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Chapter 6. Tamil Nadu: Growth in the Time of Clientelism

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SUMMARY

Tamil Nadu enjoyed high rates of growth both before and after liberalisation due to a combination of factors that allowed its two main political parties to create and allocate rents in ways that enhanced productivity and competitiveness. Tamil Nadu's populist redistributive politics has its roots in a nativist ideology. The competitive clientelism in the state keeps within the bounds of broadly 'live and let live' strategies because both parties share a common ideology and mobilize almost identical social groups. The result is a form of competitive clientelism that achieves a cycling in and out of the two parties in successive elections. The paradox of Tamil political economy is that despite its competitive clientelism, it remains one of India's most industrially advanced states. We argue that while their common ideological history appears to make the competition between the two parties intense, their common ideological ancestry and the similarity of their constituencies means they do not have widely divergent policies. Their rent creation strategies included support for industrialisation and these strategies remained stable despite parties cycling in and out of power, allowing a steady rise in industrial investment and capability development.

The challenge for Tamil Nadu is to sustain its industrial growth as political competition leads to the risk of its two party system fragmenting and even the possibility of increasing violence affecting stability. We focus on the state's auto

component manufacturers who grew under India's former dirigiste regime by establishing links with the ruling parties and continued to grow after liberalization by upgrading productive capabilities. This required policies to promote learning and technological upgrading and entrepreneurs played a proactive role in driving this industrialisation. Tamil Nadu's experience shows that capability development strategies for manufacturing are possible in the context of competitive clientelism.

6.1 Introduction

Tamil Nadu (Figure 6.1) along with Maharashtra and Gujarat is one of India's top three states in terms of economic performance. It was formed in 1950 and was once part of the erstwhile British province called the Madras Presidency. Even at the time of India's independence Tamil Nadu had a well defined 'national' identity based on a culture distinct from the rest of India. This identity still plays a part in the politics of the state. The state's highly mobilized and competitive politics is based around a nativist ideology promoted by political leaders who have been 'stars' in the state's thriving film industry. Anecdotally, the state is also known to be one of the more corrupt of the larger states in India. Given this profile one would not expect this state to be one of India's best performing states in terms of economic performance. In terms of its HDI it equals Gujarat and betters it in terms of attracting FDI. As in the Gujarat chapter, we discuss how the ruling coalition was constructed in Tamil Nadu and the types of rents it used as a survival strategy, which consequently impacted investment and technology adoption strategies in the state.

Tamil Nadu's fragmented political organizations are typical of the competitive clientelist variant of patron-client politics described in Chapter two. The state's political settlement has evolved into one where two large parties cycle in and out of power in successive elections. The party that wins has also done so with a substantial majority since 1989. The avoidance of political logjams due to disputed elections and the emergence of a 'live and let live' policy between the ruling coalition and opposition organizations have contributed to high levels of growth. These features make Tamil Nadu untypical as a competitive clientelist polity. The configuration of power and the allocation of rents that contributes to this are therefore of significant

interest, with implications for other developing countries. Indeed understanding these processes may be very useful for identifying vulnerabilities in Tamil Nadu's own growth strategy in the future. Whichever party is in power, the management of a large industrial investment is looked upon as a channel through which to create rents for political parties and key individuals within the parties. The assurance of cycling reduces the incentives for the opposition to block these investments or to overturn them when they come to power. At the same time the fact that this cycle has continued since 1989 without the incumbent renegeing on any large industrial investment negotiated by the previous government seems to have provided investors with the confidence that their property rights will be protected. This is one of the reasons why the state sees a high level of industrial investments despite the clientelistic nature of the political settlement. The configuration of power that allows a cycling in and out of two alternative ruling coalitions has not just led to high investments but also affected the kinds of technologies the state has acquired and strategies of capability development. This is particularly interesting because the link between competitive patron-client politics and reasonably well-working government agencies dealing with critical market failures to support a growing business sector is rare in other developing countries and regions within India. What then were the critical features of Tamil Nadu society, politics and institutional structures that help to explain the emergence of these arrangements? Specifically, what institutional or political factors allow relative policy stability in a context of clientelist cycling?



Figure 6.1. Tamil Nadu—one of India's southern-most state

Source:

http://commons.wikimedia.org/wiki/File:India_Tamil_Nadu_locator_map.svg

Our focus on political settlements brings to the fore the organization and distribution of power between the major groups and class organizations in Tamil Nadu, and how this affected the efficacy and sustainability of different growth strategies. What makes Tamil Nadu especially interesting is that the two main parties, the Dravida Munnetra Kazagham or DMK (Dravidian Progress Federation) and a later offshoot the All India Anna Dravida Munnetra Kazagham or AIADMK (All India Anna Dravidian Progress Federation) have roots in the same decidedly anti-North Indian, anti-Brahmin movement, which in its early stages was also a Rationalist movement. Brahmin is the highest 'caste' in Sanskritic Hinduism and its members have historically been implicated in the suppression of lower castes. Caste identities still have deep resonance in Indian electoral politics. Approximately three per cent of Tamil Nadu's population is Brahmin while almost two-thirds are 'backward castes' (Wyatt 2002). While backward castes in Tamil Nadu have historically been subservient to the minority Brahmins the social order saw significant changes from

the early 20th century and specifically from the 1960s, with significant mobilizations by lower castes and episodes of anti-Brahmin violence. These movements led to the rise of the DMK and AIADMK which came to power as backward caste parties. Neither party could ideologically wipe out the other given the similarities in their ideological positions and the relatively small differences between them. This actually helped to moderate the intense competition for rents between these political organizations by ensuring that the party in power did not have the legitimacy to take the battle against the opposition too far. The rivalry between the two parties was therefore focused on the redistribution of largesse to similar constituencies (Ambirajan 1999; Subramanian 1999).

This does not mean that political competition in Tamil Nadu is always peaceful. The state frequently witnesses violence between competing segments of the backward castes. Tamil Nadu has the inglorious reputation of witnessing a high degree of violence against 'Dalits', the caste group supposedly below the Hindu caste system and therefore the lowest strata in this ideological system who are often the poorest groups in society. Ironically this violence is often perpetrated by groups belonging officially to the Most Backward Caste (MBCs) denomination in India which is designated just above the Dalits. These conflicts are directly driven by the competition over rents. Dalit mobilization has often posed a threat to the privileges of the MBCs apportioned under affirmative action programmes for disadvantaged castes. In particular, the Indian government uses 'Reservations' to protect a fixed share of public sector jobs for particular backward castes. The mobilization of new groups demanding reservations threatens the share of existing groups.

However Tamil Nadu's Dalits are a more significant proportion of its population compared to Gujarat's Muslims. In Gujarat Muslims are just less than 10 per cent of the population. The percentage of Dalits in Tamil Nadu's population is double that at 20 per cent and have the holding power to pose a credible threat to any ruling coalition that excludes them or uses force to repress them. As a result, violence against them from any quarter is not welcomed by the leadership of political parties, though sporadic and sometimes serious violence does take place against the Dalits,

as a segment of the MBCs is a major constituency for the AIADMK. But both parties remain culpable with the violence usually perpetrated by Backward Caste leaders from the two main Dravidian parties contesting the gradually growing material power of sections of the Dalit community. However, the 'growing' power of the latter is relative and has to be seen in the context of the historically abject socio-economic position of the Dalit community. Yet the politics behind the violence in Tamil Nadu is also quite different from that underpinning the violence in Gujarat. While violence of any kind is unacceptable what one observes in Tamil Nadu is a conflict between groups in the lower strata of society whereas violence in Gujarat is 'informally institutionalized' and indirectly supported by the Hindutva ideology of the ruling party as we have described in Chapter Four. Tamil Nadu has never witnessed violence on the scale of the Gujarat riots of 2002. Violence here is the outcome of competitive strategies to establish relative power of evenly balanced groups contesting the distribution of rents. This is a commonly observed feature of contests over the distribution of benefits in clientelist political settlements (Khan 2010, 2012). In Gujarat the violence against Muslims was not directly driven by competition over the relative distribution of rents. Rather, violence was unleashed against a much weaker group in society precisely because it would not be able to retaliate, allowing the ruling party to signal its control over violence that helped it to consolidate 'authoritarian clientelism' as discussed in Chapter Five.

Population 2011	72.14 million (India 1.24 billion)
Gross State Domestic Product 2011-12 at current prices	USD 104.6 billion
Per capita Net State Domestic Product at current prices 2010-11	USD 1640 (India USD 1509)
Capita Output Ratio 2012	2.25 (India 2.32)
Gross Fixed Capital Investment 2011 % GDP 2004-05 prices	19.8% (India 32%)

Net Value Added Factory Sector 2009-10	USD 12.9 billion
Share in All India Employment 1980-81 to 2007-08	13.1%
Percentage of population below poverty line (2011-12)	11.2% (India 21.92%)

Table 6.1. Tamil Nadu Economic Characteristics

Source: Various (Gol Census 2011), (MoSPI), (CSO, Respective State Governments), (ASI, 2009-10), (NSSO 66th round), (Planning Commission of India)

Along with Maharashtra and Gujarat Tamil Nadu is one the leading industrial states of India, one of its three automotive manufacturing hubs (along with Pune in Maharashtra and the National Capital Region around New Delhi) and was ranked fourth in terms of attracting FDI between 2000 and 2012 (Figure 6.3). While Maharashtra and Delhi historically attracted over 50 per cent of FDI flows in India Karnataka was also attractive for high quality IT-related investments around Bangalore, which had emerged as a global IT hub. Though the FDI figure for TN over this period is relatively low (USD 9.72 billion) its position in fourth position remained consistent. The FDI it received was also in manufacturing sectors with spillovers for employment and skill development. As we see in Table 6.4 later in this chapter, over 30 per cent of the FDI in Tamil Nadu was in high productivity sectors like auto, IT-related and pharmaceuticals, in contrast to Gujarat where chemicals and petrochemicals accounted for just under 50 percent of FDI between 1991 and 2011. FDI in Gujarat over this period totalled USD 8.53 billion placing it in fifth position behind Tamil Nadu.

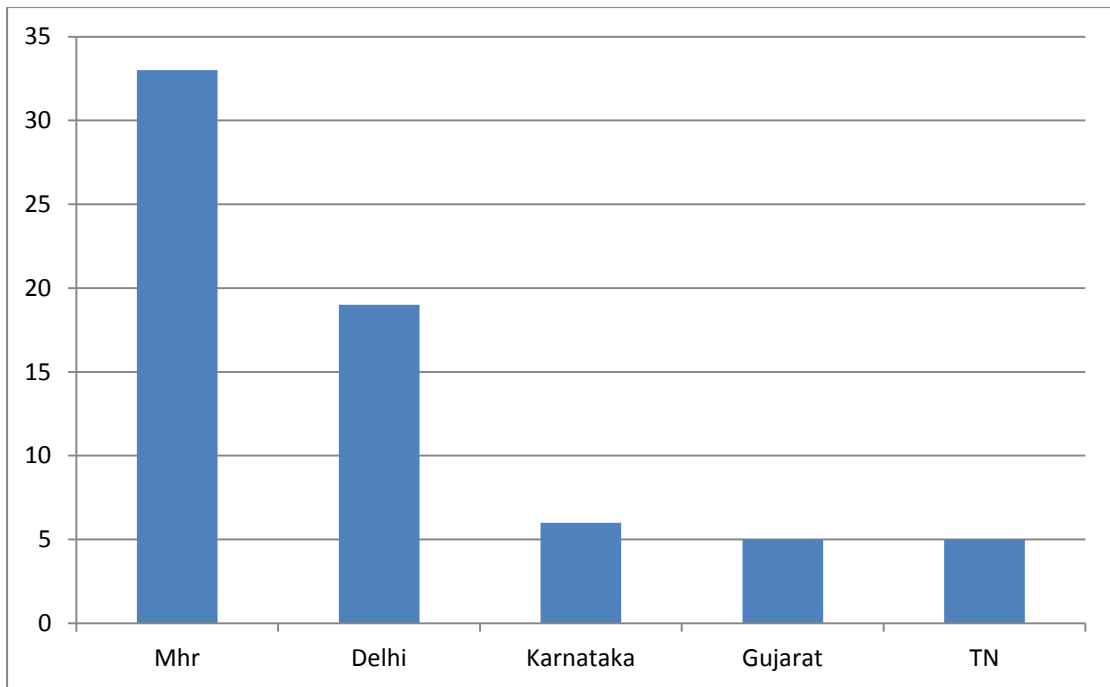


Figure 6.3. FDI in Indian states 2000-2011

Source: (Mukherjee 2011: Table 2)

The growth rate of per capita incomes has been consistently trending upwards (Table 6.2) and per capita incomes have been higher than the Indian average (Table 6.1 for the 2013 figures). While Gujarat has been described (misleadingly in our opinion) by some Indian commentators as a model of good governance, it would be even harder to make that claim for Tamil Nadu. The Tamil Nadu case is interesting for examining the relationship between institutions and political configurations driving growth in a context of high levels of corruption and clientelism. Liberal economics models applied to India often miss the critical differences between states and attribute national growth outcomes to economic liberalization and India's somewhat higher than average scores on good governance for its level of development (Basu 2003; Panagariya 2005; R. Rajan 2006). In reality, growth across states in India has varied widely and has been driven by very different factors in each case. In particular, political and institutional arrangements have varied significantly across Indian states.

