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## **India's Vulnerable Maturity: Experiences of Maharashtra and West Bengal**

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Limiting violence in India with its population of more than a billion people and its many languages, religions, castes and regional diversities involves a complex web of economic and political compromises. The distribution of rents to powerful groups is jointly determined by institutions and politics at the national level and political arrangements within each state. While the national institutional and political system sets an overall architecture for the distribution of rents, individual states have their own distinct political and economic arrangements. This diversity creates tensions between the centre and the different states, but the diversity at the level of states also explains how such a big country stays together at all. By contrasting the construction of the social order in two Indian states, Maharashtra and West Bengal, we explore how dominant coalitions can be constructed in very different ways within the overall architecture set at the national level. These differences in the ways in which rents are used to construct social orders at the level of each state also help to explain differences in economic policies and performance across Indian states.

In terms of the LAO framework, India after its independence in 1947 had many features of a Basic LAO but gradually acquired significant characteristics of a Mature LAO. This is true at both the national level and in most states. But the transition conceals significant regional differences and many parts of the country have characteristics of a fragile LAO, often at the brink of intense insurgencies which sometimes break out. The Congress Party as an inclusive ruling coalition dominated Indian politics for the first three decades after independence from Britain in 1947. Its dominance came to an end by the late 1970s with a host of other parties including regional parties emerging that were able to construct alternative governing coalitions at the centre. The significant increase in the effective mobilization of political organizations outside the Congress Party can be described as a gradual move in the direction of a mature LAO. At the same time, strategies of national economic management also went through changes since the 1980s as older variants of industrial policy were abandoned and the types of rents in the economy changed as a result.

The hold of the Congress Party and its ability to deliver stability in the early years was based on its inclusion of the most significant political coalitions within its fold and its control of significant rents as part of its industrialization and modernization strategy.

As part of that industrialization strategy, rents were created through import protection, licensing and other policies to provide incentives to domestic entrepreneurs to invest in industry. Policy-based rents were also available to further a range of other objectives such as reducing regional economic differences, assisting small firms or reducing poverty. These multiple objectives allowed the centre to have considerable flexibility to allocate rents in ways that were being demanded by powerful constituencies. Effectively, rent distribution achieved political stability and created incentives for powerful constituencies to compete for these rents using the political structures within the Congress Party. However, the achievement of political stability had negative implications for the economic outcomes associated with these rents in India in the 1960s and 1970s. The significant political constraints on rent allocation meant that India could not achieve the same successes with industrial policy as the East Asian tigers.

By the mid-1960s the exponential growth in the numbers of aspiring political organizers joining the competition for rents meant that Congress could no longer define the dominant coalition using the old methods. The number of political factions competing for rents within the Congress was growing rapidly and the failure to accommodate all of them to their satisfaction led to the coalition gradually falling apart. As a result the political system lost its ability to control violence at its fringes. The declining ability of the centre to allocate economic rents also made economic reforms necessary. The growing internal crisis of rent allocation was possibly a much more important determinant of the direction of reform in India from the 1980s onwards than the emerging international consensus on the need for liberalization. Sectors and firms that had already achieved global competitiveness did very well subsequently, but the reduction in centralized rent allocation was also associated with an increase in violence and instability at the fringes.

We focus on two of India's biggest states, Maharashtra and West Bengal, to look at some of the different ways in which LAOs evolved across India during this period. The LAO in each state has distinct features in terms of how the local dominant coalition distributes rents to stay in power. Maharashtra follows more closely the trends at the national level in India, with a growing fragmentation of state-level political parties and growth increasingly driven by business organizations that have already achieved high levels of sophistication. While this state is an industrial success story, a third of its population of close to 100 million fall below India's official poverty line. The dominant coalition in the state was led by large and medium capitalists and rich farmers who were part of the 'sugar lobby'. With the fragmentation of politics, public policies that could assist broad-based development have become even more difficult to organize. In contrast, West Bengal bucked the trends towards political fragmentation for a long time with its well-organized and more inclusive Communist Party of India Marxist (CPM) government. But the accommodation of elites from a large rural constituency led to the neglect of industry and built up problems for the party as aspirations for jobs and growth became harder to meet. Industry and business were not part of this dominant coalition, though they could operate by buying support for their organizations. Nevertheless, the unfavorable position of industrial capitalists in West Bengal meant that the state did not become a destination of choice for major industrial investments.

The chapter is structured as follows. The next section outlines the economic and political development of India from independence in 1947 in terms of the LAO framework. The contours of the national story set the scene for looking at significant regional differences. The second section is the case study of Maharashtra. This section explores the organization of its dominant coalition and how it gradually unraveled. The third section focuses on West Bengal. Unlike Maharashtra, the very different construction of the dominant coalition here led to an agrarian focus for economic strategies. When this agrarian strategy began to run out of steam, this again led to a gradual unraveling of the dominant political coalition. The final section concludes. The variations in how the social order was constructed in the two Indian states are related to differences in their political organizations and also to differences in the organization of their economies and societies. The differences in the rent strategies underlying the LAO in turn had implications for strategies of development that the regional states followed.

## 6.1 Characteristics of the Indian LAO

Table 6.1

*Fragile/Basic LAO*  
(1947-48)

- Violence marred transfer of power from the British leading to the partition of British India into India and Pakistan

*Basic LAO- Nehruvian period*  
(1948-mid 1960s)

- First parliamentary election held in 1952 established Congress Party dominance
- De facto basic order with well defined dominant coalition but other independent organizations could exist.
- However central control of critical rents through centralized planning and licensing by the Congress Party defined the Basic Order: trappings of a developmental state
- Helped develop industrial capabilities that India built on in the 1980s and 1990s

Transition period: Crisis of the Basic Order (mid 1960s to late-1970s) •

- Increasing redistributive pressures as economy grows
- Failure to discipline infant industries, breakdown of developmental model
- Indira Gandhi comes to power on a populist agenda and nationalizes banks and coal mining to strengthen Basic Order
- Increasing authoritarianism as Congress dominance is challenged by other political contenders in competition for rents
- Culminates in the Emergency of 1975

*Evolution of an LAO with characteristics of Maturity but also Vulnerability*  
(*Vulnerable Maturity*)  
(Late-1970s onwards)

- Establishment of first non-Congress government at the centre in 1977, evolution of coalition politics at the centre and growing influence of regional parties

- Declining ability of the state to allocate rents from above, associated with increasing political fragmentation
- Mobilizations based on 'caste' and communalism with right wing Hindu political movements for the first time in independent India
- Secessionist movements in Assam, Punjab and Jammu and Kashmir
- Balance of payments crisis in 1991
- Economic liberalization formally begins in 1992
- New types of rent creation after liberalization driven by alliances of business and politicians
- Increasing communal and political violence (secessionist movements, Maoist insurgencies)
- Acceleration of economic growth but with increasing inequality

The evolution of the LAO in India can be divided into three phases. The Nehruvian period that lasted from independence in 1947 till the mid 1960s. The dominant political coalition was well-defined during this period and India had many of the characteristics of a basic LAO. A transition period from the late 60s to the mid 70s when the basic LAO began to fall apart, and the emergence of vulnerable maturity from the late 1970s onwards, when characteristics of a mature LAO can be identified, but also characteristics of growing fragility at the fringes. Significant regional variations exist within India and our two case studies, Maharashtra and West Bengal, show why it is important to examine the LAO in India at both the state and federal level. The movement from features of the basic LAO to the mature LAO does not correspond neatly with an increase in the sophistication and complexity of underlying political and economic organizations. Some organizations have become more complex and sophisticated, but other complex organizations have become more difficult to sustain and some have retrogressed.

#### 6.1.1 The Nehruvian Period: 1947 to mid-1960s

The Nehruvian period was characterized by an attempt to plan the economy using tools like the licensing of investment, protecting the economy from imports and controlling the use of foreign exchange. The political system was based on the dominance of the Congress as an inclusive organization. In the first parliamentary elections in 1952 Congress established its dominance. Led by India's first Prime Minister Jawaharlal Nehru, it won 364 of the 380 seats in parliament. This was not a basic LAO in the sense that the dominant coalition did not actually control the establishment of all organizations, but the electoral dominance of the Congress and its control of rents meant for a time that organizations that did not toe the line were relatively easy to isolate and effectively weaken or destroy. This was therefore a de facto basic order where the ruling coalition was well-defined and had effective control over significant rents. But Congress hegemony in this sense was gradually declining from the very outset.

