ECONOMIC LIBERALIZATION, ELECTORAL COALITIONS
AND PRIVATE INVESTMENT IN INDIA

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Abstract

What are the political conditions conducive to growth-oriented policies in poor democracies? An extensive literature on redistribution suggests that poor democracies are unlikely to focus on growth-oriented policies. Yet, as a largely poor and highly-competitive democracy that has witnessed a notable growth transformation, India challenges this hypothesis. To address the broader question of political conditions conducive to growth-oriented policies in poor democracies, my dissertation focuses on a specific empirical puzzle – subnational policy variation in the competition for private investment in India, which ensued after the adoption of extensive market reforms in 1991. Despite being bound by similar institutional conditions and being subject to a common shock, some subnational governments have been far more proactive and business-friendly in the competition for investment than their counterparts; both speed and scope of policies has varied. I examine this variation and ask why some subnational governments have been more proactive and investor-friendly than others.

My dissertation makes two main claims. First, I focus on the social base of voters backing governments, which I refer to as electoral coalitions, and argue that certain configurations of electoral coalitions with a confined class basis are more favorable to growth-oriented policies than others. Specifically, narrow-right coalitions, characterized by the joint presence of core groups with similar economically-advanced profiles and substantial representation of business interests, are most conductive to growth-oriented issues. How do such narrow class coalitions emerge in the midst of a poor electorate? The second claim of my dissertation is that narrow growth-oriented coalitions can arise in poor democracies when the primary logic of electoral politics is non-economic and rests instead on symbolic concerns such as identity, ethnicity or nationalism. In such cases, both party strategies of mobilization and voter attachments are driven
by social factors rather than economic interests. Where social attachments cut across economic interests, class-based electoral collaboration is impeded and narrow coalitions can emerge, even in the midst of poor electorates.

In the Indian case, I focus on the influence of identity politics, specifically on caste politics, on both party strategies and voter motivations. The primacy of identity politics has meant that underlying social cleavage patterns critically affect party strategies of coalition construction. The association between social cleavage patterns and party strategies is complemented from below by the effect of identity on voter attachments. Both these factors allow for the emergence of narrow, growth-friendly coalitions in a poor electorate.

I use a nested research design, which combines both qualitative and quantitative analysis. Specifically, four in-depth case studies are combined with a time-series cross-section analysis of 14 states between 1992 and 2010.
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<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>Adivasis</td>
<td>Scheduled Tribes; also referred to as STs</td>
</tr>
<tr>
<td>AP</td>
<td>Andhra Pradesh</td>
</tr>
<tr>
<td>BJP</td>
<td>Bharatiya Janata Party</td>
</tr>
<tr>
<td>CPI</td>
<td>Communist Party of India</td>
</tr>
<tr>
<td>CPI (M)</td>
<td>Communist Party of India –Marxist</td>
</tr>
<tr>
<td>Dalits</td>
<td>Scheduled Castes; also referred to as SCs or Harijans</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FPTP</td>
<td>First-Past-the-Post</td>
</tr>
<tr>
<td>GSDP</td>
<td>Gross State Domestic Product</td>
</tr>
<tr>
<td>INC</td>
<td>Indian National Congress</td>
</tr>
<tr>
<td>IPE</td>
<td>International Political Economy</td>
</tr>
<tr>
<td>JD</td>
<td>Janata Dal</td>
</tr>
<tr>
<td>JD(U)</td>
<td>Janata Dal (United)</td>
</tr>
<tr>
<td>KHAM</td>
<td>acronym for Kshatriya Harijan Adivasi Muslim; electoral strategy used in Gujarat</td>
</tr>
<tr>
<td>MLA</td>
<td>Member of the Legislative Assembly</td>
</tr>
<tr>
<td>OBC</td>
<td>Other Backward Castes</td>
</tr>
<tr>
<td>PRP</td>
<td>Praja Rajyam Party</td>
</tr>
<tr>
<td>NTR</td>
<td>N.T. Rama Rao</td>
</tr>
<tr>
<td>RJD</td>
<td>Rashtriya Janata Dal</td>
</tr>
<tr>
<td>SAD</td>
<td>Shiromani Akali Dal</td>
</tr>
<tr>
<td>SC</td>
<td>Scheduled Castes; also referred to as Dalits</td>
</tr>
<tr>
<td>ST</td>
<td>Scheduled Tribes; also referred to as Adivasis</td>
</tr>
<tr>
<td>TDP</td>
<td>Telugu Desam Party</td>
</tr>
<tr>
<td>TRS</td>
<td>Telangana Rashtra Samiti</td>
</tr>
<tr>
<td>UP</td>
<td>Uttar Pradesh</td>
</tr>
<tr>
<td>YSR</td>
<td>Y.S. Rajasekhar Reddy</td>
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</table>
Acknowledgements

It certainly takes a village to complete a dissertation. In my case, I am absolutely certain that I would not have reached this point without the advice, support and goodwill of several people and institutions across multiple cities in three continents. The fact that this journey has occurred relatively late and been circuitous has only meant that the debt I owe to others is ridiculously embarrassing. I feel tremendously privileged to have had this opportunity.