Years	NSDP per capita growth rates
1961-70	0.0
1970-80	1.6
1980-90	2.9
1990-2000	4.6
2000-10	6.2

Table 6.2. Tamil Nadu Net State Domestic Product per capita growth rates at constant USD 1980-81

Source: Based on EPW Research Foundation Statistics, State Level Domestic Product Data, 1960/61 to 2007/08. EPW data

Tamil Nadu's political settlement contrasts with that in Gujarat along a number of dimensions. In contrast to the dominant party in Gujarat, over the last two and a half decades the ruling coalition in Tamil Nadu has been one or other of the two main parties in short-lived governments that have always been thrown out at the next election. The two principal parties, DMK and AIADMK, are divided by their claims of being closer to their shared founding ideology. In reality they are of course clientelist political organizations based on the informal distribution of rents within their organizations. In a competitive clientelist political settlement, there are too many political organizers with powerful organizations and rent demands to be incorporated within a single party. This makes the levels of contestation and competition for recruiting organizers within the party organizations more intense. The intensity of the conflicts over interpretations of their founding ideology reflects this, but the similarity of their ideologies also moderates their strategies because neither party has the legitimacy to try and wipe out the other. Indeed the intensity of the ideological conflict between the two parties has decreased dramatically over the last three decades.

We will see that the roots of the shared ideology of the two parties are in a pre-Aryan Tamil nationalism that was also violently anti-Brahmin. Over time this has

morphed into a more anodyne populist and left-of-centre politics. Politics therefore frequently has a populist colour in the state, as in many other Indian states perhaps with the exception of Gujarat. This is not to say that there are no populist schemes of the BJP in Gujarat but most of them have now become formal state-sponsored welfare schemes whereas in other states including Tamil Nadu, some or much of the populism works through informal rent distribution processes. In Tamil Nadu's case populist schemes include the distribution of gold 'thalis', which are traditional symbols of marriage for Hindu women in south India, and free rice and mineral water to families living below the poverty line, over and above formal welfare schemes. Given this background it would not have been surprising if the state's industrial trajectory had been similar to West Bengal where the Communist-populist ruling coalition sometimes adopted populist policies in the 1980s and 1990s to the detriment of industrial growth. So it is interesting that Tamil Nadu despite its competitive clientelism and populist politics including informal rent allocations managed to sustain high levels of industrial development. The key to this has been the relative stability of policy due to the specific distribution of power between the ruling coalition and currently excluded political organizations in the state. It is this configuration that we will analyse more deeply in the chapter.

In Figure 3.2 in Chapter three we located Tamil Nadu in the quadrant for competitive clientelism. This reflects the fact that political organizations outside the ruling coalition are strong and as related to that, the lower level organizations within the ruling coalition are also strong because they always have the credible option of leaving and joining the opposition. Compared to Pakistan with its increasingly powerful and fragmented excluded organizations, Tamil Nadu is not as far to the right in the diagram, implying that excluded organizations are only moderately strong and in any case use 'acceptable' mechanisms of political competition. This is one reason why the state maintained relative policy stability despite electoral cycling and competitive clientelism. This feature of Tamil Nadu's political settlement also ensured that successive governments would not overturn contracts and investments agreed upon by the previous government. As a result, large Indian industrial houses and multinational corporations flocked to the state over the years. Historically, when

Congress was a dominant party in the 1960s, the state had already been pro-business in its development policy. With the rise of the more populist Dravidian parties (Dravidian refers to a pre-Aryan indigenous culture in the Indian peninsula) industry did not retain its primacy, but policy did not become anti-business either. As a result investors were confident of bringing in and investing in technology-intensive sectors despite their long gestation periods of investment and learning. In particular, business organizations that needed policy stability but were already competitive and needed relatively little government support to become profitable were attracted to the state. For instance, in the mid-2000s, Tamil Nadu accounted for 21 per cent of passenger car production in India and 33 per cent of commercial vehicles (Aya and Siddharthan 2007). It also had a significant electronics industry. Clearly, the state has the policy credibility to attract moderately large, high technology investments even though it did not have the reputation of having a centralised administration as in Gujarat run by an 'efficient' leader.

Gujarat scores higher than Tamil Nadu in attracting even longer gestation projects like infrastructure projects, power generation and private ports. The time horizon for recovering investments in infrastructure projects like ports is typically much longer than that required for investments in electronics or autos and therefore the former require the state to credibly honour contracts over a longer period. Hence we do observe a significant difference in the sectoral industrial profiles of the two states. During the course of our fieldwork interviews a common response was that whichever party was in opposition was careful not to damage investor confidence. A number of significant respondents reported a tacit agreement between the two parties whereby the opposition would get a portion of the rents coming from new investments. Secondly opposition to projects or changing contracts *ex post* would threaten investments when that party expected to be in power, thereby affecting the flow of rents.

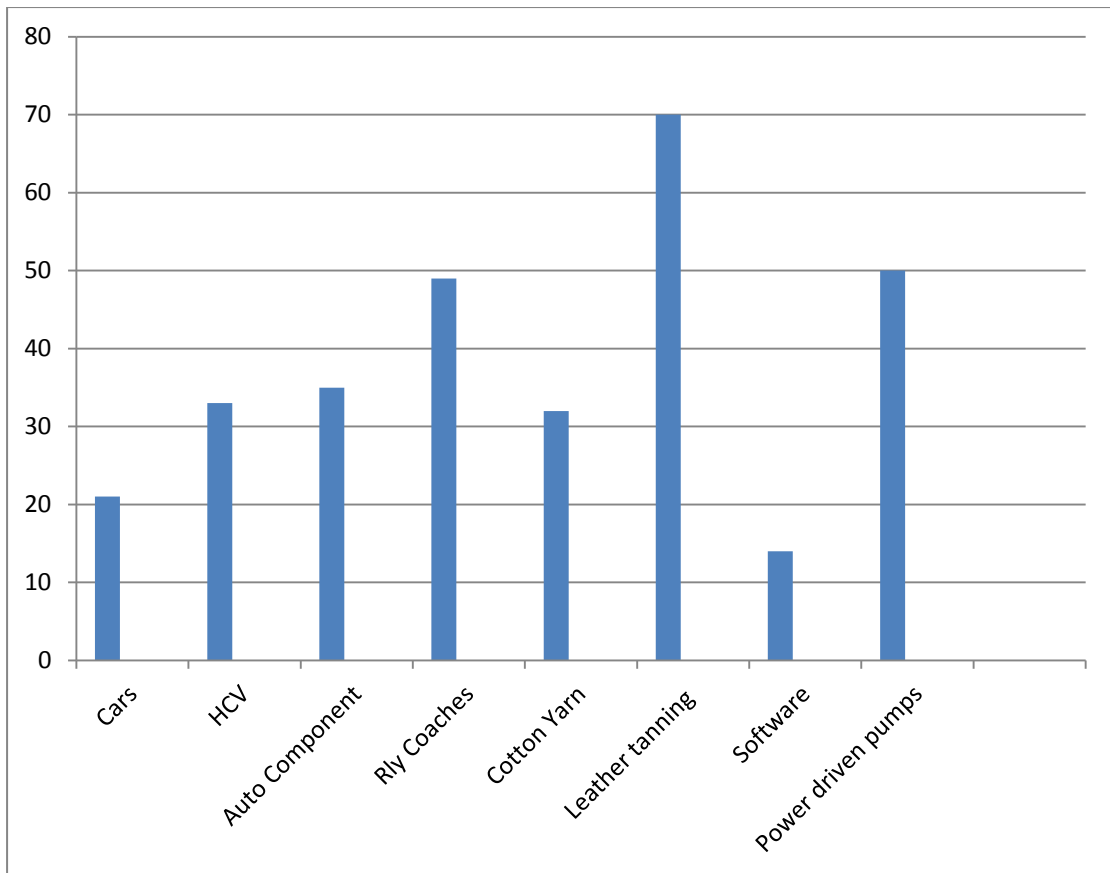


Figure 6.2. Contribution of some significant sectors in Tamil Nadu to the Indian manufacturing sector (all figures in percentages) in 2000-2001

Note: HCV stands for Heavy Commercial Vehicles

Source: www.ibef.org

This implicit contract between the two parties in the competitive clientelist political settlement solved a number of credibility problems facing investors about the predictability of policies and the enforcement of their own contracts with the state over time. The live-and-let-live compromises in the organization of political competition and the informal rent sharing arrangements between the political parties at the highest level therefore served as an informal institutional structure that guaranteed continuity and provided credible commitments about contract enforcement to investors. However, the time horizon of credibility in contracting was limited to confidence that the next government was unlikely to make fundamental changes but the system itself faced vulnerabilities. This meant that the rent management institutions in Tamil Nadu could not offer very long-term contracts with high levels of credibility. This can help to explain why in the case of

infrastructure investments, Tamil Nadu did not perform as well as Gujarat. Nevertheless, the informal rent management institutions offered sufficient stability and credible short-term rent allocations that were sufficient to attract high capability companies that were already close to the competitiveness frontier in sectors like automobiles and later electronics. Capability development in the former had largely happened in the industrial policy era when Congress was the dominant party, and then in the 1980s in the early stages of the transition to competitive clientelism when the Maruti-Suzuki venture was organized (Khan 2011a).

Tamil Nadu's share of installed capacity in the auto components sector in India was 32 per cent in 2010 and three Chennai based groups TVS, Amalgamated and Rane accounted for 22 per cent of India's auto component production. Chennai has also emerged as India's electronics hardware manufacturing centre with companies like Nokia and Flextronics setting up some of their biggest manufacturing units here. It is particularly significant that Tamil Nadu achieved these levels of industrial concentration in relatively high technology sectors without the natural resource base of Gujarat and without the centralized political administration that a dominant party can offer. As we see in Figure 6.2 Tamil Nadu's share of engineering based industries like cars, Heavy Commercial Vehicles (HCVs) and auto components is substantial given that its population in 2011 was 5.8% of the Indian total (Table 6.1). The presence of industrial clusters in Tamil Nadu for small engineering (power pumps), ready-made garments and cotton yarn is also substantial providing broad-based employment opportunities. In contrast, in Gujarat relatively largest sectors are in capital-intensive activities like chemicals, petro chemicals and energy much of which also exploits Gujarat's natural endowments and particularly oil reserves (Figure 5.2, Chapter Five).

As in Gujarat, the ruling coalition in Tamil Nadu was able to offer incentives to particular investors by offering a series of upfront rents. The difference with Gujarat was in the nature of the business-government relationships through which large business houses maintained close links formally and informally with the government. As Gujarat had a dominant party system for over 15 years, links between privileged

business houses and the Modi administration were uninterrupted and therefore deeper. In Tamil Nadu business houses have had to deal with a different ruling coalition every five years since 1989 and therefore did not have the kind of uninterrupted access to the administration as in Gujarat. Nevertheless, credible relationships that provided upfront rents to attract investments, followed by enough of an assurance that policies and contracts would not be immediately challenged by a new government attracted high capability companies that were already competitive or close to achieving competitiveness. These were precisely companies in sectors like autos, auto components, textiles and leather where capabilities had already been developed in the pre-liberalization years and in the 1980s when liberalization was in its very early stages.