The basic LAO at this stage was based on the effective central control of a number of critical rents necessary for setting up sophisticated organizations in the productive sector. India's dirigiste policies included favoring several large sectors like engineering, chemicals, power and automobiles (Chatterjee 1997). Instruments including direct state ownership and the granting of industrial permits or licenses to investors created rents that were used to direct industrial development. In addition, a

number of other rents were used for redistributive purposes. For instance, there was a growing share of public sector jobs 'reserved' for particular castes, the 'small-scale' sector was protected, privileges were provided for employees in the modern sector, and so on. The Congress Party initially dominated the central and most state legislatures. Its control over the allocation of this wide range of rents allowed it to sustain its dominance because it could ensure that powerful organizations supporting the party got a share of the rents, and those which fell out of favor had a hard time. This situation did not however last for very long. India's social structure threw up successive layers of new organizers and political movements that persistently challenged the distribution of rents at any particular time. The redistributive rents had to keep growing or the centre had to punish organizations that were demanding an excessive share of rents. Both became progressively more difficult as the numbers of organizations grew and the centre's relative power declined. This also affected the management of the potentially growth-enhancing rents that were being created as part of the state's industrial policy to counter market failures. Infant industries did get set up but those that failed to grow could not be disciplined and their rents could not be withdrawn because any firm could always buy in the support of some political faction or other to protect their rents (Khan 2009). Growth began to slow down by the mid-1960s.

Despite being unsustainable, this period of relative political stability also saw the growth of complex organizations like centers of research and development, educational establishments and large industrial organizations using modern technologies. These included the Indian Institutes of Technology, set up by Nehru and now recognized as one of the main contributors to India's eventual success in Information Technology, and early pioneering companies like Hindustan Antibiotics Ltd and Indian Drugs and Pharmaceuticals Ltd which laid the basis for India's leading position in the generics market later. The first phase also helped to lay the foundations for future Indian multinationals like Tata.

#### 6.1.2 The Transition: mid-1960s to late-1970s

The unraveling of the basic LAO in India was not a smooth process. Indira Gandhi, who was elected prime minister in 1966, tried to clamp down on the political interests that were mushrooming, many of which could not be accommodated within the Congress. On the one hand she sought to exert control within the Congress Party by tightening the system of internal patronage. On the other hand, where patronage failed she increasingly used harsh measures to exercise authority. Paradoxically as she became more authoritarian in order to preserve her position (and to sustain Congress control over the country) the stronger the opposition to her became.

A number of Indira Gandhi's agendas can be understood better from this perspective. For instance, the drive towards nationalization was partly motivated to make more rents available for distribution through patronage. In particular, the nationalized banking sector became the only conduit for large scale borrowing and lending activities. The monopoly Coal India Ltd, formed after nationalization, was another example of a nationalized entity providing significant rents for political patrons to distribute. The populist logic for nationalization was very likely to have been mainly

window dressing for a policy driven by hard political calculations of generating rents for a growing number of organizations.

These strategies were not enough to stave off the collapse of the basic LAO. India's slow descent into chaos was marked by Mrs. Gandhi's increasingly 'jealous populism' (Selbourne 1977), and her attempts at snuffing any opposition by using all the state machinery at her disposal. In 1975 Indira declared an Emergency which was effectively a suspension of electoral democracy. This was an attempt at enforcing the basic LAO by an exercise of authoritarian restrictions on organization, and has strong parallels with similar populist-authoritarian experiments in Bangladesh and Pakistan at that time. Power was centralized in New Delhi and opposition state governments were dismissed. A significant number of rents were now allocated not just by the Congress Party but by the Gandhi family through its control of the party's finances (Chatterjee 1997). Planning and financing of campaigns by local Congress Party organizations was discouraged. The attempt to institutionalize a basic LAO thus happened at the very time that it was becoming unsustainable as a result of changes in the number and capabilities of organizations.

Mrs. Gandhi called fresh elections in 1977 in a move to 'legitimize' the new populist authoritarian version of the basic LAO. She believed that electoral support for her populist policies would override the opposition she faced from organizations of competing elites and that the voters below would keep her in power on the grounds that they had nothing much to gain from the organizations that were challenging central authority. For the first time the Congress reached out directly to voters without attempting to construct a coalition of elite interests backing the party. The result was a resounding electoral defeat and the replacement of the Congress by the Janata Party, a coalition of four opposition parties. There is a remarkable parallel in the turn to populist authoritarianism in the mid-1970s and its failure across India, Pakistan and Bangladesh. Indira Gandhi, Bhutto and Mujib would all be remembered for their failed attempts to institutionalize authoritarian versions of 'socialism' based on controls over the organizational freedoms of critical and powerful organizations (Khan 2008c). All three leaders also paid a heavy political and personal price for their brand of politics: all three were eventually assassinated or executed.

### 6.1.3 Vulnerable Maturity: Late-1970s Onwards

The failure of the authoritarian attempt at institutionalizing a basic LAO gradually led to a much greater openness for new economic and political organizations to form outside the Congress. This had always been possible was increasingly uncontested by the ruling coalition. By the 1980s India's LAO began to acquire some significant characteristics that resembled a mature LAO. The ability of the ruling coalition to control the political organizations it had created declined dramatically. Indeed, to challenge and balance political organizations that were in confrontation with the Congress and other parties at the centre, the latter increasingly resorted to a strategy of patronizing new political organizations to 'divide and rule'. The new organizations in turn could no longer be as tightly controlled by the Congress as they may have been during the days of the Basic LAO. This period also saw the beginning of coalition politics at the centre, as no party including the Congress could rule on its own. Since 1989, barring one instance in 1991, no single party has been able to rule for the term of five years on its own. Nor have the two principal national parties—the Congress

and the BJP—been able to form a government on their own without the support of smaller regional parties.

India's transition from a basic LAO to one with characteristics of a mature LAO has many similarities with its subcontinental neighbors, Bangladesh and Pakistan. The turn towards authoritarianism in the 1970s was a common feature in all three countries, and their trajectories since then have in many ways been similar, though the higher economic growth in India has tended to overshadow the very dynamic and evolving economies of the two other countries in the region. In fact, there were growth accelerations in all three countries in the 1980s (Khan 2008). The general consensus in the economic literature is to link the growth takeoff, particularly in India, to the onset of liberalization (Basu 2003, Panagariya, 2005). While some aspects of liberalization were undoubtedly important, our analysis suggests that the years of protection in all three countries were critical in building entrepreneurial and technical capabilities as well as organizational capabilities that eventually enabled some businessmen to break free from the state and establish their own productive enterprises. This allowed pockets of global competitiveness to emerge across the subcontinent. India's auto, information technology and software industries are part of a spectrum that includes, for instance, garments and textiles and even ship building in Bangladesh, and the power loom textile sector and small consumer durables in Pakistan (Khan 2008b).

Politics on the other hand has become more competitive and redistributive rents appear to be growing. Just as economic organizations have become more sophisticated, so have political organizations. But the central states have fewer rents to allocate through formal mechanisms of managing the economy. Redistributive rents have therefore become even less productive as they are no longer part of operating industrial policy or regional policy but are directly captured by emerging political organizations in an increasingly fractious competitive environment. This reflects the earlier basic LAO breaking down in all the three countries. As the competition for rents became more intense, violence has also increased. The paradox of the LAO in India has therefore been the simultaneous emergence of aspects of both maturity and fragility, a combination that we describe as vulnerable maturity. The increasingly competitive organization of politics and the growing weakness of a central arbiter have allowed the structural exclusion of some marginal groups in these polities to be transformed into violent confrontations. The current Maoist and Taliban-led insurgencies in India and Pakistan respectively can be better understood in this context. In both cases central elites have been unable to create rents for these segments of society and their exclusion has resulted in the formation of new organizations that are even more difficult to satisfy with the rents that are available. The result has been endemic violence at the margins of the Indian LAO, and even more so in Pakistan.

