new technology that make it less than optimal to small and marginal farmers in the Indian political setting.

Crucial to the success of the high yield variety (HYV) seed is the timely and adequate application of water and fertilizer and, pesticide in areas prone to infestation. For the capital-poor smaller farmer, the new technological package is more expensive albeit more productive. The state has placed subsidies on both credit and inputs. But, the regulations governing rural credit agencies set up to channel funds towards agricultural development virtually rule out giving credit to farmers with less than 7-10 acres of land.[59] As Table VII suggests, this is probably less than 10% of total holdings. The practice of calling for

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[58]B. M. Bhatia, Indian Agriculture: A Policy Perspective (New Delhi: Sage Publications, 1988) ch. 6.

[59]Pranab Bardhan, Land, Labor and Rural Poverty, (New Delhi: Oxford University Press, 1984), 86.

land as security, instead of offering loans secured by a lien on the crop, make credit inaccessible to all without a title to land than can be pledged. Private lenders, on the other hand, charge exorbitant rates of interest. Also, small farms are more sensitive to risk because they have smaller margins of savings to fall back on. However, government policy has done little to underwrite such risk. So far as subsidized inputs are concerned, the elite classes receive preferential allotment by virtue of their domination of the panchayats, as discussed before.

Further, if yields from multiple cropping are to be maximized, the time interval between harvesting and planting is so short as to make it necessary to use tractors for preparation of land for sowing. Therefore, there is a strong tendency for the new technology to be associated with mechanization. This tendency has been strengthened by the government policy of underpricing of tractors and harvesters and the easy access large farmers have to subsidized agricultural credit. However, with the existing abundant labor force and high unemployment, mechanization can pose serious employment problems in India, the most immediate threat being to agricultural labor.

The success of India's Green Revolution has been extremely limited in its spread, in terms of both area and grain. It has been largely restricted to wheat growing in the north and north-west of the country and to the rice growing areas in the south. These regions have ideal, almost laboratory conditions, including the most fertile lands and an abundant natural supply of water. Farmers here were prosperous initially and required little infrastructural support in adopting the new technology. But even under these ideal natural conditions, government policy and policy implementation have prevented the Green Revolution from being profitable to the small and marginal farmers and hence being truly neutral to scale.

Table VIII is an international comparison of paddy yields under the Green Revolution technology among twelve Asian countries.[60] Paddy/fertilizer ratio indicates input efficiency, the number of units of output produced by one unit of input. Green Revolution technology has increased this ratio in all the countries except three. (Of these three, Taiwan and Myanmar already had high ratios).

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[60]'Paddy' refers to the entire plant before the rice grains are separated from it.

Table VIII
How green was your Revolution?

	Paddy/ fertilizer ratio		Fertilizer applied per hectare (kg/ha)		Paddy yields (kg/ha)	
	1976	1981	1976	1981	1976	1981
India	0.17	0.37	32	34	1,637	1,962 (+325)
South Korea	0.65	0.84	311	351	5,966	5,841 (-125)*
Taiwan	1.25	0.75	205	287	4,539	4,953 (+414)
Indonesia	0.40	0.62	57	74	2,784	3,493 (+709)
Malaysia	0.49	0.56	97	92	2,733	3,225 (+492)
Philippines	0.28	0.27	29	32	1,821	2,362 (+541)
Thailand	0.24	0.30	11	18	1,780	1,952 (+272)
Bangladesh	0.51	0.57	11	44	1,784	1,955 (+171)
Myanmar	0.55	0.55	9	17	1,799	2,942 (+1143)
Nepal	0.33	0.45	8	9	1,891	2,000 (+109)
Pakistan	0.27	0.28	46	53	2,347	2,604 (+257)
Sri Lanka	0.60	0.83	65	77	1,971	2,646 (+675)

* a case of decreasing returns to scale.
Source: Economist, 4 May, 1991.

In India this increase has been substantial in absolute terms but because of the starting point, fertilizer efficiency remains low relative to other countries. Fertilizer applied per hectare indicates input intensity;

the extent of fertilizer use. In India, fertilizer use has not increased significantly at all, neither absolutely nor relative to other countries. As a result, paddy yields in India have improved from the worst performance to third from bottom but only marginally so.

Evidence suggests that for Green Revolution technology to be successful, use of the new and efficient fertilizers must be combined with a high or increased intensity of use. This is evident from the increases in yield achieved by Myanmar, Indonesia, Sri Lanka, Malaysia and Taiwan. For countries with yields below that in India, (Pakistan, Nepal and Thailand) either input effectiveness or input intensity or, both, have been significantly lower.[61] Thus there is evidence to conclude that the potential gains from Green Revolution technology in India have been substantially limited by the failure to increase fertilizer intensity to ensure input effectiveness. A major factor here has been the pre-emptying of credit and inputs by the rural elite and the consequent curtailment of increased distribution and use of fertilizers.