The roots of the original Dravidian movement in the region in the early 20th century were in an emancipatory politics based on rationalism and an attempt to redress the exclusion of backward castes in Tamil society. However, the politics of the two large political parties that claim their descent from this movement have evolved to become largely populist and clientelist. Leakages of public resources are used by both parties as informal rent allocations to support large party organizations. In fact industry and employment generation stagnated under the Dravidian parties, especially under the DMK (from which the AIADMK later broke away) in the 1980s as a result of these populist strategies. Some of the redistribution happened through formal populist schemes like the Mid-Day Meals scheme which we will discuss later. This scheme became one of India's most successful redistributive welfare programmes. Implementation of such schemes encouraged even greater mobilizations of the state's already relatively well-organized lower castes, in stark distinction from Gujarat. These mobilizations had repercussions for the survival strategies and legitimacy of the ruling parties. In order to maintain their legitimacy both parties had to vie with each other in devising and implementing welfare schemes and populism was a mechanism for achieving political stability and became an accepted and necessary part of the institutional distribution of benefits in the Tamil political settlement.

It was precisely because the legitimacy of the ruling parties depended on their ability to deliver populist redistributive schemes that both pursued these policies, but the latter also led to a slowdown of growth and growing unemployment in the 1980s. The necessity of combining redistribution with growth led both parties to adopt proactively pro-industry positions in the 1990s. India's liberalization reforms happened at a serendipitous moment for Tamil Nadu which could now make use of its high capabilities in engineering industries and in incipient industrial clusters like autos, textile and leather. Some of these capabilities were based on industrial location and licensing decisions of the industrial policy period, but some were based on the state's strong performance in education. The state not only has one of India's highest literacy rates but also houses some of the highest numbers of tertiary education institutes in India, especially private engineering and medical universities.

The Government of India ran the Indian Institute of Technology in Chennai. This institution is at the forefront of technical research in India that is of global standards, and in these areas Tamil Nadu is ahead of Gujarat. While most of the private colleges do not provide standards of education commensurate with the needs of cutting edge technology they have nonetheless helped create a pool of human capital that finds employment in the state's fast growing IT and information technology enabled sectors (ITeS). Thus, 37 per cent of the state's engineering graduates specialize in communications, IT or computer science. The accelerated development of private educational institutions is also an accidental result of another rent management strategy which provided party supporters with land to establish educational institutions that are often looked upon as lucrative business opportunities in the state. In other instances party supporters were granted liquor 'licences' and these were usually sold on for high profits. Some of these rents were subsequently channelled into the education sector. The rise in the high technology service sector exports from Tamil Nadu is in part a consequence of these public and private investments in education. This is an example of the argument in Chapter Two that the outcomes of rent seeking are more important than the immediate costs.

One of the vulnerabilities of the political settlement in Tamil Nadu is that it is subject to fragmentation from endogenous processes of political competition. Clientelist parties typically have dynastic and personality-based leaderships. The formal institutionalization of clientelist parties is difficult because these are coalitions of sub-organizations and every sub-organization is threatened if a leader identified with a particular sub-organization is elected to lead the whole party. The clientelist party structurally requires a leader who can act as neutral arbiter in its internal rent allocation contests and a dynastic leader is usually the most acceptable to all the internal factions. But this also means that inter-generational change can be contested and lead to a fragmentation of the party when there are multiple siblings or relatives claiming the succession. In addition, changes at the all-India level have resulted in a change in the types of rents that are available to important coalition partners in states. We will see that Tamil parties have been able to access very large centrally allocated rents with ease in the context of providing support to national coalitions in Delhi. This too has had an adverse effect in reducing the importance of managing state-level industrial rents with care. By the 2010s, the state began to face capability constraints in its manufacturing sector and neither party had a rent management strategy to address this problem. The constraints were not just at the level of the supply of skilled personnel being produced by educational institutes. There was also the challenge of financing new waves of learning-by-doing in capability development to move up the quality and technology chain in sectors like auto components. In both areas rent-management strategies were falling short of addressing the constraints. This problem is particularly acute in Tamil Nadu where the bulk of manufacturing is competing in globally competitive markets. In Gujarat the manufacturing specialization is somewhat different and enjoys greater entry barriers against global competition but even there the challenge of learning and capability development for developing new competitive sectors is likely to affect the sustainability of industrial growth.

6.2 From an Ancient Civilization to Politics of Populism

6.2.1 A brief history of Tamil Nadu:

Like much of southern India Tamil history has been marked by linguistic and cultural differences from northern India. Even while Sanskrit was developing as one of the classical languages of the Indo-European languages group, the Tamil language was developing as an independent linguistic entity in the family of Dravidian languages. Evidence of a cultural region called 'Tamilakam' encompassing much of modern Kerala and Tamil Nadu comes from an ancient body of Tamil literature called Sangam. The Sangam is essentially a collection of heroic poetry with historians dating the work from the first century BCE to the sixth century CE. Non Tamil inscriptions from the era like Ashokan rock edicts also confirm the existence of this region called Tamilakam with five independent states. Archaeologically the Sangam era is said to correspond with the late Iron Age to the Early Historic period or 300 BCE to 300 CE (Abraham 2003). At various times this literature has often been invoked by Dravidian parties as an example of the difference between north and south India. While this was often used to prove populist political points the instrumentalizing role played by the Tamil language through mobilizations that began in the 19th century have ensured its centrality in Tamil politics (Ramaswamy 1993). Sanskrit did indeed have a role to play in society in south India especially with regard to the adoption of the Vedas there is little doubt that Tamil does indeed have a rich literary and cultural history of its own.

By the first few centuries of the Common Era three kingdoms were already organizing territory in what is now Tamil Nadu, the Cholas, Pandyas and the Chedas: and under these kings trade routes were developed between the eastern Mediterranean and south-east Asia. A later dynasty called the Pallavas helped create a sovereign kingdom for the first time in the region (Stein 1998). Later Chola kings helped the kingdom become a naval power with frequent expeditions to the island that now make up Indonesia. It is telling that at no time before the British period in India did any north Indian dynasty rule over the entire southern Indian peninsula. By the beginning of the 14th century the region came under varying degrees of Islamic rule but unlike in the northern part of the country Islam and subsequent Hindu-Muslim communalization played a limited role in the state's politics.

The first colonizing Europeans who evinced an interest in the region were the Dutch who chose Pulicat near Chennai as their base around 1609. The French and the British soon followed. By the middle of the 18th century the Dutch and Portuguese were by and large ousted from India and the south eastern coast of India where Tamil Nadu is situated reflected the rivalry the French and English shared in Europe. Three Carnatic (India's south eastern coast) Wars were fought between the two rival colonial powers and Madras city changed hands between the two during this time. A famed standoff in South Asian history between the brilliant if eccentric French governor of Pondicherry, near Chennai, Francois Dupleix and Robert Clive who could be similarly described from the British side ended with the English winning control. But English and French interference in the south marked the beginning of a policy the British were to later use successfully across India. The policy of divide and rule used by the two was essentially about supporting one Indian side over the other to help consolidate their own rule in the South. The end of the third Carnatic war however decisively ended French rule in India. By the last decades of the 18th century the East India Company was very much in power and the area was deemed as Madras Presidency.

Like Bombay, now Mumbai, in the west and Calcutta (Kolkata) in the east of India the British had developed the port of Madras to be their base in southern India. Similar to those two cities Madras, now Chennai also saw the establishment of British institutions like the judiciary and provincial administration. In fact Chennai was the first settlement the British created in India. The British made investments in upgrading agriculture, especially with regard to irrigation, industry and infrastructure with Madras port becoming the premier port in the south. It would be easy to say that these earlier institutional endowments have made it easier for Tamil Nadu to be the industrial success it is today. However while this history might have helped, attempts to leverage and build on it were attempted only in the post independence era, and not all of it in consciously intended ways. Our framework shows that growth is dependent on the political settlement that determines how politics and in particular the organisation of power interacts with economic institutions. The historical strength of institutions is no guarantee of future growth because as we

have discussed in Chapter two growth is not a linear sum of the effects of institutional variables. A very good example to demonstrate this would be the former first city of the British Raj in India, Calcutta. It was the capital of the Raj till 1912 and the British lavished enough care and attention befitting a 'second city' on Calcutta. By the early 20th century Calcutta and Bengal province of which Calcutta was also the capital were the most industrialized in the country. Yet by the 1970s West Bengal and Calcutta were both in the throes of what is now commonly described in India in as de-industrialisation. Calcutta had similar institutional features to Mumbai and Chennai (except for its riverine port which was silting up as opposed to Mumbai's and Chennai's deep sea ports) yet the ruling coalition of Left parties chose an agrarian strategy of rent creation as opposed to industrialization (Khan 2009a; Roy 2012). Coalitions in Maharashtra (of which Mumbai) is the capital and Tamil Nadu did not at least have antagonistic ties with capitalists. The next few sections will identify the combination of institutional variables that led to the political settlement with its specific growth stability trade off in Tamil Nadu.

6.2.2 The origins of the Dravidian movement and a Congress attempt to overcome it in the initial years after independence

Upper caste Brahmins were not the socially dominant force in the pre colonial era In Tamil Nadu (Subramanian 1999). It was with the coming of the British and their importance as a 'scribal' class that led to the rise of anti Brahminism. The Brahmins in Tamil Nadu had knowledge of the scriptures and therefore had an advantage in being educated. Much like the Brahmins of Bengal the British picked them to be their scribes giving them access to government jobs and consequently a level of prosperity the other castes did not have. British social engineering was based on early oriental anthropology and drew its authority from the scriptures. In Tamil Nadu many of the intermediate land owning castes were not Brahmins and when the British were legalizing tradition they relegated them to the lower castes. This was because while they were not Brahmins they couldn't be fitted into the other two warrior and trading castes either as the latter two did not seem to exist in Tamil Nadu, even though most backward castes like the Mukkalathors and Vanniyars consider themselves to be a martial caste. It was due to this reengineering that temple

properties also came to be appropriated by the Brahmins as were temple practices. They also dominated Congress politics till the 1940s. The Brahmins had a distinct cultural identity in that they were more Sanskritized and at least in scriptural terms closer to North Indian Brahmins. Along with their newly minted higher (than in pre-colonial times) political and social status this already existing cultural difference only added to perceptions of their superiority (Subramanian 1999).

It was therefore telling that the first two political movements based on anti-Brahminism were started by the elites among non-Brahmins. The Dravidian Association was formed in 1912 and the Justice party in 1916. The founders of these two organisations were 'anglicized landlords' who were demanding greater representation for non-Brahmins in professional and educational arenas and within the framework of colonial legality. An anti-Brahmin movement that was based specifically against their superior caste position vis a vis the Shudra was to come later in the form of EV Ramaswami Naicker, better known as Periar, in 1926. This was the Self Respect Association and the organisation became the precursor for a nativist movement based on a separate cultural and linguistic identity of non Brahmin Tamils from the rest of India. Periar is important also because both the DMK and AIADMK owe their ideological origins to him. Several other Dravidian parties like the MDMK and PMK also owe ideological allegiance to Periar and have often been coalition partners with the two main parties from time to time.

Periar initially joined the Congress but was disillusioned with Gandhi's 'North Indian Brahminism' and started the Self Respect Association. Given its avowed anti-Brahminism on the basis of a felt deep social exclusion rather than one that represented non Brahmin elite sentiments of exclusion from government jobs the association became a more successful mass movement. Periar's own attitude to both the Indian union and anti Brahminism is the subject of many academic debates and not within the purview of the paper. But we will quickly concise a few of his main ideological points in order to understand modern Tamil politics better. Periar was the first to articulate the 'Dravidas' or those living in the south of India were a race distinct from the north Indian 'Aryans'. He opposed the Sanskritic caste system

on the basis of hegemonic North Indian Hinduism and went so far as to demand a separate Dravid homeland or Dravida Nadu, as a separate entity from independent India. His views on religion were also heretical and iconoclastic though his attitude towards the Scheduled Castes of India (SC) or lower castes and Tamil Muslims and Christians remained ambivalent. The essence of his ideology was the primacy of the Shudra caste or the lowest of all castes according to Brahminical Hinduism (Subramanian 1999) It was this aspect of his ideology that the later parties would adopt. His successor CN Annadurai opposed secession at the time of independence and this was one of the reason why he split from the Association (by then called Dravida Kazagham or DK), in 1949 to form the DMK. Periar's DK was against fighting elections while DMK was a political party ready to seek an electoral mandate. At this time the Congress formed the government in the first general elections in Tamil Nadu, then still called Madras state. The Congress was riding a nationalist wave all across India after independence and this propelled it to absolute majorities in most states. However the party did not get an absolute majority in Tamil Nadu and had to depend on alliances with smaller parties to keep out the DMK and form the government.