In this context of increasing political fragmentation two other political strategies emerged during this period that contributed to the volatility of Indian politics. One was the movement to extend 'reservations' of public sector jobs to a wider range of defined castes. This began with the move by the National Front coalition of 1990 to 'reserve' 27 per cent of jobs in the government for India's Other Backward Classes (OBCs) who make up about 40 per cent of India's population. In the caste hierarchy they come in between the upper castes and the 'untouchables' who are part of the

Scheduled Castes and Tribes. This led to an increase in caste mobilizations and caste politics, as new groups demanded protection. This further deepened the characteristics of maturity as political organizations proliferated but also increased the levels of conflict and fragility. The second was the emergence of ideological politics that attempted to create mass support for the ruling coalition without offering any significant rents by appealing to the need for national unity against internal and external enemies. Over 80 percent of India's population is Hindu and Congress realized that appealing to Hindu 'sentiments' could attract electoral support that was cheap in terms of the rents that would actually be involved. But in doing so it laid the basis for right wing Hindu or 'Hindutva' politics that was aggressive against India's minorities and in particular its Muslims, as a strategy of constructing support for a ruling coalition. This too contributed to making politics more divisive and increased violence in many parts of India.

An important consequence of the decline of inclusive parties at the centre was that states became important theatres for local elites to create organizations and demand rents. The importance of controlling political power at the level of a state meant that excluded groups in many states often agitated for a smaller state to be carved out for them from the larger state. Thus, new states emerged out of bigger states, driven by the political demands of excluded groups. The overall level of political violence increased dramatically within India since the 1980s. The current Maoist insurgency in the central and eastern areas of the country is only one indicator of the significant fragility that exists in pockets within an otherwise increasingly mature LAO.

The first decade of the twenty-first century saw a continuation of these trends. The system of coalition governments at the centre has become an enduring feature of India's governance. The ability and freedom to set up new political organizations and mobilize new constituencies has become well established. It was always a formal entitlement but now it is effectively exercised by many aspiring political organizers with the money and muscle to make the necessary investments. The most sophisticated organizations within Indian business have continued to grow and enhance their global competitiveness. The most aggressive Indian multinationals have not only penetrated markets in the west, they have also begun to acquire and operate corporate entities in advanced countries like the UK and Germany as well as in developing areas like Africa, demonstrating the growing sophistication of India's corporate organizations. It is in this overall context of transition and maturity that we locate the differences in the construction of the LAO in our two states.

### 6.2.2 Maharashtra

Maharashtra is one of India's leading industrial states, and its capital, Mumbai (previously Bombay), is India's premier financial and commercial hub. Its key sectors include automobiles, pharmaceuticals, financial services and IT services. Apart from a relatively successful economy, the state has for long been characterized by high levels of political mobilization. The Congress ruled the state almost uninterrupted from 1960 (when the state was created by partitioning Bombay Presidency into Gujarat and Maharashtra) to 1995. But in line with developments at the national level, the state's politics has become fragmented and faction ridden through the 1980s with continuous horse trading among parties to form and operate a ruling coalition at the state level.



The dominant coalition in the early years in Maharashtra (corresponding to the period of the basic LAO in India) was constructed in a way that allowed the creation of significant growth-enhancing rents as part of the political arrangements underpinning the LAO. These were rents that could be created for business leaders who were part of the dominant coalition and some of these rents helped to overcome market failures that had limited investments in the past. At the same time political stability was achieved by rent allocation to other powerful constituencies. As the composition of this coalition changed over the years, so did the balance between growth-enhancing rents and other types of rents. Till the 1980s, two types of rents played an important function in keeping the dominant coalition together while also supporting growth. A major part of the rents required for political stabilization were generated by politicians who controlled the state's sugar 'lobby' in rural north-west Maharashtra. The generation of a significant part of the rents required for political stabilization in agriculture indirectly protected the capitalist sector in manufacturing as politicians did not need to extract rents from them. As the immediate rents required for running politics came from agriculture, politicians could look to industry for longer term relationships and rents, and this too contributed helping the capitalist sector in manufacturing. These relationships worked through patron-client networks where politicians would grant businesses favors like land or subsidies for industrial projects in exchange for relatively small immediate payoffs but with the understanding that business would stand behind particular politicians. As politicians were not heavily dependent on rents from business to finance their survival, the terms of these bargains were 'business-friendly' and helped the rapid industrialization of the state.

These arrangements became vulnerable with the political fragmentation that affected Indian politics from the 1980s onwards. Maharashtrian state politics became equally fragmented and ruling coalitions were less able to take a long term view in developing relationships with business interests. The key players in the state now include the mainline Congress, the rightwing but mainstream Bharatiya Janata Party (BJP), a key breakaway faction of the Congress, the Nationalist Congress Party (NCP), the nativist/communal Shiv Sena (SS), and a subsequent splinter group of the Shiv Sena that is a swing player in elections. Some smaller parties based on caste affiliations also exist. These divisions have made the state's political landscape volatile and unstable, especially over the last fifteen years.

This was also the period when the Bombay underworld and crime syndicates became more assertive and conflicts between syndicates began to have an impact on violence in the city. Different 'communal' organizations also came to the fore, using religious politics, among other things, to engage in slum clearance and land grabbing. Bombay began to suffer more than its share of riots, bombs and religious violence. This was partly driven by wars between underworld gangs. It was also partly driven by the growing strength of communal organizations like the Shiv Sena who sought to mobilize poor Hindus against 'outsiders' to create new power bases at a time when the collapse of the old politics left spaces to be filled (Katzenstein et al. 1997, Lele 1995). These processes contributed to the decline of industrial and manufacturing growth rates in Maharashtra after 2000 and the growth of service sectors like finance and software with lower sunk costs that did not require the same level of trust in the long-term stability of political arrangements.

### 6.2.1 The alliance of industry and sugar

Maharashtra was formed in 1960 after demands for a separate Marathi-language state were accepted by the central government. The state was earlier part of the Bombay Presidency that also included the current state of Gujarat. While capital had been controlled mostly by non-Marathi speaking industrialists, political power in the state was with Marathi speaking leaders who first came to prominence in the last decades of India's Independence movement. The early mobilization for a separate state in the erstwhile Bombay Presidency was based on the mobilization of Maratha peasants (a particular caste within the broader Marathi-speaking population). Thus, the tension between a Marathi political elite and a largely non-Marathi business elite was an incipient problem from the founding of the state.

For most of the next fifty years political stability and economic growth in Maharashtra was based on balancing the significant rents generated by the sugar cane 'lobby' for political entrepreneurs while leaving enough rents for the industrial sector in Mumbai. The sugar lobby consisted of powerful Maratha leaders who kept out most other castes and political groupings from the state's politics for a long time. The Maratha caste is an 'intermediate' caste and has significant power as a provider of political organizers. The name should not be confused with the Marathi language which is spoken by two-thirds of the state's inhabitants and is the native language of the region. Maratha politicians created rents for sugar cane growers (and indirectly for themselves) in regions that voted Congress by setting higher prices at which sugar cooperatives would buy cane from growers. Maharashtra accounts for close to 30 per cent of India's sugar production and about 99 per cent of this comes from the state's sugar co-operatives (Bavadam 2005). This makes the control of the sugar cooperatives a key part of the redistributive politics of the state. The losses for the cooperative's processing activities due to higher cane prices were in turn covered by complex public subsidies and debt write-offs as these Congress politicians also had power at the centre (Lalvani 2008, Kumar 2004).

As Congress politicians distributed their patronage in the areas devoted to growing and processing sugar these parts of Maharashtra (the Nasik and Pune belts) become more developed. Ironically, this was one reason why the Bharatiya Janata Party and the Shiv Sena were eventually able to gain a firm footing in the impoverished eastern regions of Maharashtra called Vidharbha and Marathawada that did not benefit from this redistributive politics. Each sugar cooperative is governed by a board of directors headed by a chairman. For instance the Malegaon Sugar Factory, owned by one of the foremost Maratha politicians in India, Sharad Pawar, has ten thousand member families. On a crude but plausible calculation, if there are just two members of voting age in each family, one of Pawar's cooperatives alone would provide at least 20,000 voters for his party, the Nationalist Congress Party, an ally of the Congress at the state and centre. In fact, the cooperative would be likely to gain many more votes because a broader economy is indirectly dependent on sugar rents. Moreover, politicians like Pawar would often own several factories. A large number of Maratha politicians were involved in running sugar cooperatives and collectively the swing votes they controlled gave them a substantial hold on power over several decades (Jenkins, 1999). The numbers explain why the sugar cooperatives were important simply from a numerical electoral logic.