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[61]There appears to be only one exception to the rule. The Philippines has achieved a higher increase in paddy yields with both a lower paddy/fertilizer ratio and with lower amounts of fertilizer applied per hectare. Bangladesh is the other exception but is not considered here because of its special circumstance of persistent flood problems that effects paddy yields.

Conclusion

In India, reform in agricultural policy has unquestionably strengthened the interests of the dominant class. It is not so much that these people join the elite when they establish themselves economically or politically, but that they typically come from that stratum already. Using their social standing, the dominant class promoted itself to positions of political consequence in the panchayati raj system. Pre-emption of incentives extended to the sector at every level of social participation was facilitated by the panchayats being responsible for the distribution of development funds. As the new Green Revolution technology made agriculture a lucrative business, government credit, subsidies, inputs and guaranteed prices were pursued even more actively. Loopholes in the land reform policy prevented any significant redistribution of land in favor of the poor. Thus, the small and marginal farmer, with little physical capital and no social standing or political power, lost out in the race to secure the benefits of agricultural reform inspired by their situation and targeted specifically at them.

Chapter IV

Conclusion

From his study of post-World War II western nations, Mancur Olson concluded that groups with access to selective incentives would try to capture a larger share of the national income. The accumulation of distributional coalitions, he argued further, increases the complexity of regulation, the role of government, the complexity of understanding and thus changes the direction of social evolution.

This thesis has extended Olson's theory to gauge the susceptibility of Third World democracies to the sort of coalition activity Olson describes. Evidence from the post-independence development experience in India shows that society was indeed vulnerable to the economically debilitating effects of interest group and government interaction.

While the sequence of events in Olson's theory do not apply directly to the Indian case, all the operational attributes are clearly identifiable. In India, independence, democracy and industrialization all occurred simultaneously. Nationalist leaders, democratically elected after independence, framed a detailed economic plan for development. Spearheaded by state monopolized industrialization, growth was to be egalitarian and ultimately, establish a socialist way of life. This was the direction society was given.

The objectives and strategy of state-guided development necessitated a vast amount of legislation to monitor the economy and to ensure it kept on course. The power to frame, implement and revise this complex system of regulations was bestowed on elected politicians and a large army of bureaucrats. At the time of independence, these were the educated social elites of society. They did not join the ranks of the elites by gaining an education but, typically, they were born into socially high classes. Planned development with its complexity of regulation has given the educated elite the opportunity to earn 'rent' for their social standing by the illegal use of the authority entrusted to them. This is the 'selective incentive' these 'specialists' have access to.

The private sector in India has found itself caught between complex government regulation on the one hand and excess demand in the market on the other. Much of the legislation arising from economic planning was to curb the growth of private enterprize in favor of the more desirable public sector enterprises. However, the failure of the latter to perform any where near the expected level has caused severe shortages in the economy. The private sector has used this as an incentive, profiting richly from an extensive and thriving blackmarket in essential goods, both intermediary and consumer. Further, it has influenced the implementation of the regulations against such practices by funding political activities or paying 'rent' to 'specialists' to manipulate the law. The state has been able to preserve these selective incentives by continuing to endorse close regulation of the economy and, by biasing education policy toward higher education and thereby restricting entry into its ranks.

In agriculture, economic planning placed the distribution of development funds at the discretion of local elected authorities. This has been the greatest selective incentive for interest groups in this sector. Social elites have used their standing in village communities to capture political support and then proceeded to pre-empt subsidies assigned for the rural sector. To preserve the status-quo, they have successfully used their growing economic and political strength to promote themselves to higher levels of government and lobby even more effectively for their interests.

These are the 'complex understandings' the elites in India have come to in order to preserve and share the benefits of their positions. From this has resulted an alteration in the pattern of incentives. The incentive to produce is diminished, while the reward to seek a greater share of what is produced by exploiting politics and bureaucracy has become greater. And, all this has, as Olson's theory would have us predict, deflected the direction of a society's evolution. In India, the arrangement of power and authority among the elites has consistently left out the poor majority from the benefits of increased government intervention in the economy. In spite of a strongly professed socialist ideology, the elites have been fittest in terms of social, political and economic strength and have pre-empted concessions and incentives extended by the planning process at the expense of the poor majority.

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