However matters started looking up for the Congress in the assembly elections of 1957 and 1962. The Congress government under K Kamaraj introduced a number of schemes for the Backward Classes in the state. Kamaraj himself was the first non-Brahmin chief minister of Tamil Nadu and this helped the Congress consolidate its base amongst the intermediate castes in the state. While Kamaraj was not the chief minister over all of the seventeen years that the Congress ruled the state nonetheless received high levels of investment from India's centrally planned economic model. The state became fairly industrialised by the 1950s and received a high proportion of investment in hydro-electric projects because of the abundance of large rain fed river systems in the state. It was under Kamaraj that the state received large public sector investments like the Bharat Heavy Electricals Ltd (BHEL), a heavy engineering company and till today one of the leaders in its sector in India. Tamil Nadu already had established industries like leather and textiles from the British times. A railway wagon making factory was established in Permabur near

Chennai that still continues to function successfully. A number of sugar and paper mills were also established under his watch. Kamaraj also successfully negotiated the setting up of the prestigious Indian Institute of Technology (IIT) in Chennai. This IIT became one of the first five prestigious IITs of the country and is today known as the alma mater for some of the best engineers from India, and some would say even be comparable with the best international standards in engineering education. It is worth noting that Kamaraj was a trusted associate of Nehru and this personal equation served the state in good stead.

A quick look at these ministers in the central cabinet and how they helped influence Tamil Nadu's growth in the early post independence period is required now. For instance TT Krishnamachari was minister for commerce and industry, finance and steel for various periods between 1952 and 1965. He was also the founder of the TTK group of industries, a large conglomerate in south India which is now a Rs 1500 crore group. It is a successfully diversified group with manufacturing interests in consumer durables and pharmaceuticals among others as well as in services. The company is headquartered in Chennai and in its early years was certainly helped by the fact that Krishnamachari was himself a part of the government. C Subramaniam was first made minister for steel and mines in 1962 in the union cabinet and then became defence and finance ministers. From the second plan onwards India's five year plans were heavily dependent on investments in capital goods related industries like steel to drive growth. The portfolio of steel and mines is critical here because all Indian states were desirous of getting a steel plant at this stage. Tamil Nadu, despite being deficient in both coal and iron ore received a large investment from the central government in the steel sector—for instance the Salem Steel plant manufacturing special steels, though to be fair it is not an integrated steel plant which requires chiefly iron ore and coal. The politics of industrial location is still hotly debated in India and is not within the scope of this paper directly but 'friendly' central ministers went a long way in influencing where public sector investments went. R Venkataraman was an industry minister from Tamil Nadu who also promoted the state's interests. He later went on to become president of India. A number of

licences for manufacturing trucks and heavy vehicles were provided to Tamil Nadu in this period by these ministers (Aya and Siddharthan 2007).

In 1967 the Congress received a rude jolt when the DMK won an absolute majority in the assembly elections for the state parliament. There were two key reasons for this. One was the Congress' insistence on Hindi as the official language that led to anti-Hindi riots in 1965. Second was the tenure of M Bakhavatsalam who took over as chief minister from Kamaraj after the latter left Tamil Nadu politics to become the president of the Congress Party at Nehru's request. Bakhavatsalam was a Brahmin by caste and did not possess either Kamaraj's political acumen in intermediate caste politics or sensitivity. The DMK under Annadurai effectively mobilised public support even in the latter case and ensured its electoral victory in the assembly elections of 1967. This was a significant event not just for Tamil Nadu but also for India because this heralded the beginning of non-Congress governments to last a full term across the country (A communist government elected in 1957 in Kerala state was dismissed by Nehru in 1959), though the wave of regional party-led governments was still some time away. In Tamil Nadu itself the Congress has never regained power since. The Congress has been marginalised to the extent that it won only five seats in an assembly of 234 in the legislative elections.

6.3 The years of the Dravidian parties, the DMK and the AIADMK:

The watering down of Periar and the DK's initially strident ideologies (of anti-Hinduism, anti-North India and an opposition of minority religions like Islam, because of its formal ritualistic structures) by the DMK and later AIADMK made the Dravidian movement more fluid and therefore both popular and populist (Subramanian 1999) It helped that the central government or centre in New Delhi also made important concessions like granting a separate Tamil state on a linguistic basis and backtracked from making Hindi the only official language along with English. This helped the DMK to 'deradicalize'. It also reflected the true power base of Tamil Nadu, the intermediate castes, as opposed to the Congress support base that represented the Brahmans (Kohli 1998). The primary reason for the creation of the AIADMK was the competition for leadership of the DMK between two of its main

leaders M Karunanidhi and MG Ramachandran or MGR after Annadurai's death (Sastry 1974). MGR was one of Tamil cinema's most popular heroes, sometimes hailed even as a demi god by his fans. In fact the third reason for the undivided DMK's unprecedented success was that MGR had sustained a life-threatening injury around the time of the elections and the 'sympathy' votes cast in his favour helped the DMK with its electoral victory (Subramanian 1999). In 1973 MGR broke away with his sizable faction based on his image as a socially crusading matinee idol (Pandian 1989). This interplay between the socio-cultural, popular culture and politics in Tamil Nadu and indeed South India has been dealt with extensively in the literature but will not be dealt with in this paper as it is beyond our current scope. However the MGR faction, called ADMK, later the AIADMK, was also able to mobilize groups that the DMK was not focusing on. This included castes like the Nadars and Mukkalathors and the party also appealed more to female voters. The AIADMK has tried to reach out to Dalits but has not been adequately successful as Dalit mobilizations are now beginning to gain independent ground (Pandian 2000).

Taking this analysis further the creation of the AIADMK from the DMK and later the even more caste-coalition specific PMK in 1989 had a two-fold consequence in the way Tamil politics played out. For one the AIADMK incorporated the political aspirations of caste groupings the DMK had neglected and thereby decreased the possibility of any violent mobilization by these groups. The incorporation then led to greater relative stability, at least for two decades despite the fragmentation of the political order. Second this also meant government patronage, whether directly to key stakeholders or through redistribution programmes led to a distribution of resources to groups which would not have otherwise been beneficiaries. Of course such a structure runs the risk of breaking down and becoming detrimental if the fragmentation gets too minute and there are not enough resources to make all breakaway factions happy. This has not yet been the case in Tamil Nadu. Also the breakaway group of the AIADMK commanded enough support to pose a serious threat to the DMK. Later groups like the PMK or MDMK have been too small pose real competition to the two main parties. Stability achieved through this form of mobilisation seems to have actually had a growth enhancing effect on the state's

economy. This could in fact run counter to the claim that nativist policies usually impede growth. A similar conclusion was reached by Swamy when he contended the state's two party system helped prevent the outbreak of violence (Swamy 1998). The DMK was able to build sizable support among the state's Muslim population because Annadurai was careful to forge closer relations with the community. It must be noted however that the AIADMK is not uncomfortable with employing the language a 'soft hindutva' when the need arises (Schwecke 2011).

Having come to power the DMK was now adept at using Tamil identity from within the confines of formal democracy and this has since become the hallmark of the Dravidian movement. The links between Tamil cultural identity and outright political mobilization has remained muted and somewhat ambiguous since. The AIADMK has also followed a similar strategy since. The core of the DMK's policies at this stage though remained true to its roots in the Dravidian movement of anti Brahmanism. It was the first state in the country to appoint a ministry for Backward Classes Welfare though ministries for Scheduled Castes existed elsewhere. It appointed a backward Class Commission and raised the percentage of reserved seats or 'quotas' for Backward Classes in educational institutions from 25 percent to 31 percent in line with the Committee's recommendations. By bringing in new more affluent castes in to the category of Backward Class it increased the share of such classes in the population from 41 percent to 51 percent. It also provided 'quotas' for Christians and Muslims who had originally been Hindu Scheduled Castes as well as for Dakhni Urdu speaking Muslims. This ensured consistent Muslim support for the DMK (Subramanian 1999). The fact that richer castes were brought into the fold also made the party popular among intermediate classes and in fact laid the base for disenchantment with the DMK on the part of Dalits in the state.

The 1970s was the period that the patron-client politics of Tamil Nadu began to take shape. The DMK used redistribution and more explicit patronage to build up a loyal clientelist base. The DMK government rewarded farmers in the state's northern plains with an expansion of wells and tank irrigation networks. This made commercial agricultural viable for farmers, especially peanut farming. The area of

the northern plains was where the party had made initial gains and was now being rewarded for its support. Most of the construction contracts were awarded to party supporters or wealthy farmers influential in the area who could be depended upon to bring with them the support of the villagers. As an example Subramanian mentions NC Ramaswami Gounder, a small time leader from the Vanniyar caste who was lured to the DMK fold with such contracts. In turn Gounder brought with him the support of his extended clan and supporters (Subramanian 1999). To go back to our framework this would count as a sound example of how a clientelist political settlement works. As a retired bureaucrat familiar with the workings of Tamil Nadu told us, 'Even if all the roads and tanks did not get built at least some did. And where none existed it is better than nothing'. While it was building its base among the intermediate classes with such instances of patronage the party was also ensuring militant industrial trade unions were immobilized and promoted its own unions, especially in factories where Communist unions were strong (Subramanian 1999). The DMK however maintained support for workers' unions after it demobilized the Communist run ones earning it the displeasure of some capitalists in the state. Apart from its base among the richer peasants in the state the party was gradually building a coalition of traders and industrialists in the major urban centres like Coimbatore and Madras hence it needed to stamp out militant trade unionism. On the other hand the DMK made peace with agricultural unions as at this time it was consolidating its base among prosperous caste groupings with ties of traditional kinship among smaller farmers. It was not just easier for the DMK to suppress agricultural unions but also made for better politics of survival. The DMK faced its most serious threat in 1972 when MGR was suspended from the party's primary membership. While analysts ascribes the schism to both MGR's growing popularity and the fact that he disagreed with the DMK's corrupt practices our analytical framework seems to suggest another line of reasoning.

By the late 1960s MGR had come to realize he was the star attraction for the DMK. His 'fan clubs' used to mobilise support for the undivided DMK, his rallies always registered huge attendance and many had not heard of the DMK but knew it only as 'MGR's party'. MGR started asserting his influence within the DMK as a reflection of

his importance in gaining the party votes. Karunanidhi was not willing to grant him the level of authority MGR saw as commensurate with his stature and decided to deal the DMK a body blow (Sastry 1974). He had enough supporters mobilized both within the DMK and outside and by 1972 when the split took place MGR was confident he would be a grave threat to the DMK's dominance and formed the ADMK or Anna DMK. In other words MGR was ready with another large patron-client grouping that could unsettle the political settlement created under the DMK. MGR's mobilization of his supporters into an opposing patron-client faction meant that he was then in a position to significantly change the distribution of benefits within the settlement and this in turn increased the holding power of his faction. This was demonstrated by the fact that the party won a by-election just seven months after its formation. A by-election in India is conducted after a legislative or parliamentary constituency is left empty for some reason (usually the death of the sitting legislator or annulment of an earlier electoral result) and in some cases can be used as an indicator of support for the next elections for the party that wins the by-elections. The DMK employed significant state machinery to thwart the ADMK candidate but the latter emerged victorious. Clearly here we see our framework at work. The ADMK had gained enough traction to hold out against the more powerful ruling DMK and was able to inflict losses not yet commensurate with the ADMK's formal structure. Most of the supporters and campaigners in the ADMK's mobilization programme, and not just for the elections, were students with little experience in politics before the by elections took place (Subramanian 1999). By the time MGR won elections in 1977 Karunanidhi had already for almost a decade from 1967 to 1976.