The price of sugar cane has been an important part of the Congress electoral equation, a way of rewarding its farmers for their electoral support. In eastern Maharashtra,

where Congress had a very weak base, factories could not offer the higher cane prices that prevailed in the West (Lalvani 2008). The price support policies are justified in terms of protection for poorer cane farmers but the differences between prices that cooperatives close to the ruling coalition could offer compared to other cooperatives shows that these were rents generated by powerful politicians to reward their supporters (Banerjee et al. 2001, Kulkarni 2007). Part of the price differential also benefited the politicians directly because many of them owned the factories that were the conduits through which government subsidies were allocated to sugar farmers. It must be noted though that higher cane prices did not necessarily mean prosperity for sugar farmers. Prices were generally low and what mattered for political support was the difference in price between cooperatives.

Table 6.2  
DIFFERENCES IN CANE PRICE BETWEEN REGIONS

YEAR	REGION	CANE PRICE (Rs/metric tonne)
1999-2000	West	679
	East	542.6
	Difference (W-E)	136.4
2000-2001	West	782.6
	East	621.8
	Difference (W-E)	160.9
2001-2002	West	736.2
	East	611.8
	Difference (W-E)	124.4
2002-2003	West	730
	East	601.9
	Difference (W-E)	128.1
2003-2004	West	715.8
	East	681.4
	Difference (W-E)	34.5
Average	West	782.72
	East	611.9

Source: Lalvani (2008) table A II

Table 1 shows that cane prices in the Nationalist Congress Party (NCP)-Congress strongholds of western Maharashtra were consistently higher than in the east where the combine was not very successful electorally. Procuring the cane at consistently high prices would ordinarily mean putting pressure on the cooperatives' cash flows but anecdotal evidence suggests this did not happen. Finances are usually controlled by the cooperative's chairman and their family members. The payout is usually made

from medium term working capital loans given by the Maharashtra State Co-operative Bank which also lends to various District Central Co-Operative Banks. In fact according to Lalvani (2004) the state government indirectly shoulders the costs of these subsidies. Government-run financial institutions have extended close to a further Rs 21 billion as medium term loans to the factories. Loans to powerful politicians that were not paid back not only allowed them to pass on some of the rents to their electoral supporters in the form of high prices, but may also have allowed them to skim some of the rents for themselves. While very successful for a long time, this was clearly not a viable permanent strategy. Towards the end of the 2000s, close to 71 factories out of around 200 were declared sick (Kaur 2007). The private sector began to enter the sector in a small way and began to buy up a few sugar co-operatives. The likelihood is that the system of manipulating rents in the 'sugar lobby' is coming to a close.

This complex circuit of funds created a significant part of the rents that sustained the dominant coalition in the state, particularly during the period of the basic LAO. The sugar 'lobby' was led by ministers and policy makers who also served as senior functionaries in the state's district cooperative banks that extended the loans. They were also the politicians who ran the sugar cooperatives in the areas where higher prices were offered. For instance, in 2004, the chairman of the Pune District Co-operative Bank owned several large sugar cooperatives. And this pattern was replicated for most of the sugar cooperatives in western Maharashtra (Kumar 2004). Most of Maharashtra's key political leaders of the 1980s and 1990s who have been associated with the sugar industry come from western Maharashtra—68 out of a total of 93 key political personalities (Lalvani 2008). The sugar rents gave Congress a firm base in Western Maharashtra up to the late 1970s, which we described as the basic LAO period, and the sugar rents persisted well beyond that period (Palshikar and Deshpande 1999).

This rural support base was never in conflict with the capitalists in Bombay. In fact this apparently wasteful rent creation created a temporary swathe of rural prosperity and provided enough political stability to give politicians a longer time horizon that was important for their relationships with industry. The Congress politicians running the basic LAO had both the incentives and the political space to organize land and other resources for businesses in manufacturing at a reasonable 'price' in terms of the rent-sharing arrangements with industry. Thus, industrial capitalists indirectly benefited greatly from the stability as they too got rents from this political order through land grants, financial subsidies and prioritized infrastructure provision. This in turn enabled them to take a long term view on their investments. The rapid growth of the industrial sector testifies to this. Maharashtra, with around ten per cent of India's population, contributed 22 per cent of the net value added in India's organized industrial sector in 2007. This balance of interests between two very disparate groupings sustained the dominant coalition in Maharashtra for close to two decades.

The relationships between businessmen and politicians in the early years of industrial policy could therefore work on a long-term basis rather than on a deal by deal basis. Favors did not have to be traded over particular projects because politicians were not desperate and could themselves take a long-term view with their business partners. If, for example, a minister was asked for an industrial license by a businessman with whom there was a long-term relationship, it was likely to be granted without an

upfront payment on the basis of the favor being returned over time. Thus, industry in Maharashtra had the leeway to make long term investments and spread risks across projects without having to pay for each decision. These long-term arrangements were also helped by the fact that the stability and staying power of Maharashtra's Congress politicians gave them considerable say at the centre, and the state was the largest beneficiary of the license regime, getting one of the largest numbers of industrial licenses over time. But as Table 2 shows, manufacturing growth rates declined after 2000, coinciding with the ongoing reconstruction of the LAO in the state.

Table 6.3  
GROWTH RATES: GDP, INDUSTRY, AGRICULTURE, SERVICES

Growth Rates %	India	Maharashtra	West Bengal	World
<b>GDP</b>				
1980-85	5.2	3.9	4.6	2.5
1985-90	6.3	7.4	4.4	3.7
1990-95	5.2	8.5	5.8	2.3
1995-00	5.7	11.6	7.0	3.2
2000-05	6.7	9.1	6.8	2.8
1980-2005	5.6	8.9	5.8	2.9
<b>Per Capita GDP</b>				
1980-85	3.0	1.8	2.4	0.8
1985-90	4.2	5.0	2.2	2.0
1990-95	3.4	6.4	3.9	0.8
1995-00	3.9	9.6	5.4	1.8
2000-05	5.2	7.5	5.5	1.5
1980-2005	3.7	6.8	4.0	1.4
<b>Agriculture</b>				
1980-85	3.4	0.8	6.2	1.5
1985-90	4.2	7.9	4.8	0.8
1990-95	3.1	3.6	5.8	0.6
1995-00	2.3	2.5	3.4	2.2
2000-05	2.4	-1.8	2.6	1.6
1980-2005	2.9	3.4	4.6	1.2
<b>Industry</b>				
1980-85	5.9	3.4	2.2	1.4
1985-90	8.0	7.4	4.4	3.9

1990-95	5.9	5.5	5.1	1.5
1995-00	4.8	5.8	6.8	2.7
2000-05	7.2	4.1	4.4	2.0
1980-2005	6.2	5.6	5.2	2.5

#### Manufacturing

1980-85	7.1	2.9	1.9	na
1985-90	8.1	8.1	4.6	na
1990-95	7.1	5.8	3.2	na
1995-00	4.3	6.0	7.3	na
2000-05	6.7	3.5	3.8	na
1980-2005	6.4	5.8	4.5	na

#### Services

1980-85	6.1	6.6	5.3	2.8
1985-90	6.9	7.1	4.3	3.6
1990-95	6.7	9.3	6.8	2.6
1995-00	8.2	7.8	9.1	3.4
2000-05	8.1	9.0	9.9	2.7
1980-2005	7.1	8.0	7.1	3.1

na=not available

Source: Khan (2008c: Table 2).