What MGR was effectively doing was taking positions that had a wide enough appeal and which the DMK would have difficulty in claiming. For instance MGR was consciously watering down the anti-North Indian stance of the DMK and making his politics more inclusive to the extent that his supporters even included Brahmins. This combination of political positions was inclusive enough to appeal to those who felt alienated by the DMK's nativism but at the same time appealed to voters who preferred a political opposition with Dravidian roots rather than a Congress which

traditionally was weak in Tamil Nadu. Apart from this successful nuancing of political positions the AIADMK under MGR and later his protégé Jayalalithaa Jeyaram was also to become more populist in terms of redistributive politics while it was in power. Given that the DMK had already laid the ground for redistributive politics in the state the AIADMK could only go further. It did so by launching schemes that were based more on handouts and could be delivered more directly to people. For instance AIADMK sponsored schemes included free mid-day meal schemes for children in state run primary schools or providing free rice and in one instance even promising a television set to each household. The effect of such policies was more direct and immediate. The DMK's redistributive policies were based more on reservations for various castes (though the AIADMK by no means abandoned this) or schemes to alleviate unemployment. The mid day meal scheme however was to become so successful that it was adopted by states across India as an incentive to send children to school (Dreze and Goyal 2003). The scheme's origins are another insight into how redistributive policies if properly targeted can deliver results, however expedient their origins (Harris-White 2004).

The scheme was originally implemented as much to placate one of MGR's and the AIADMK's strongest support base, women. At that time Tamil Nadu was running up a high fiscal burden given the large number of welfare schemes the government was running. The fact that DMK had implemented prohibition laws ensured a significant portion of revenue was lost by the exchequer. The AIADMK reversed prohibition laws to make up for the fiscal shortfall. Liquor licences were introduced and they soon became the largest source of revenue for the state. The liquor industry became one of the fastest growing industries in the state in the early 1980s growing at about 20 percent annually. By 1981 alone the AIADMK government had sold 15,000 licences. AIADMK activists cornered a large share of these and resold them at higher prices, ostensibly garnering funds for themselves as well as the party. In fact one such entrepreneur made enough from pay-offs by selling liquor licences to start a chain of educational institutions across the state. In the midst of this however MGR ran the risk of alienating women who saw the repeal of prohibition laws as inimical

to their interests with male members of their household getting access to cheap, legal liquor (Subramanian 1999).

The noon meal scheme was one of the most ambitious in scope in the country and was initially launched for six million children between the ages of two and nine. Incidentally the first such scheme was launched in Tamil Nadu when the Congress' Kamaraj was the chief minister but it did not have the scope that the programme had under MGR. By 1984 it was extended to 12 million people and included homeless widows, veteran soldiers and the most poor among Scheduled Castes. The programme also employed many disadvantaged women and members of the Scheduled Castes. The scheme became very popular and remains associated with MGR to this day and had positive effects on the enrolment statistics in the state (I. S. Rajan and Jayakumar 1992). However this scheme was also used to distribute benefits to AIADMK's supporters and once again underscores how development policies cannot be made in a vacuum. It also shows how clientelistic and programmatic politics come together in developing countries. The underlying politics, especially in terms of who the beneficiaries in the patron-client structure are has to be taken into account. When we spoke to interviewees in the course of our research it became clear that the key reason for the extension of the mid day meal scheme was that it reached out to a constituency the AIADMK was in danger of losing as well providing the party a channel to distribute lucrative contracts to run the scheme among its key supporters. Anecdotal and academic evidence suggests that procurement and distribution associated with the scheme initially provided AIADMK supporters with enough payoffs to keep them loyal (Subramanian 1999; Harris-White 2004). Later when the DMK ran the scheme it was similarly used to distribute patronage. In fact the scheme has been attacked by many who feel its aims of providing nutrition are being undermined by the corruption evident in its implementation. The purpose here is not to say that corruption should be allowed to be endemic. It is however an attempt at highlighting that corruption or illegal rent seeking is a structural feature of clientelist political settlements in much the same way as the AIADMK and DMK use schemes in an informal manner to build and sustain their respective coalitions in the absence of a large formal sector through

which to channel resources. However as Wyatt has pointed out the fact that while Tamil Nadu politics under the Dravidian parties remains clientelistic both have combined it with 'programmatic politics' aligned with its populism (Wyatt 2013). Unlike recent arguments in some of the literature on India coming from political scientists (Wilkinson 2007; Manor 2010; Elliott 2011) the continuation of clientelism through formal programmes does not imply India is moving towards a post clientelistic phase. It only means that India's political settlement is evolving into one where some programmes at the centre and in some states like Gujarat patron-client interactions are taking place through formal programmes. Even in the case of the National Rural Employment Guarantee Act programme which could be classified as a formal redistributive programme leakages take place on the lines described by Khan (1998) as suggested by media reports from some of India's leading publications (Mahboob 2010; Times 2012).

A notable feature in the last few decades has however been a whittling down of the difference in redistributive policies between the two parties. It is now more a question of competition between the two. For instance the DMK continued to run the mid day meal scheme after it came to power given its popularity. While MGR was alive he was the clear differentiator between the two parties and his popular appeal was also higher. With his death in 1987 the gap between the two parties has narrowed even more. Yet the competition between the two is so intense that the leaders of the two parties Karunanidhi and Jayalalithaa (she is known by her first name and hence we do the same) have not hesitated to jail each other when one is out of power. This sort of politics is unprecedented even in India where political rivalry among parties frequently descends into bloody violence. There is an apocryphal story that Jayalalithaa preserved the aluminium plate on which she was served her meals in jail after her arrest in 1997 by then chief minister Karunanidhi. When she came back to power she instructed the jail authorities to serve Karunanidhi in the same plate after his arrest in 2003. Yet despite such bitterness at the personal level instances where the incumbent party has reneged on a significant investment decision made by the other while it was in power have been rare in the

state. It is this unique political arrangement that has allowed the state to provide the stability necessary for industrial growth.

6.4 Relationship with the 'Centre', Coalition Politics of Today and the DMK and AIADMK

Given that we are presenting the case study of a state within the Indian federation no analysis will be complete without a discussion on the dynamics between the state and the central government in New Delhi. Tamil Nadu's politics despite being concerned with specific regional factors and dominated by regional parties was also affected by political coalitions making up the central government that the DMK and AIADMK were part of. While the dynamics of national politics did not create a sizable dent during state assembly elections national level parliamentary elections saw the two Tamil parties forge alliances with national parties, especially the Congress and the BJP. By the mid 1980s the Congress' stranglehold on national politics was significantly loosened. The first ever non Congress government was already experimented with in 1977 and though it did not last long, the Congress no longer seemed unassailable. By 1989 India was well on its way to learning to live with coalition governments. Regional parties from across India especially stronger ones like the AIADMK and the DMK were now in a position to dictate terms to national parties with regard to the choice of ministerial departments and as we will see in this section even in terms of pushing their own agenda in return for support to the national party. Depending on who gets a majority for the parliamentary elections in the state either the DMK or the AIADMK wins about 15 to 18 of the 39 parliamentary seats the state has. For a national party that has to cobble together a coalition in order to form the government these numbers regional parties provide are significant.

In 1989 the Congress allied with the AIADMK for parliamentary elections and Jayalalithaa used this alliance to bring down the DMK government in Chennai and the AIADMK won a large majority in the Tamil Nadu assembly elections. This was possible largely because both the Congress and the AIADMK ran a campaign that indicted the DMK leadership of being in collusion with the Sri Lankan Tamil

secessionist organization LTTE that was responsible for the assassination of former Prime Minister Rajiv Gandhi. The accusations were never proved but it did help the AIADMK win the 1991 assembly elections. Incidentally more radical elements of the DMK were known to provide tacit support to Sri Lankan Tamils fighting to break away from Sri Lanka but it was never a key ideology of the DMK. However since the Sri Lankan government's brutal crackdown on its Tamil citizens in the north east of the country both political parties in Tamil Nadu have forced the Congress in the centre to be more assertive in its opposition towards Sri Lanka.

The DMK on the other hand tested its national fortunes by being part of a non-Congress, non-BJP coalition government that lasted from 1996 to 1998. This government did not last the full five years of its term but the DMK was already getting a taste of what national presence meant as it had ministers in the national cabinet who oversaw important portfolios (or ministries) like oil and gas and industry. This was at a time when the DMK was not in power in Tamil Nadu but by dint of the fact that it was now a member of the union cabinet it could still influence decisions about the state. This dynamic actually captures the changing nature of the Indian political structure and the balances and counterbalances that have sustained it since the breakdown of the Congress dominated one-party political settlement. From the mid 1970s the Congress was unable to keep up with the growing demands of a population that was beginning to feel some benefits of economic growth and demanded greater participation politically or economically in decision making processes. Industrial licencing had failed both as a strategy for growth and patronage. Intermediate classes were demanding more than the Congress could accommodate (Khan 2011b). It was from this political churning that India's political space became more fragmented. Interestingly space was not made by offshoots of the Congress but was a result of genuine grassroots movements based on mobilizations that were either ethno-linguistic (Telegu Desam in the southern state of Andhra Pradesh) or on mobilization of backward classes the Congress could no longer represent (like the Rashtriya Janata Dal in Bihar). This was an expansion of the federal Indian political structure rather than a fragmentation though on the face of it might seem like fragmentation given the internecine nature of political battles and

ever expanding roster of political parties in India. Yet India has not seen a hung parliament in the last 15 years (three parliamentary elections) and political parties have been able to form alliances that have lasted their terms, a marked change from the turmoil of the early 1990s (though the next general elections in 2014 might well mark a return to unstable coalitions). This could be described as a centrifugal force at play where political mobilizations from the margins of the Congress dominant party system, and not from within it, enlarged the political space rather than fragmentation from within the Congress. This meant a shifting of power from the Congress to regional parties as well as the BJP. With a tightly knit Congress led dominant party system no longer possible the 'loosening' did not lead to a damaging breakdown but created a political order that was able to absorb the organizational power of the mobilising coalitions and prevent a collapse. How sustainable this process is depends on how fast factions break away and how effective existing factions are in distributing the benefits of economic growth.

In Tamil Nadu's case it meant the AIADMK and DMK leveraging their relationship with the two national parties for gains both at the central and state level. For instance the AIADMK joined the BJP-led NDA government with 28 Members of Parliament in Delhi and Jayalithaa then insisted that the BJP dismiss the DMK government in Chennai. The then Prime Minister Atal Behari Vajpayee refused and Jayalithaa brought down the government in Delhi by one vote. The DMK was quick to offer support to the BJP soon after to ensure it retained clout in the centre to countervail Jayalithaa. The DMK became part of the NDA government when elections were held again in but by 2003 it had withdrawn from the government. The next two general elections in 2004 and 2009 saw the DMK with the Congress' UPA and the DMK extracted a due price for this support by asking and getting plum ministries for Karunanidhi's associates, especially his family, namely a nephew and a daughter. Jayalithaa meanwhile stayed away from the NDA perhaps reading correctly that the BJP's fortunes were not on the ascendant. However an energized BJP under the likely leadership of Narendra Modi seems a formidable threat to the incumbent Congress and Jayalithaa who is now chief minister of Tamil Nadu will most likely ally with the BJP in the coming national elections in 2014. This is what

Sinha calls the 'partisan route' where state-level parties use their regional strengths to leverage with the national government for ministries or industrial investments (Sinha 2003). This was apparent when Dayanidhi Maran India's telecommunications minister during the UPA's first term, a member of Parliament belonging to the DMK successfully negotiated with mobile telephony hardware manufacturer Nokia and electronics design firm Flextronics to set up their India operations in Sriperumbudur near Chennai. Sriperumbudur has since developed into one India's most successful manufacturing clusters with companies like Hyundai, (one of the earliest in the area), Ford, Nissan, Samsung and Dell also setting up operations there. A combination of informal compulsions emanating from Maran's ministry to locate the Nokia and Flextronics units in Sriperumbudur, both of which were in sectors in line with his ministries and the already developed manufacturing environment around Chennai helped clinch the deals for Tamil Nadu when other states were also vying for them.

The DMK controlled the telecommunication ministry in both its stints with the UPA though its second term was not as productive for the state as the first. The party was recently divested of the portfolio owing to corruption charges against the relevant minister A Raja. This ministry was more often in the news for conducting undervalued auctions for telecom spectrums to create rents for themselves and other beneficiaries than for any other reason. The core of the controversy is the fact that the licences were provided at deflated prices contrary to ruling market prices and there was no competitive bidding involved in the entire process, a result of the reverse patron-client relationships we have described in Chapter four. Some of these licences were then part-sold at multiples of the original amount. All of this, it is alleged, was arranged in collusion with Raja, a key member of the DMK and a close associate of Karunanidhi's daughter.

The Congress could only watch as the DMK with 18 seats in India's parliament but still the second largest party conducted the affairs of the telecom ministry without much discretion. Most parties recognize that corruption is a part of the system and the Congress itself is no stranger to allegations of corruption, far from it. But most political parties still prefer to be discreet in their dealings because corruption can

quickly become an issue that wins or loses elections. When details of the way spectrum was allocated started becoming public it threatened to destabilise the UPA government. The Congress in a show of strength asked for Raja's resignation and instituted an investigation because of which Karunanidhi's daughter and Raja both spent time in jail. Interestingly the DMK continues to be a part of the UPA alliance and Kanimozhi's candidature to India's upper house of parliament was facilitated by the Congress. The DMK's performance has been one its worse in recent history and analysts have put the results down to a sort of fiefdom being run by a now ageing Karunanidhi's (he is 87) family and associates which leaves very little scope of patronage for outsiders. A succession battle seems to be brewing between Karunanidhi's two sons and this is bound to influence the political settlement in Tamil Nadu.

6.5 How the Politics Affected Critical Areas of Institutional Operation

The political processes we outline in sections 6.3 and 6.4 have had very specific growth outcomes in Tamil Nadu's. As we mentioned earlier in Section 3.3 of Chapter three rents can be delivered to patron-client factions and political organizers in many ways including through productive allocation of rents. In Tamil Nadu's case a combination of manufacturing capabilities built during the early years of Congress rule and the opportunities that the Dravidian parties created post liberalization for industrial investments as part of coalition governments at the centre ensured rent allocation in the state remained productive even though the corruption in the state is well documented unlike in other Indian states like Uttar Pradesh or Bihar (Wade 1985; Ambirajan 1999; Harris-White 2004; Vasudevan 2006). This led to higher levels of ancillarization, creation of cluster based industries like leather and textiles as well as a high technology oriented service sector in IT, ITeS and healthcare. Tamil Nadu also has cluster oriented industries like small engineering, leather and garments, investments in which can be traced back to its populist politics. The Dravid parties while being unabashedly populist also had to cater to a very mobilized intermediate class on whom an 'overhang' of Periyar's Rationalist movement still remains. So unlike in Bihar or UP which didn't experience similar movements of socio-economic

empowerment but were overtly about political empowerment parties in TN also had to generate employment. Its leather and garments cluster is precisely about that though of course the usual caveats about labour repression have to be kept in mind. So while the two parties were competing on populism they also had to compete on delivering economic growth. As a result the state has attracted a significant share of FDI and Indian investment from businesses that have come to realize that corrupt does not necessarily mean unstable or predatory. Tamil Nadu's investment profile comprises of high technology, high capital cost sectors which are already close to the global competitiveness frontier with available human resources. These investments do not need much government assistance in the catching up process, but they do need government assistance in acquiring land, assistance for overcoming specific market failures and credible commitments not to overturn contracts in the future.

A senior executive from the auto industry also remarked that whichever party comes to power in Tamil Nadu the bureaucrats working with it ensure that at least the larger, high profile investments go through unimpeded. A senior corporate personality summed up the current state of Tamil Nadu's political parties in this manner—"They stand for themselves and against each other". In this connection a '70-30' rule is said to have existed in the state for some time. This refers to an arrangement where the payoff was split between the government and opposition in a 70-30 ratio. This is to ensure that once the current incumbent is part of the opposition the then-ruling party does the same with them. This meant both political parties had an incentive to invite industrial investments. Our corporate source also said the payoff was never more than 10-15 percent of the investment so investors were not particularly daunted by the amount either. Yet this has not stopped Tamil Nadu from becoming one of India's leading industrial states. A structure like Tamil Nadu's could always be in danger of letting rent seeking become predatory. While this sort of rent seeking is not yet evident the long-term infrastructural investments that are more pronounced in Gujarat are less in evidence in Tamil Nadu.

The clientelist political settlement is the most common among developing countries and indeed all parts of India exhibit it. Yet frequent contestations in most states

mean a decline in either industrial growth or political stability, for instance in Uttar Pradesh or for some time in Maharashtra. The reason this doesn't happen in Tamil Nadu is that at a fundamental level the constituencies the two parties are reaching out to remain fairly similar, at least so far. This ensured critical policies stayed in place even if governments changed, like reservations for the Backward Classes or the Castes mid day meal schemes for children in primary schools. It can be argued that it would be unwise of any government to backtrack on successful policies implemented by the previous one but this has been known to happen in India. As a senior ex-bureaucrat told us both the parties had fluid philosophies, especially when it came to fighting elections. It might be recalled here that this was in sharp contrast to Periar who never wanted to contest elections and whose party, DK was ideologically quite iconoclastic. Since the Congress in the state was relatively weak and the two main parties represented a highly mobilised population based on principles of representation and equality populist schemes proved easier and in fact necessary to implement. Education was a sector both the parties prioritised—primary schooling through the mid day meal schemes and through the private engineering and medical colleges. The first was for redistributive reasons and the second was seen as a channel for rent creation. As a result, Tamil Nadu's performance on certain related human development indicators is higher than most south Asian standards, and certainly higher than the Indian average. It is ranked at number three behind Kerala and Maharashtra in terms of overall literacy rates. Yet the state also exhibits high inequality and some studies while recognising political clientelism as a 'necessary evil' have ascribed the inequality to Tamil Nadu's competitive clientelist politics whereby poverty alleviation programmes might be implemented selectively depending on the support particular villages provide (Markussen 2010). Yet that would not seem to be the case in Tamil Nadu where the two parties adopt each other's schemes when successful (as with the mid day meal schemes). In the course of our research we found that some slums in Chennai keep both the parties' flags handy and unfurl them depending on which party is in power. This way they don't lose out on largesse from either party given the nature of their cycling.

The fact that the two parties have a common ideological ancestry helps electorally because voters are able to migrate from one to the other without significantly compromising or giving up their 'belief systems' or more simply put political leanings. This is demonstrated by the fact that till assembly elections in 2011 where the DMK put in its most dismal performance, notwithstanding who won the two Dravidian parties each garnered at least 25 percent of the vote share. Between the two their vote share remains consistently over 55 percent since the 1980s (Table 6.3). What then becomes significant are the voters at the margin who decide which party gets the majority. Analysing who the marginal voters might be and why they tipped to one or the other side is not the purpose of the paper. This statistic was used to demonstrate how similar the electoral results were for the two parties. Since these results also reflected the true distribution of power there was seldom serious violence contesting them. This similarity in the constituency that both addressed also ensured policy continuity. This was because no party needed to experiment radically to reach out to newer sections of society. It is this fortuitous combination of social and political structures that has helped maintain political stability in Tamil Nadu and in turn has been advantageous for its growth prospects.

To be sure both the DMK and AIADMK sought to reach out to constituencies other than their core grouping. The two parties do not fight elections on startlingly different platforms even though their opposition to each other is bitter. This is one reason why the clientelist settlement in Tamil Nadu is fiercely competitive. What the two parties cannot do with ideology they make up for by competing over who delivers that ideology best. In the context of the clientelist framework we have discussed in Chapter three, such a strategy is important to keep their respective support base mobilised. A similar situation exists in Bangladesh where electoral constituencies remain broadly similar and the two parties differ very little in terms of policies but the clientelist political settlement in that country has had less dramatic growth outcomes. The reasons for this are 'zero-sum' games played by the two main parties that end in irreconcilable ideological positions based on differing myths of nation creation. The live and let live 'formula' that has helped Tamil Nadu so far does not yet seem a viable option to that country's main parties. Given this investors in

capital intensive projects like infrastructure projects are wary of commitments made by either party being reneged upon when the other is voted out of power. This has an adverse effect on the growth stability trade off (Khan 2012) Another reason for the zero-sum posture adopted in Bangladesh is that it is national governance that the two parties are concerned with. This makes the stakes higher. In India the federal structure acts somewhat as a 'shock absorber' and given the nature of coalition politics currently parties can look to form coalitions at the national level too.

Year	Party	Seats contested	Seats won	% of votes polled	% of votes in seats contested	Total seats
1977	ADK	200	130	30.36	35.36	234
	DMK	230	48	24.89	25.26	
1980	ADK	177	129	38.75	50.43	234
	DMK	112	37	22.1	45.7	
1984	ADK	155	132	37.03	54.33	234
	DMK	167	24	29.34	40.79	
1989	DMK	202	150	33.18	38.7	234
	ADK (JL)*	198	27	21.5	24.99	
1991	ADK	168	164	44.39	61.14	234
	DMK	176	2	22.46	29.89	
1996	DMK	182	173	42.07	54.04	234
	ADMK	168	4	21.47	29.54	
2001	ADMK	141	132	31.44	52.08	234

	DMK	183	31	30.92	39.02	
2006	DMK	132	96	26.46	45.99	234
	AIADMK	188	61	32.64	40.81	
2011	AIADMK	NA	150	NA	NA	234
	DMK		23			

Table 6.3. Electoral performance of the DMK and AIADMK

Source: Election Commission of India (ECI) Statistical reports, various years, results for 2011, ECI website, <http://ecireresults.ap.nic.in/> (ECI 2011)

* *The year the pattern of cycling began. Also the year when the ADK broke up after MGR's death. We have featured the Jayalalitha faction as that came to be recognised as the official one.*

NA- not available

The AIADMK's decision to distribute liquor licences was however a break from the DMK's policies and led to many party members gaining through selling them onwards. Some used this capital to invest in education and make the gains look more legitimate. But both the DMK and AIADMK used private education as a means to distribute patronage and generate payoffs. Tamil Nadu (along with other southern states) actively encourages the establishment of private higher education institutes like engineering and medical colleges. Admission to such an institute can sometimes include what is inscrutably called 'capitation fees' which can be anywhere from \$10,000 to \$15,000. Most of this is unofficial and does not go into the accounts of the academic institute. Anecdotal evidence suggests some of the money goes to the patrons/owners of the school and some to the political party under whose watch the school was formed. This has had a threefold consequence. It has helped the parties bestow largesse on key supporters while ensuring they also gain financial payoffs. It has also ensured the state produces a large number of engineering graduates compared to most other states. Interestingly one of the most frequent reasons provided by many software and engineering companies for investing in Tamil Nadu is the availability of skilled manpower. And Tamil Nadu has a high share of engineering

graduates in the country. As Table 6.4 shows the computer software and hardware sectors was the second largest recipient of FDI in the state from 2000 to 2011. This resource pool was made available not because the parties consciously wanted to reap the benefits of higher education for the state but was an inadvertent consequence of a rent created for quite another purpose. This ties in with our framework which analyses how strategies for rent creation that are used to create strong patron-client networks also impact growth.

Rank	Sector	FDI inflows in USD	Share of FDI attracted in the sector (%) of all India total
1	Construction development (townships, built up infrastructure etc)	1,226.20	15.33
2	Computer software and hardware	1037.79	12.98
3	Automobile industry	1025.85	12.83
4	Drugs and pharmaceuticals	563.10	7.04
5	Services sector	505.39	6.32
	Total	4358.33	54.5

Table 6.4. Top five sectors in FDI equity inflow 2000-2011

Source: Table 3.2 RBI Regional Office Chennai (RBI 2011)

Apart from strong patron-client linkages within the parties Tamil Nadu is also known for its politicized but highly committed bureaucrats. Industrialists across the board rate them as one of the best along with bureaucrats from Gujarat and to a lesser extent Maharashtra. One of the frequent reasons cited for it is that Tamil Nadu has a better 'work culture' or 'work ethic'. While not disputing the statement ascribing it merely to culture would be simplistic. A more political reason for this is at hand. At the time that the state was still ruled by the Congress (1950-67) there were also strong ministers at the centre from Tamil Nadu. Bureaucrats from the state

interacted with key Tamil ministers in facilitating investments to the home state. It certainly helped that Madras was already one of India's most industrialized cities thanks to British investments and Madras port was one of the largest in the country. But regular contact with senior ministers from their home state helped Tamil bureaucrats learn state craft faster. Tamil Nadu remained one of the higher recipients of industrial licences through the 1960s and 1970s. A deeper analysis of the state's effective bureaucracy follows shortly.