The benefits for the industrial sector can be understood by looking at how they in turn benefited from the rent regime during the basic LAO. An important source of rents for industry during this period was the Maharashtra Industrial Development Corporation or MIDC. MIDC was the largest Public Sector Unit (PSU) owned by the state government in Maharashtra. It facilitated industrial investment in the state by operating a simple rent-creation model. It purchased land cheaply using the support of local Congress politicians when necessary which it then sold or leased at a higher price to emerging industry. But this price was still significantly lower than the market price if investors had to acquire land using their own devices. The strategy therefore provided rents to the MIDC, its political masters, and to the industrialists who benefited from the land allocation. MIDC became an effective political tool in the hands of ministers and bureaucrats in charge and they used it to buy and bestow favors. But overall, these rents ensured high industrial growth for the state. It was in any politician's interest to have an MIDC estate in his or her constituency rather than not. It provided jobs and raised the value of the lands which belonged to the large land owners. The downside is that it decimated small land owners through eminent domain purchases or purchases using subtle political pressure and converted many marginal farmers into landless drifters.

The Congress was able to follow these policies because Maharashtra is essentially a non-agricultural state with a relatively impoverished and therefore politically weak peasantry. Only sixteen per cent of its farmland is irrigated and the monsoon typically fails in over 60 per cent of the state. Irrigated land gravitated towards cash crops like

sugar. The only effect of a conscious focus on industry was that inequality in the state remained high. Poor farmers outside the dominant coalition could not initially organize themselves and political organizers from elite groups were initially not interested in organizing this group for their political advantage. It is possible that the easy availability of sugar rents made the Maratha elite in the Congress and NCP ignore other political constituencies (Vora and Palshikar 1996). Other types of redistributive policies, like the state government's Employment Guarantee Scheme that formally operated in Maharashtra long before the central government introduced it across India, were not properly implemented. But the sugar lobby could not accommodate a big enough section of the elites and in the absence of populist redistributive policies, the Congress coalitions began to lose their electoral grip on power. By 1995 a BJP-Shiv Sena coalition won power and formed its first government in Maharashtra (Jadhav 2006).

#### 6.2.2 Congress Fragmentation and the Rise of the Shiv Sena

In the 1980s, Maharashtra's politics witnessed dramatic changes. A nativist movement was spearheaded by the Shiv Sena (SS), literally the army of Shiva, a Hindu god. The party later became openly and militantly communal and anti-Muslim, and gained ground in the state. It was especially strong in Mumbai and in the more impoverished regions in the east of the state. They mobilized groups, particularly the poorer groups and the urban unemployed that had been left out of the Congress coalition. The Congress itself became more factionalized and the other opposition party, the Bharatiya Janata Party (BJP), aligned with the SS given their ideological moorings in Hindu fundamentalism.

The rise of the BJP-SS combine reflected a combination of four factors. First, there was a growing dissatisfaction with the Congress's rigid and access-restricting politics. The opposition parties were successful in cobbling together coalitions of castes that the Congress had overlooked. In India's political lexicon, these included some Other Backward Classes (OBCs) and a section of the Marathas, both of whom were seeing rising levels of economic prosperity thanks to industrialization but had limited access to political rents. But the new BJP-SS coalitions left out the Muslims and the Dalits (the 'lower castes'). Table 3 shows how the SS made inroads into the 'upper intermediate' caste base of the Congress, into its Maratha, Kunbi and OBC base. Second, the Congress strategy gave it access to a limited stream of rents and other parties began to access much greater potential sources of rents. Businesses with long-term investment plans could only provide limited immediate kickbacks to their Congress patrons. The rents from sugar and the kickbacks from productive investors could only accommodate a limited number of the potential groups who demanded a share of political rents. New parties who could mobilize rents from criminals, speculators and a host of new quick-return investors in real estate and other sectors could provide significant kickbacks immediately and could organize new groups who had been previously excluded. Third, the opposition took advantage of a growing 'vernacularisation' based on the rising identification of Marathas of all castes with Marathi linguistic nationalism (Hansen 1996). Finally, local issues, both social and economic gave rise to a specific Hindutva agenda that led to the popularity of the Shiv Sena. The communally charged social and political environment in India during the late 1980s and early 1990s helped parties with a right wing communal agenda in Maharashtra.

Table 6.4  
 CASTE COMPOSITION OF VOTERS FOR MAJOR PARTIES IN  
 MAHARASHTRA (figures in percentages)

CASTE GROUP	CONG '96	CONG '99	SS '96	SS '99	BJP '96	BJP '99	NCP '99
Maratha	20.5	19.6	30.4	30.5	6.3	19	31.5
Kunbi	10.6	7.1	21.6	20	15.3	13.7	16
OBC (Non-Kunbi)	28.4	21.4	30.4	34	32.4	32.7	20
Scheduled Castes	6.6	15.4	3	3	5.4	2	8.2
Scheduled Tribes	6.6	7.5	1	2	9	5.2	4.1
Others	27.7	28.9	13.4	10.5	31.5	27.5	20.2

Source: Palshikar (2004), table 9

The traditional business-government relationships in Maharashtra came under severe stresses as a result of these changes. Apart from its new caste coalitions, the SS typified the criminal-politician nexus thanks to its involvement in Mumbai's underworld. The very tradition of business buying into political power was subverted when the criminal underworld began to play the same game. This period was an inflexion point for Maharashtra's patron-client politics. As the Indian economy liberalized Maharashtra's advantage in getting industrial licenses became irrelevant. Maharashtra had to compete with other states for industrial investments based on what its state government could offer in terms of infrastructure and hidden subsidies. By the late 1970s the industrial licensing system had practically broken down and by the 1990s the formal procedures of licensing had largely disappeared. With the seismic changes brought about by the fragmentation of the Congress and a new more fluid ruling coalition based on allocating rents from a variety of sources to a broader coalition of castes, Maharashtra found it difficult to offer investors significant or stable rents over time. The services sector saw a spurt in this period that has continued, particularly services related to construction and real estate as the new politics facilitated land grabs from slums and squatters in a city with one of the highest urban population densities in the world: 27,715 persons per square kilometer in 2001 according to the government of Maharashtra.

Mumbai's real estate prices rival New York and London, the high prices reflecting a combination of demand and intense speculation. This has encouraged an increasing involvement of Mumbai's underworld in real estate. Deregulation meant smuggling operations had become less lucrative hence attention turned towards real estate speculation. Businessmen and politicians were forced to take sides with different underworld gangs engaged in slum clearance and the city went through a violent phase that ended in a series of bomb blasts and communal riots. According to some observers the riots of 1993 were an expression of the fight to control Mumbai between two underworld groupings, one Muslim and the other Hindu. Anecdotal evidence suggests that the Hindu grouping was linked to the Shiv Sena while the Muslim remained without any apparent mainstream political links in the state. This violence does not mean Maharashtra was a fragile LAO during this period. It was a mature order where openness was not based on a rule of law but on contestations for dominance which occasionally turned violent.

The underworld's links with business date back at least to the economic troubles of Bombay's famous textile mills which started closing down in the 1980s. Realizing that they were sitting on very lucrative real estate, many mill owners had simply



refused to invest in modernization. The government of Maharashtra and sections of the underworld wanted a piece of that real estate pie. The labor conflicts that were the ostensible cause of the mills shutting down were often engineered by gangland hoodlums to make it easier for the mills to shut down, which they ultimately did. In 1961, the mills employed more than 250,000 people. Today, there are 58 working mills employing a mere 20,000 people. While this deindustrialization and the shift to services had similarities with transitions in advanced economies, this was happening in a labor-surplus developing economy.

The much closer involvement of the underworld in politics proved to be an important inflexion point for Maharashtra's patron-client politics. Even though the SS-BJP combine was voted out in the assembly election in 1999, the NCP-Congress combine that succeeded had to recognize the new model of rent creation and coalition building. The more fluid and opportunistic set of rent opportunities and alliances that defines post-1980s politics in Maharashtra has many features of a mature LAO with much greater formal and real opportunities for setting up new political organizations and with its economic organizations targeting new types of rents. The NCP and the Congress in the 2000s did not and could not go back to the old LAO. They have instead developed their own links with the underworld. This was an easier and faster way to get access to the significant rents that were required for binding together restive coalitions than the long term model of business-government relationships and sugar lobby rents. It is not surprising that media reports of extortion and 'protection money' being collected by underworld groups and their links with political bosses have been growing.

### 6.2.3 Summary

Maharashtra remains a leading industrial state in India and a politically sophisticated state with keenly contested local elections and significant mass movements. Yet its political evolution has come at a cost as the polity has become more fragile and fractured since the 1980s, and industrial growth is no longer providing the necessary growth in employment. The state also has one of the most impoverished regions in India, Vidharbha, which gradually became a base for a violent Maoist movement spreading across central and eastern India. In the 1960s and 1970s when Maharashtra had features of a basic LAO, the distribution of rents achieved political stability but also ensured politicians had a longer time horizon that helped growth in the industrial sector. The changes that in the construction of the LAO that began in the 1980s contributed to a decline in the manufacturing growth rate by the 1990s. The growth in the service sector compensated for some of the slowdown in industrial growth but the aggregate growth of the state was dragged down by the continuing poor performance of its agriculture.

The emergence of features of maturity in the LAO in Maharashtra thus had complex features. While political competition had adverse effects on the time horizon of politicians and the deals that business could expect, this also coincided with the liberalization that forced business organizations that were already sufficiently sophisticated to further enhance their competitiveness through global links and acquisitions. Nevertheless, Maharashtra began to lose ground to states like Tamil Nadu and Gujarat when allocations of industrial licenses were no longer decided by the central government and investors were free to choose locations. Other states were providing more incentives to attract investment and Maharashtra failed to come up

with a competing package that was sufficiently attractive. Given significant industrial base the state had already achieved, initiatives like its comprehensive industrial policy package of 2001 did keep a flow of industrial investments going. Nevertheless, the political base underpinning these policies had become much more vulnerable.

The important point in the evolution of the LAO in Maharashtra is that the transition from a basic LAO to an LAO with significant characteristics of maturity does not necessarily mean that there has been a simultaneous improvement in economic and political prospects across the board. Maturity was characterized by easier entry for both political and economic organizations. Some of these organizations were sophisticated economic organizations like the Indian automobile companies with production facilities in Maharashtra. Other entrants, particularly new parties in the political arena or shady construction companies were far less sophisticated, and sometimes generated significant negative externalities and occasionally induced violence. The dominant coalition was now based on the outcomes of intense political contestations that verged on the violent at the margins. Compared to the basic LAO that preceded it, Maharashtra's politics is likely to remain more volatile and more violent given the rent allocation system that underpins the new LAO with characteristics of maturity and greater vulnerability.

### 6.3 West Bengal

At the time of independence, West Bengal, along with the Bombay Presidency was one of the most industrially advanced states in the country. Today while Maharashtra and Gujarat, the two states emerging out of the Bombay Presidency have retained their rankings as India's top industrial states, West Bengal has slipped close to the bottom of the list of major states. The partition of India affected the state of West Bengal very significantly, as Bengal was split into Indian West Bengal and East Pakistan, later to become Bangladesh. Bengal had closely linked markets, and the partition sundered them in a manner that took West Bengal (and Bangladesh) years to recover, and never fully. Even though West Bengal was the industrial part of Bengal, East Bengal (later Bangladesh) was its hinterland providing markets and agricultural raw materials, in particular raw jute for the jute industry centered in West Bengal.

West Bengal differed significantly from Maharashtra in the way in which the dominant coalition was constructed. The dominant coalition in Maharashtra was based on a combination of business interests and the sugar lobby. In contrast, the Left coalition that emerged as the dominant coalition in West Bengal used redistributive rents to a more dispersed set of elites within the state's impoverished agrarian community who in turn created an unassailable electoral constituency for the Left Front led by the Communist Party of India, Marxist (CPM). Even though this rent distribution system ignored industrialization and industrial capitalists, it provided political stability for three decades. The basic LAO was thus constructed differently and lasted for longer in West Bengal.

But as agricultural growth started petering out in the 1990s, the electoral constituency that underpinned the rent allocation strategy of the CPM began to become increasingly restive. While the Left Front did read the warning signs it read them a little too late and ended up trying to force through an industrial agenda to make up for lost time. The change in strategy was responding to the demands for jobs and prosperity coming from its core constituency but the support for industry required

land acquisition for industry and other policies that alienated critical parts of this constituency and strengthened the hand of an opportunistic opposition. In the 2000s, the state witnessed mass mobilizations against land acquisition for industrialization and this resulted in the loss of a potential auto project in the state despite the project being strongly supported by the Left Front government. In this case, the success of the Left in constructing a stable dominant coalition ultimately turned out to be inimical for the long term growth prospects for industry in the state.

### 6.3.1 A Congress government that never struck roots

The basic LAO in West Bengal was untypical because Congress was weak in the state and the strong version of the basic LAO in state was constructed by the CPM. During the Nehruvian phase when India as a whole had characteristics of a basic LAO, a Congress government did hold power in West Bengal but it was weak and the state was never a significant recipient of industrial licenses despite being one of the two most industrialized states in the country. Some analysts have suggested that Nehru had a poor political relationship with the first chief minister of West Bengal and as a result the state effectively got punished. Except for a break in this pattern in 1969, Maharashtra always got at least double the industrial licenses of West Bengal. This partly reflected the better organization of Maharashtrian capitalists and their ability to buy influence from politicians, a feature discussed in our section on Maharashtra. When the new Left Front government took over in 1977, the already neglected capitalist sector found it even more difficult to get a voice in the state government as the new coalition focused on rent allocation to and electoral support from a rural constituency (Banerjee et al. 2002). Moreover, the access of the Left Front government to the centre was even worse than the preceding West Bengal Congress, as the central Congress and other coalition governments did not share a comfortable relationship with the Left Front. And while the basic LAO at the centre fell into crisis from the mid-1960s, West Bengal bucked the national trend as the Left Front consolidated a stronger version of a basic LAO at the state level in the late 1970s. This created a single dominant party which had a rent distribution strategy that was sufficiently effective to make it electorally unassailable for three decades before it too faced growing crises by 2010.

During the early Congress years, the state did get some public sector investments such as an integrated steel plant and a few mega hydroelectric power projects but these were insufficient to sustain a drive towards industrialization. With India still a basic LAO, the poor relationship of the state Congress with the central Congress meant that despite being one of the industrial leaders in 1947, the state got significantly fewer industrial licenses compared to Maharashtra (Table 4). Nor did capitalists in West Bengal have close relationships with leaders in the national Congress. This too was different from capitalists in Bombay. The most important difference was that the West Bengal Congress did not have a state-based rent strategy that allowed them to consolidate a basic LAO. There was no equivalent of the sugar lobby in West Bengal and the Congress here found it much more difficult to construct a stable coalition compared to the Maharashtra Congress.

Table 6.5

INDUSTRIAL LICENSES ISSUED TO DIFFERENT STATES IN INDIA, 1965–76

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
AP	24	19	11	4	6	13	37	30	29	61	61	51
GU	39	33	29	23	16	39	66	57	78	89	97	83
TN	59	29	18	7	12	36	51	36	64	99	141	61
MH	134	109	100	66	80	112	162	131	183	265	255	143
PN	24	31	16	14	7	39	45	52	44	107	109	52
WB	64	42	48	34	62	46	81	54	47	107	74	56

Source: Raychaudhuri and Basu (2007), table 11

Note: The abbreviations for the states are as follows- AP = Andhra Pradesh, GU = Gujarat, TN = Tamil Nadu, MH = Maharashtra, PH = Punjab & Haryana, WB = West Bengal.

The Congress-based dominant coalition collapsed earlier in West Bengal, by the late 1960s. It fragmented enough for the first non-Congress coalition, a Communist one, to come to power. The first coalition did not last long but the stage was set for a Left-oriented coalition in the state. The Congress government that came to power after this short-lived coalition brutally put down a popular leftist movement. The movement, called 'Naxalite' was the result of a peasant uprising in 1967 which struck not just at the Congress coalition but also divided the Communist movement in West Bengal. The emergence of the Naxalite movement was itself in part a manifestation of the unraveling of the Nehruvian basic LAO in West Bengal and the inability of the Congress to offer rents to potential organizers of violence in the state.