Leather and textile industrial clusters were established under Congress governments but have continued to turn in strong industrial performances under the non Congress governments too. Tamil Nadu's power looms manufacturing cotton fabrics account for 30 per cent of India's textile exports and the net value addition in the textile industry in the state is 37.5 per cent, the highest in the sector in the country. The state accounts for 65 per cent of the total number of spinning mills in the country and the Tirupur cluster produces 60 per cent of India's knitwear. Tirupur is also one of India's largest textile exporting hubs accounting for 90 per cent of its knitwear exports. The net value addition in Textile industry in Tamil Nadu is about 37.5 per cent, the highest in the country. The Textile mills are concentrated in Coimbatore, Tirupur, Salem, Palladam, Karur and Erode. Tamil Nadu has around 3,50,000 power looms manufacturing cotton fabrics and accounts for about 30 per cent of India's export of textiles products (Chellasamy and Karuppiyah 2005). The Erode district in Tamil Nadu is well known for marketing of textile products of handloom, powerloom and readymade garments. The largest clusters are found around Coimbatore, Tirupur and Erode, cities in the west central region of the state as well as in Chennai. A measure of the success of the state in sustaining its textile sector can be gauged from the fact that first textile mill was set up in Coimbatore in 1888 and the city now houses over 100 mills. The organized sector employs over 200,000 workers in textile mills but the sector has a significant component of unorganized workers (Chellasamy and Karuppiyah 2005). Trade unions and social activists frequently raise questions about the conditions of the labour force working in these industries and many are valid, especially environmental issues and the exploitative Sumangali scheme run by mills of the area under which Dalit and

women from poorer families women are employed. The leather industry is another traditionally strong manufacturing sector in the state. Tamil Nadu is the leading leather exporting state in the country accounting for 47 per cent of the country's exports in 2007. The state employs 42 per cent of the 2.5 million workers employed in the sector in India with clusters located around Chennai, Ambur, Ranipet, Vaniyambad (NSDC 2008). It needs to be added here that given the employment and export potential of both these sectors the two have attracted technical and financial aid from central and state governments as well as overseas assistance and Tamil Nadu has been no exception. Given that both these sectors attract employment from some of the state's relatively marginalized economic classes governments had tried to ensure these sectors receive enough financial attention. This does cut both ways though. While it does provide employment to backward classes it also provides mill owners with access to a pool of labour that has very little social or economic agency and hence allows some of the owners at least to get way with exploitative practices.

This strategy was unlike West Bengal where a Communist oriented coalition decided not to take advantage of the state's high levels of industrialization and instead decided on building an agrarian constituency to keep themselves in power. The rent creation strategy of the Tamil parties involved industrialization and building of infrastructure like irrigation systems, along with the redistributive policies we have mentioned earlier. Bureaucrats then found it easier to act as facilitators between investors and the state, especially in organizations like TIDCO, the state's industrial development corporation set up in 1965 that invests in joint ventures with the private sector and the State Industries Promotion Corporation of Tamil Nadu or SIPCOT set up in 1971 to facilitate term loans to industry. The state also set up the Guidance Bureau under the aegis of TIDCO in 1992 to make use of the opportunities presented by liberalization. The Bureau's biggest success has been in attracting auto sector investments into Tamil Nadu, domestic and foreign. There was another reason why bureaucrats in Tamil Nadu were effective and that was their level of political commitment to the party they chose to identify with. A retired senior bureaucrat from Maharashtra told us that given the depth of the schism between

the two political parties bureaucrats perforce had to choose which party to support. Being neutral was not seen to be a practical option though there were some who chose to stay above this divide. For those who did make the choice they came to be identified as belonging to a particular party and when that party was in power they therefore had to perform effectively enough. An indicator of this system was that in the early 1970s Tamil Nadu was one of the first states to agree to what became known as 'committed bureaucracy'. This was a policy attributed to Indira Gandhi and her son Sanjay who envisaged a bureaucracy that would defer to what the elected politicians would want (since apparently that's what the electorate wanted) and not question them unless the decision could be proven illegal. As a standard for bureaucratic credibility the idea was a complete reversal of Weber's bureaucratic neutrality or even Evans' 'embedded autonomy' and this policy is now credited with the steady decline in the quality of Indian bureaucracy. In the name of making way for the people's wishes by deferring to their representatives this practice has actually led to bureaucrats abdicating better judgement to politicians and in fact went further to consolidate rent seeking. Yet Tamil Nadu adopted it fast enough because its bureaucrats were already implementing this system informally. Post liberalization the competition between the states ensured state administrations had to work harder to get investments and the Tamil Nadu bureaucracy was not found wanting in this matter. Its nodal agencies that facilitate industry, TIDCO, SIPCOT and Tamil Nadu Industrial Investment Corporation or TNIIC are known as some of the more effective bureaucratic agencies in India. This demonstrates that Tamil Nadu's clientelist political settlement even included some members of the state's bureaucracy. Given that both political parties were willing to encourage industrial investments and build links with capitalists the respective allegiances of the bureaucrats ensured relatively effective implementation of policy.

6.6 The Political Settlement and Capability Development in Tamil Nadu

As we discussed in our analytical framework in Chapter Three, the holding power of capitalists in a political settlement relative to the ruling coalition also has an effect on rent-allocation strategies and therefore on growth outcome. The power of the

biggest business organizations relative to political organizations was growing in Tamil Nadu as in the rest of India but here because the political organizations were themselves not likely to be in power for very long, the capture of political organizations in inverted patron-client relationships of the type emerging in incipient form in Gujarat was less in evidence. It does not make sense for a big economic organization to invest heavily in a relationship with one political organization if that political organization has a life span of five years. This meant that a strategy of controlling long-term rent flows by building close relationships with a particular political organization was not a viable strategy in Tamil Nadu in the period under review. The best that economic organizations could expect would be upfront rents to make their investment more attractive. This had beneficial selection effects. It attracted economic organizations that were already competitive or close to competitiveness. These high capability business organizations also found pre-existing formal capabilities (educated workforce) and informal capabilities (industrial clusters and tacit knowledge) in Tamil Nadu that made the package attractive. The high levels of tacit knowledge of manufacturing processes in Tamil Nadu were in turn based on significant industrial development during the period of industrial policy and protection. As we can see from Table 5.3 in Chapter Five on Gujarat, by 1980 Tamil Nadu was already the fourth most industrially advanced state in India.

The allocation of industrial licences to Tamil Nadu during the industrial policy period was very beneficial for attracting companies like Standard Motors and Ashok Leyland to Tamil Nadu, the latter eventually becoming one of India's largest manufacturers of heavy commercial vehicles. Other companies that emerged in this period included MM Forgings which began life as a dealer for Royal Enfield motorcycles in 1946 but by 1974 had moved into the automotive forgings industry. Today the company is one of the leading manufacturers of various grades of steel forgings in India. The auto and auto component sector in Tamil Nadu developed to service the auto industry that located and developed in Tamil Nadu as a result of licence allocations. The TVS group is one of the best examples of this secondary development. The company has become one of India's largest and most respected manufacturing corporations with interests in automobiles, auto components, auto dealerships and financing. It was

worth USD 4 billion in 2012 and employed around 25,000 people. Companies within the TVS Group like Sundaram Clayton that manufactures air brakes, Sundaram Brake Linings, TVS Motor Company and Lucas TVS (a joint venture with Lucas UK) have won international quality standard prizes like the prestigious Deming Application Prize for excellence in manufacturing quality. Sundaram Clayton was the first Indian company to win the award. The Deming Prize is a coveted award for manufacturing companies initially awarded to recognize the best Japanese manufacturers. The Prize is now also awarded to non-Japanese companies and since then many Indian companies in the auto components sector have been recipients. A similar company also based in Tamil Nadu is the Rane group. The Group has four award winning companies Rane Brake, Rane Engine Valve, Rane Madras and Rane TRW Steering Systems.

The two companies enjoyed similar growth trajectories. The TVS Group was founded by TV Sundaram Iyengar in 1911 and started operations as a bus fleet manager in rural Madras Presidency. From this Iyengar moved on to an auto dealership in 1945 in Chennai. By the time of independence the business was a flourishing one and in 1954 Indian Motor Parts and Accessories (IMPA) was incorporated as a distributor of automobile spare parts and accessories. In 1962 Brakes India was incorporated as a joint venture between TVS and Lucas of UK. By the 1970s TVS was a successful manufacturer of auto components supplying the auto belt gradually forming in the Chennai area. The company's initial support came in the mid-1960s from R Venkataraman who was Minister of Industries in the central government and a Tamil, who enabled TVS to get land concessions around Chennai. The group is now is a global supplier for international auto companies. The Rane Group was established in 1928 as a distributor of auto parts. By 1959 it had diversified into the manufacture of valves for internal combustion engines. In 1975 it started manufacturing manual steering gears and today has a turnover of \$3.75 billion. Other successful companies include Amalgamations which began as a spare parts dealership and became one of India's most successful light engineering companies. Common to most of these companies especially the founders of the TVS Group and a tyre manufacturer called MRF were their links with successive Congress governments in the state. MRF's founder Mammen Mappillai began with a balloon making factory near Chennai but

MRF is today one of India's largest automobile tyre manufacturers (Aya and Siddharthan 2007). The growth of these auto components companies in and around Chennai explains why more than 35 percent of India's auto components production comes from Tamil Nadu.

The growth of the sector can be traced to policy induced rents as a result of decisions of the Indian Tariff Commission of 1957 that discouraged automobile and spare parts imports and promoted indigenization as part of a strategy of import substitution. Firms like TVS which were importing spare parts had enough technical knowledge and some 'tacit knowledge' to venture into manufacturing some spare parts themselves. Protection was one way of delivering rents to firms that were still not competitive in particular areas to engage in capability development processes including learning-by-doing. The limitations of India's industrial policy particularly with respect to disciplining were discussed in Chapter Four. Nevertheless, even though India's planning period did not create many globally competitive industries and sectors, it did create relatively high levels of technical and organizational capabilities in some areas that later achieved competitiveness in the 1980s (Khan 2009b).

The auto component sector in Tamil Nadu clearly gained from protection as new firms were set up and new capabilities were developed (Tewari 2001; Aya and Siddharthan 2007). Companies like TVS started operations in the Padi industrial cluster close to Chennai in 1960 as a beneficiary of protection. Today the industrial cluster is one of the leading industrial hubs in Tamil Nadu housing many companies beyond the TVS group of companies. Most other auto and auto components companies in the state are also clustered around Chennai making it the biggest auto cluster in India along with the National Capital Region (NCR) near Delhi and the Pune-Pimpri-Chinchwad area in Maharashtra. By the time the economy opened up in 1991 the Chennai auto cluster was significant enough to attract the attention of international manufacturers like Ford and Hyundai and later Honda. Even after liberalization began in 1991, the Indian government maintained a 70 per cent localization rule in the 1990s in automobile production. This helped Indian auto

component manufacturers to develop their capabilities as the localization rule provided implicit rents to domestic manufacturers to finance a period of learning and prepare to face competition from OEM component producers like Visteon and Delphi brought in by international car makers. For a time, foreign car makers had to source a significant amount of components from Indian component manufacturers even if they had not yet met price and quality conditions and this is the implicit rent allocation that financed their learning in the critical period of the 1980s and 1990s. The policy instrument that directed these temporary rents to auto component producers, the localization rule, was one that could be effectively enforced in this political settlement because no powerful organizations in the Indian political settlement could easily benefit by distorting the enforcement of this rule.

Even though the localization requirement could no longer be used in the 2000s after India joined the WTO in 1995, by 2005 Indian auto component makers comprised 70 percent of the supplier base of manufacturers like Hyundai India. The Hyundai plant near Chennai is now Hyundai's global export base for small cars. Clearly by the 2000s Indian component producers had built enough capability to supply international auto producers. Even though Ford still sources some key components internationally it is also using the Chennai cluster as part of its global sourcing base. The years of capability building have paid off with an auto and auto components manufacturing base developing around Chennai (Figure 6.4). Net sales of the auto industry in the state have sustained steady growth in the 2000s (IBEF and ICRA 2008). Unlike other Indian states like West Bengal or Uttar Pradesh the state government in Tamil Nadu seldom faced protests against land acquisition for industry. This is largely because opposition to land acquisition has not been the focus of mass political mobilizations in a state where the growth of factory employment is widely supported as a mechanism for economic mobility.

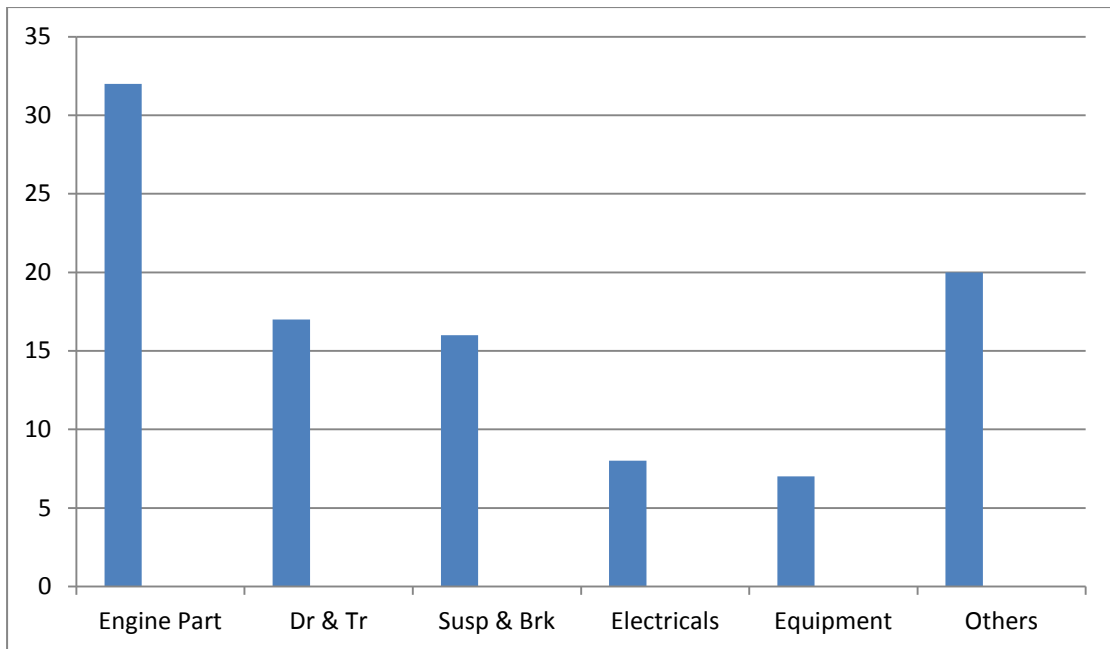


Figure 6.4 Chennai's share of the auto component sector in India

Source: Mahindra World City SEZ presentation, <http://www.mahindraworldcity.com/docs/chennai/tamilnadu.pdf>

Note: Figures in percentages
 Dr & Tr : Drive and Transmission
 Susp & Brk : Suspension and Brakes

The Tamil Nadu experience with autos demonstrates that if a sector is near the global competitiveness frontier, and if policy instruments can deliver some limited rents for capability development, the entrance of foreign players need not necessarily spell doom for local enterprise. However as Tewari points out, by the 2000s, the competitive regime in the sector meant that new entrants in the small and medium tier 2 and tier 3 levels of the industry need support to improve their skills and productivity levels (Tewari 2001). The tier 1 companies benefited from a series of policy rents (protected markets followed by localization rules) that allowed them to invest in their capabilities. Companies making up the next two tiers do not have access to these types of rents any more, nor do they have the political clout to influence policy or lobby effectively. Yet it is this segment, of potentially high productivity SMEs that need to be supported to take the auto components sector in

Tamil Nadu to the next level. One option may be consolidation with tier 2 firms being bought out by their tier 1 customers. In the 2000s, some of the larger tier 1 companies also lobbied the state government to provide assistance to their smaller suppliers (Tewari 2001). These pressures have not resulted in significant policy changes.

Unfortunately, in the 2000s and beyond, ruling parties in Tamil Nadu have discovered much easier ways of generating rents for their political redistribution without the difficult task of calibrating rent allocation to industry to develop capabilities as a way of increasing access to growth-generated revenues. The growing weakness and complex composition of coalition governments in Delhi has made it easier for well-placed regional parties to access significant formal and informal rents as the price of supporting the coalition government in Delhi. The future negotiation of effective rent allocations for capability development in Tamil Nadu will depend on the strength of economic organizations in the state and how business-government relationships evolve, the performance of manufacturing in the absence of any capability-development strategy, and the persistence of alternative sources of rents that ruling parties in Tamil Nadu have been able to access.

The evolution of the Indian political settlement in the 2010s has supported unprecedented levels of unproductive rent capture involving the allocation of resources like natural resources, land or telecom spectrum. We outlined in Chapter Four how this was related to the gradual exhaustion of productive profit-making options as sectors close to the competitiveness frontier became competitive and others were too far behind to benefit from the shrinking set of rent allocation instruments that were progressively available. At the same time the demands for political rent allocation kept growing as new social mobilizations led to the fragmentation of political organizations. Finally, powerful and cash-rich business organizations emerged that could offer quick and significant kickbacks to political organizations in exchange for allocations of land, natural resources or the spectrum, a process that is part of the phenomenon that we described as a reversal of the standard patron-client relationship between business and government.

These processes have cut out productive capitalists from the same level of political influence and political organizations are taking less interest in ensuring the profitability of these enterprises as part of their long-term rent strategies for their own political reproduction. Our respondents in business and the bureaucracy confirm that the Tamil political parties that took a pro-industrial position in the 1990s out of self interest display less urgency in tackling the constraints affecting industry and technological capability development in the 2010s. Capitalists seeking to improve their productivity, quality and competitiveness are trapped between an indifferent ruling coalition and their own inability to offer direct and large informal payoffs to political organizations. Investors in states like Tamil Nadu and Maharashtra that have a larger proportion of high technology companies relative to the rest of India find themselves at a particular disadvantage because these sectors cannot deliver quick payoffs.

On the other hand, the advantage that Tamil Nadu has over Gujarat is that a majority of its large companies especially in auto, auto components and electronics are in sectors that constantly need to strive to remain competitive. The compulsion to use rents to raise productivity and not capture them is built into the structure of their organizations. Their bargaining counter with political organizations is their ability to provide long term stability to the ruling coalition through employment generation, formal revenue generation through taxation and informal revenue generation for parties. Even if the kickbacks cannot be as large as those that can be offered by enterprises engaged in say natural resource rent capture or theft, they are sustainable over time. There is some evidence that industry in Tamil Nadu is beginning to realize it has enough holding power to nudge the government in this direction. In 2006 their lobbying resulted in the government of India launching the Indian Auto Mission Plan (IAMP) under which it seeks to build innovation architecture around programmes like the National Automotive Testing and R&D Infrastructure Project (NATRIP) which provides international standard testing and homologation (to attain standards for vehicular types) facilities for the Indian automobile industry. The IAMP Plan was to set up NATRIP centres in four regions of the country and the automobile and auto component manufacturers from Chennai

were keen that the centre for south India was set up in Chennai. At that time the AIADMK government under Jayalalithaa had just come to power in the state and NATRIP was not a priority for her administration. However the industry lobbied and got her to write to the national ministry in New Delhi and the regional centre for the South was set up in Chennai, a boost to the sector's attempts at increasing competitiveness. The NATRIP centre along with other industry-academia linkages through academic centres of excellence like the Indian Institute of Technology in Chennai are supporting the evolution of a high-tech automotive cluster around Chennai.

The longer-term prognosis for Tamil Nadu depends on whether the two-party competitive clientelism system with informal institutional arrangements ensuring relatively longer time horizons is likely to endure. The main challenge to it comes from endogenous forces driving fragmentation, related to succession issues. Both the DMK and AIADMK, but more so the DMK, are dynastic parties where succession is based on family rather than internal elections. In DMK's case the fight is between two half-brothers who are currently claiming to be the true inheritors of Karunanidhi's legacy. Their sister, who was briefly in jail on corruption charges, is also emerging as another powerful political figure. Clientelist parties in India have frequently split when succession issues remained unresolved. If the DMK moves in a similar direction the current two-party system will be upset and key features of the political settlement may change. The AIADMK faces a different challenge as Jayalalithaa does not have a family she can bequeath the leadership to nor has she identified any deputy who can take on the reins of the party at a later date. In our analysis, the smooth transfer of power between the two major parties has been important for ensuring formal and informal institutions support growth. This may change if the political parties become more fragmented and engage in more hostile contests that include disrupting previous contracts and rent allocations to business. If that were to happen, the growth-stability trade-off facing the enforcement of institutions that support even limited capability development may become more adverse, potentially affecting industrial growth in the state. In contrast to the personalised internal politics of clientelist parties, 'ideological' parties like the Left

parties in India and the BJP, practice intra-party democracy to a greater extent. But as we have seen in our chapter on Gujarat, the construction of political dominance by ideological parties also has its costs.

6.7 Conclusion

Tamil Nadu has a higher share of all India industrial employment as well as a lower ICOR compared to Gujarat (comparing Table 5.1 and Table 6.1). Gujarat has a higher share of fixed capital investment and TFP in industry has grown faster in Gujarat than in Tamil Nadu (Kathuria, et al. 2010). These characteristics of industrial growth in the two states reflect the fact that Gujarat's industrial growth has been more capital intensive and concentrated in sectors like petrochemicals while Tamil Nadu's has been more broad based and dependent on capability development that achieved global competitiveness in sectors like automobiles and electronics. We have shown why these differences were not just related to differences in natural resource endowments, but more fundamentally reflected differences in the ways in which the political settlements were constructed and the formal and informal institutional support that was available for different patterns of industrialization.

In Gujarat, the ruling coalition was almost always able to align with big business interests and under Modi this ability was enhanced by the creation of an authoritarian clientelism that allowed significant discretionary rent allocations to big business in capital-intensive sectors with significant returns. In Tamil Nadu its political settlement of competitive clientelism needed more redistributive, populist policies leading to a focus on welfare policies much earlier than in Gujarat and its manufacturing base was also in sectors with lower levels of concentration like textiles, leather and small and medium engineering. The search for revenues and the availability of significant economic capabilities allowed the development of enforceable rent management strategies in the 1990s that led to further capability development and growth in sectors like automobiles and electronics.

The framework of political settlements allows us to shed light on the paradox of rapid growth of relatively high-technology sectors in a context marked by apparent political instability and high levels of corruption and clientelism. Far from developing despite these adverse conditions, we have argued that features of its competitive clientelism actually made possible some specific patterns of growth. We also identified and analysed the effectiveness of Tamil Nadu's bureaucracy, moving beyond simplistic cultural explanations. Despite the fragmentation of the DMK into the AIADMK and later into further groups like the PMK and the MDMK, the period covered by our analysis saw two major parties successively forming the ruling coalition. The fact that all these groups owed allegiance to the ideology of the Dravida Kazagham has meant that the factional conflicts were restricted to in their scope and informal 'live-and-let-live' compromises could emerge. This was also helped by the fact that the parties appealed to the same or very similar constituencies. This led to the paradox that while the parties had to compete very intensely to mobilize their base and deliver to them, it also led to stability in policies and institutions that supported the productive industrial sectors.

The policy challenge for Tamil Nadu is to devise growth strategies that take into account its competitive clientelism. This is likely to require a more pro-active role for the state's productive capitalist class. Productive economic organizations in the state have a lot to lose if the growth-stability trade-off facing developmental institutions became more adverse. This constituency has already established relationships with both parties and their dealings with political organizations are not adversarial because everyone assumes that the two parties will each cycle in and out of power. But given the weakening incentives for developmental rent management, industry may have to put pressure on the ruling parties to support capability development with rent-creating policies and institutions.

6.8 References

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