### 6.3.2 The Left Front: prioritizing agrarian over industrial interests

The Left won a landslide victory in 1977 and was quick to consolidate its position among its rural constituents by focusing on land reforms and the establishment of the 'Panchayati' system of local self government. The Panchayat level is the lowest level of elected government in India and operates through the devolution of administrative power to the level of a village unit. These actions helped the Left mobilize a large section of the rural and largely agricultural support base that it was to draw on for the next three decades (Mukherjee 2007). The Panchayati system came into force in the state almost a decade before it was adopted at the national level and proved to be the Left's political masterstroke. Once the Left won Panchayat elections in a village it could appoint its cadres to run the administration on party lines ignoring the bureaucratic district administration authorities that were more difficult to command along partisan lines. This gave Panchayat members significant powers over rent allocation at the village level, for instance in the allocation of public funds. The land reforms on the other hand gave the Left the much needed perception of using state power for a progressive social transformation (Yadav 2006).

Land reform in West Bengal distributed very little land to the poor but it did strengthen the rights of sharecroppers and landless workers. The most substantial effect was to enable a shift in the state's rent distribution strategy towards subsidies for fertilizers, tube wells and other investments for the small and medium peasants who made up the bulk of the peasantry (Rogaly et al. 1999). The shift in rent distribution priorities was both politically successful in creating a constituency for a stable ruling coalition as well as being developmental for a time and driving strong growth in West Bengal's agriculture (Table 2). The source of stability was that the allocation of small rents to a broad population of small and medium peasants gave the

party an unassailable electoral constituency while also helping peasants to drive high rates of agricultural growth for a while. The way in which the dominant coalition was constructed, however, meant that the coalition could ignore the importance and indeed necessity of allocating rents to develop industry. On the contrary, the Left at this time actively encouraged militant trade unionism in the cities to keep potential industrialists and their Congress supporters in check, while basing its own power on a stable coalition based in the rural economy.

The Left Front therefore created a second, and apparently more successful basic LAO compared to the one the Congress had constructed in West Bengal. However this strategy had its limitations. First, agricultural growth based on the middle peasantry had its shortcomings in terms of political stability. The really poor and landless were left out, as were the growing 'intermediate classes' in the urban areas, except for those who were incorporated as party activists and organizers. Second and perhaps more importantly, agricultural growth in a land-scarce economy had its economic limits. When in the 1990s agricultural growth started petering out, the Left Front faced very serious problems in reorienting its strategy towards industry.

The Left's ability to use the Panchayati system effectively through the 1980s and most of the 1990s to direct rents to its constituents was an important part of its rent allocation system. Most local developmental activities were funded through this system and bypassed the bureaucracy of the district administration. This allowed the Front to gain a head start over other Indian states in streamlining the process of funds disbursement through the Panchayati system. Channeling funds for local development projects through the Panchayats helped the Left to decide allocation politically, bypassing the bureaucracy of the district administration. This was a vital part of the mechanism through which it consolidated its cadre base at the grass roots level. Party members were members of the Gram (village) Panchayat and so at the grassroots level, the party and government structure coalesced. The allocation of development funds not only provided rents to the core organizers of the party, but to a significant extent were also developmental rents as they provided subsidies for investment in agriculture that otherwise might not have happened. Money disbursed went to villagers who either had organizational capabilities or to win over those who were hesitating in their support for the Left. Winning a majority in every Panchayat election helped to consolidate the Left's base which was translated into money and muscle during state and national elections (Bhattacharya 2002, Mitra 2001).

The developmental aspect of this rent allocation strategy resulted in a significant growth in agricultural productivity. Between 1980 and 2005, the average agricultural growth rate in West Bengal was 4.6 per cent as opposed to 2.9 per cent for India and 3.4 per cent for Maharashtra (Table 2). As Rogaly et al. (1999) show, a large part of the subsidies resulted in increased investments in tube wells, fertilizers and other agricultural inputs. Bardhan and Mookherjee (2006) also argue that the distribution of agricultural kits and credit to poor farmers contributed to higher productivity. In Khan's terminology, these were developmental rents (Khan 2008c). Given that not much land was redistributed and tenancy reforms were limited, these developmental rents are likely to have been an important contributor to West Bengal's higher than average agricultural growth over this period.

The flight of industry

The Left-organized basic LAO in West Bengal coincided with, and possibly at least partly caused a flight of organized industry from West Bengal to Maharashtra and other states. It began with a number of corporate headquarters being shifted from Kolkata to Mumbai. The basic LAO created by the Left left no space for industrial or capitalist interests. Industrial corporations offered no opposition to these pro-agrarian policies; they clearly felt there would be little point in fighting such a well organized political order. The corporate interests that stayed behind were typically family owned organizations in commodity businesses like tea and jute, unlike the blue chips whose bottom lines were being hit by industrial unrest and limited policy and incentive support from the state.

For industrial companies, the lack of support for investment translated into low firm-level productivity growth and ultimately adverse effects for shareholders. In contrast, owner-capitalists in commodity businesses required less support and were also much more adept at maintaining cozy relations with the CPI-M's top leaders. Yet till the early 1990s the Left Front blamed West Bengal's industrial decline on New Delhi's antagonistic policy towards states ruled by opposition parties. This argument became weaker after the 'liberalization' or economic deregulation policies that the Congress and later governments at the centre implemented from 1991 (Sinha 2004). As the allocative decisions of the centre became less important, the Left Front government found it more difficult to explain why industrial performance in West Bengal continued to lag in the new economic regime. To make matters worse, agricultural growth in the state also began to taper off at around the same time.

### 6.3.3 The Limits of the Left Front

While the Left's pro-rural, anti-capitalist rent-creation strategies paid political dividends for two and a half decades, towards the end of the 2000s there were signs that the strategy had reached its limits. As late as the 2003 elections the CPI-M won 2,303 out of a total of 3,220 panchayat seats. But this fell to 1,597 in 2008, while the opposition which won 744 seats in 2003 increased its position to 1,479 seats in 2008. The CPM also suffered serious electoral reverses in the 2009 general elections. At the heart of its difficulty was a significant slowdown in agricultural growth in the state and the challenge of shifting to an industrial strategy at a late stage.

The limits to agricultural growth in West Bengal stem from an adverse person-to-land ratio and small farm sizes which make mechanization impractical. The average cropping intensity (the number of crops grown every year) is one way of raising output, but this is already 1.78 in West Bengal, second only to Haryana. The person-to-land ratio is three times the Indian average. The growth that could be achieved initially with these small peasant farms by pumping in more inputs clearly had its limits. Even this growth did not really make a significant dent on poverty at the bottom (Sarkar 2007). The dominant coalition began to realize that further rapid growth would require addressing much more difficult issues like significantly improving rural infrastructure and land consolidation to enable mechanization. At the same time, the dominant coalition ran into problems with its own constituency in trying to promote industrialization.

Since 2007 West Bengal witnessed massive protests and violence directed at the Left Front against its land acquisition strategy to assist industry. Belatedly, when the Left Front realized that it had to promote industry, its strategy of trying to provide cheap

land for industrial investors failed because it was unable to acquire this land without significant violence. Plans for building a car manufacturing plant in the state by the leading Indian auto maker, Tata Motors, had to be dropped because of the ferocity of the protests, spearheaded by a resurgent opposition taking advantage of the pent-up frustration against the CPI-M. The frustration is partly of the CPI-M's own making. The party's tight control of allocative decisions down to the village level is a feature of this basic LAO. But party control that is so intrusive means that there is no choice of schools, villagers cannot make their own decisions about where to take cooperative loans, and so on. The single party LAO in a context where a challenge by the opposition cannot be formally blocked by administrative methods can only work if the benefit from higher growth and material welfare is perceived by the electorate to compensate for the more extensive control over choices and rents. When agricultural growth was rapid, these conditions were met and for well over two decades the Left Front was unassailable at the polls. But this dramatically changed with the decline of agricultural performance, and particularly after the mid- 2000s. The Left Front suddenly faced the unexpected specter of losing in the rural areas where electoral battles are really won and lost in West Bengal. Nor was the left equipped to create a new pattern of rents that could support broad-based small and medium scale industrial capitalism which could satisfy the dual goals of industrial employment generation and moderate equity consistent with its support base.

An ever hopeful and watchful opposition caught on to the dissent and sought to turn it to its advantage. The opposition campaigned successfully to block the Left Front strategy of acquiring agricultural land for industry. These mobilizations are likely to have a lasting negative effect for whoever wins power in West Bengal because the challenge of supporting industrialization is not going to disappear. Greater openness in political access is likely to make it even more difficult to address these difficult issues. At the same time, the unraveling of the Left Front LAO has also led to many of the poor and displaced being mobilized by violent insurgency movements like the Maoists. A dormant Maoist movement has been rejuvenated in the state and was following a path of considerable violence by 2010. While drawing support from the Maoist insurgency in the rest of the country, the movement in West Bengal also draws support from the vast section of the state's tribal population that was largely overlooked by the Left Front. Finally, the unraveling of this basic LAO has further harmed the state's industrial performance to a greater extent than Maharashtra because the size of the manufacturing sector was smaller to begin with and the challenge in West Bengal was to attract new investments, not just to enable existing clusters to grow.

#### 6.3.4 Summary

West Bengal appears to be a case of missed opportunities. The Left had thirty years of uninterrupted rule, a feat not seen before and very unlikely to be repeated in India's current political environment. It succeeded in building up a loyal constituency and a committed cadre base that worked hard at the rural grassroots. The conventional explanation of the Left's failure is that it neglected social investment in education and primary healthcare and squandered its goodwill. More important perhaps was its failure to formulate a strategy beyond agriculture growth. Agriculture could not in any case absorb a younger generation who no longer wanted to be involved in the sector. But it also took its constituency for granted and failed to develop support for difficult

decisions. When the Left Front attempted to forcibly acquire land for industry, it paid the price by losing heavily in the general elections of 2009.

Behind all these explanations is a broader problem: the strategy of rent creation and allocation that underpinned the Left Front's basic LAO had significant problems. This strategy did not allow the growing intermediate classes avenues for rapid integration into the dominant coalition and access was severely limited to loyal supporters. It ignored the really poor and left them to be organized by disenchanting intermediate class political entrepreneurs. And its rent allocation strategy did not provide industrial interests with growth-generating rents until it was too late. By the end of the 2000s, the Left found itself in the unenviable position of losing the confidence of its traditional constituency and with no other support base to fall back on (Khan 2008c).

#### 6.4 A Comparison and Conclusion

The evolution of the LAO in Maharashtra and West Bengal has to be understood in the context of changes happening across India, but they also exhibit critical regional differences which are just as important. In both cases, the state-level differences in the construction of their dominant coalitions implied significant differences in the types of rents and their allocation. These differences help us to make sense of differences in economic and political strategies, as well as the challenges the states faced.

As North, Wallis, and Weingast (2009) point out, institutions and organizations have a path-dependent history. Some of the most important institutions and organizations in Maharashtra revolved around industry. The state's dominant coalition was built to accommodate the urban industrialists and the rural rich. After independence the dominant coalition was kept together by two distinct types of rents. Long-term rents for industry assisted investment and technology acquisition, initially through the licensing system, and also through land acquisition through the MIDC, the prioritization of infrastructure and other interventions. In return, the industrialists were expected to provide kickbacks to politicians. But the most important rents that kept the dominant coalition in political business were damaging in a narrow economic sense but nevertheless provided political stability. These rents included the rents created by the pricing policies of the sugar lobby that provided the rents for a patron-client politics focused on Maratha political organizers and their electoral clients. As this basic LAO evolved, the long term rents to industry became more difficult to sustain, and political competition became more fragmented and violent. The growth of communal politics and the criminalization of politics that happened in Maharashtra in the 1990s tracked the changes at the all-India level towards greater maturity in the characteristics of the LAO. Long-term investment in industry suffered, but industry already had a deep enough base to carry on investing on its own.

In West Bengal the Congress-led LAO ended a lot earlier, followed by a new Left-led LAO that had significantly different characteristics. Unlike the Congress-led basic LAO of the Nehru period, the Left-led basic LAO was organized through a mass party. It incorporated many but not all potential organizers, and as a result open competitive violence was much less in evidence in West Bengal during this period compared to other states. However, the nature of this dominant coalition ruled out rents that attracted productive investments in industry. The coalition's productive rent allocation focused on small and medium peasants, and for a time greater investments



by middle peasants in particular drove significant agricultural growth. However, when agrarian growth hit a ceiling due to land fragmentation and population density, the dominant coalition could not shift rent allocation strategies sufficiently to attract a significant increase in industrial investment. The growing violence and insurgency in the late 2000s in West Bengal reflects the gradual breakdown of this basic LAO. As West Bengal moves towards 'maturity' it also faces uncertainty in terms of the nature of the coalitions that will emerge and their rent allocation strategies.

Both states are at different stages of moving from more stable basic LAOs to much more volatile mature LAOs. In Maharashtra this has already progressed, in the form of the emergence of new coalitions, such as the BJP-SS led coalition of excluded elites, with an attendant increase in political instability. In West Bengal the electoral defeats of the Left Front in 2008 and 2009 probably signal the beginning of a transition to a more mature LAO in the sense that the space for establishing new organizations, particularly political organizations, is likely to significantly increase as a result. It has also resulted in an upsurge in insurgent violence led by Maoists. The emerging maturity in the LAO in both West Bengal and Maharashtra has therefore been associated with greater violence and political fragmentation.

West Bengal comes off poorly when compared to Maharashtra in terms of industrial growth but leads if we compare agricultural performance. West Bengal also enjoyed uninterrupted political stability for 30 years and did more to target poverty while Maharashtra suffered from more fractious politics, more serious communal strife and did less to fight poverty even during the basic LAO phase. But West Bengal used its political organizations to create rents that supported agricultural growth in a context of pressing land scarcity where sustaining growth required an industrialization strategy. In Maharashtra industry and commerce flourished, even if the breakdown of the basic LAO resulted in a slowdown in industrial and particularly manufacturing growth in the late 1990s.

Taken together our examination of the LAOs in West Bengal and Maharashtra demonstrate a few principles and raises many questions. First, the transition to maturity in India according to the NWW definition appears to have very strong political determinants. In particular, the basic LAO of the Nehruvian period failed because the ruling coalition could not accommodate all the potential organizers and violence specialists who emerged. The LAO with greater characteristics of openness and therefore maturity was simply a response to these pressures, rather than being driven by the growing sophistication of productive organizations. Fortunately for India, small sectors of the economy were also growing in organizational sophistication, particularly the organized industrial and service sectors that were globally competitive. But these were still sectors that employed tiny numbers of people as a share of the total population.

Secondly, while our case studies corroborate the important role of violence and the need to distribute rents to maintain political stability in LAOs, the role of the violence specialist needs closer scrutiny. Receiving rents does not necessarily make a violence specialist stop violence. They may instead ask for more rents. The perpetual splitting of parties sometimes happens because political organizers are unhappy with the rents they are getting, not because they are not getting any. Similarly, being excluded from rents does not necessarily induce an organizer to engage in violence. We do not know

ex ante what the rent allocation should be to stop violence or whether the current allocation is excessive or insufficient. This is a weakness in terms of policy advice to developing country leaders. But the framework can describe the evolutionary process through which stability is achieved in developing countries.

Finally, in developing countries like India where the mobilization of the intermediate classes for rent capture is an ongoing and expanding process, the transition to aspects of a mature LAO can and does result in greater volatility and perhaps vulnerability. India has evolved towards a political and economic system where many types of organizations can be set up and function successfully outside the ambit of the dominant coalition. However, the very ease with which organizations can be set up can destabilize the rents of the dominant coalition and threaten its viability. If the dominant coalition hits back with restrictions, it reverts to having more characteristics of a basic LAO. If it gives in, it can create incentives for even more organizers to try and capture rents and result in an outbreak of violence and fragility. Till an extensive and productive capitalist class is created that can pay for the protection of basic property rights, as well as pay significant taxes to allow stability to be achieved through fiscal redistribution, reaching the 'doorstep' conditions for establishing an extensive rule of law for elites in both political and economic organizations is not going to be easy.

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