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Last but not least, none of this would have been possible without the support of my parents, Tara and Murali, and my brother, Krishna. They are my moral compass and source of stability. They have always been my biggest supporters even though they have watched me try numerous pursuits, fail in some and change my mind on several occasions. Encouragement aside, my interest in politics is largely due to my family. Growing up, politics was the most discussed and debated topic in our house after cricket. My parents remain avid news junkies and visits home are always useful in catching up with the nitty-gritty of Indian politics. The fact that my mother still calls frequently to rail about some ill-conceived government policy is a major source of comfort. Over the years, she has viewed the role of Indian business with a high (if unwarranted) degree of skepticism and we have had countless debates on the subject. If she ever reads it, I know parts of this dissertation would prompt an “I told you so.” I guess some battles have to be lost! This dissertation is dedicated to my parents and my brother.
1. Chapter 1: Introduction and argument

1.1. Motivation and overview

Cases of rapid growth in the developing world are rare. If examples of high growth in poor countries are few and far between, rarer still are those that have occurred in a democratic setting. From the point of view of an extensive literature on redistribution, these trends are not surprising. Starting with the classic models of Romer (1975) and Meltzer and Richard (1981), scholars have posited an inverse relationship between income and individual preferences for redistribution – individuals with lower incomes are likely to favor greater redistribution. While recent theories have emphasized other variables in explaining redistributive preferences such as structure of inequality, skill types, prospects for mobility, risk aversion, values and beliefs, even those that highlight alternative mechanisms empirically confirm an inverse relationship between income and preferences for redistribution (e.g., Alesina and Angeletos 2005; Alesina and Ferrara 2005; Iversen and Soskice 2001; Scheve and Stasavage 2006).

A related set of studies link democracies to redistributive outcomes at a macro-level (e.g., Acemoglu and Robinson 2005; Boix 2003). Though these authors focus on the conditions under which democracies emerge and consolidate, they too assume that the poor prefer higher redistribution than the rich. Authoritarian governments privilege elite interests while democracies are responsive to the poor and, as a result, should redistribute more. Some authors also broadly suggest that democracies are better for the welfare of the poor as they provide more social spending or public goods than non-democracies (e.g., Brown and Hunter 1999; Lake and Baum 2001; Stasavage 2005).¹

¹ Ross (2006) challenges the claim that democracies have a better record on the welfare of the poor. In addition, levels of redistribution vary within democracies (e.g., Iversen and Soskice 2006, 2009).
If the poor generally prefer greater redistribution and democracies have a proclivity to redistribute, we should see poor democracies focusing predominantly on redistributive policies. Given the nature of resource constraints in developing democracies, policymakers often face a trade-off between growth-related policies and redistributive measures. It is therefore unlikely that policymakers will focus on growth in such circumstances. Yet as a largely poor and highly-competitive democracy that has witnessed a notable growth transformation, India poses a puzzle to this hypothesis. Catalyzed by a major shift in its policy framework, India has been among the world’s fastest growing economies over the last two decades. Between 1991-92, when it adopted extensive market reforms, and 2010-11, India’s GDP grew at an annual average rate of over 6.5 per cent.

India’s growth experience stands in stark contrast to those of other successful late developers. Not only did well-established democratic politics precede India’s shift to a high-growth path, economic change has taken place in a polity where the poor constitute a near majority of the electorate and are more likely to participate in the electoral process than economically-privileged sections (Yadav 1999, 2002). According to the World Bank, 41.6 per cent of India’s population lived below the $1.25 a day poverty line in 2005 and 76.5 per cent lived below $2 a day (Chen and Ravallion 2008).

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2 There are several reasons why a trade-off between growth-related goals and redistribution may exist in developing countries. The extent to which there is a trade-off is ultimately an empirical question. In Indian states, as discussed later in the chapter, there is considerable evidence of a tension between growth-oriented and redistributive goals in the post-reforms period.

3 Calculations based on data from the World Bank (databank.worldbank.org); accessed March 26, 2013.

4 Poverty measures are highly controversial in India and a variety of estimates exist. Official estimates of the Indian government peg the poverty headcount ratio at 37.2 per cent in 2004-05 (Tendulkar Report). This translates to 301.7 million people below the poverty line. Another government-appointed taskforce using a different methodology, the Saxena Committee, estimated the poverty ratio at 50 per cent in its report while a third, the Sengupta Committee, put the figure of “poor and vulnerable” at 77 per cent of India’s population or 836 million people.
The puzzle posed by India’s experience – of rapid growth in the midst of largely poor electorate – leads to a broader question that forms the main motivation of this dissertation. What are the political conditions conducive to growth-oriented policies in poor democracies? To gain traction on this large question, this dissertation analyzes a specific empirical puzzle – subnational policy variation across Indian states in the competition for private industrial investment in India, which ensued after market reforms in 1991.5

In response to a balance of payments crisis in 1991, India adopted extensive market reforms. Among other major ramifications, economic liberalization led to the onset of competition for private investment between states. Despite being bound by similar institutional conditions and despite being subject to a common shock in the form of market reforms, Indian states have reacted very differently to the competition for investment. In particular, some subnational governments have been more proactive in the competition for investment than their counterparts; both the speed and scope of investment promotion policies have varied across states. I examine this policy variation and ask why some Indian states have been far more proactive in the competition for investment than others. As explained later in this chapter, investment is widely recognized as an important determinant of the growth process and I therefore focus on policies designed to attract investment.

Through the analysis of subnational policies in the competition for investment in India, my dissertation makes two main claims. First, I argue that under certain circumstances in poor democracies, redistributive pressures are more contained and policymakers can prioritize growth-related concerns. I focus on the social base of voters, which I refer to as electoral

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5 Investment throughout this dissertation is meant to refer to private industrial investment – domestic and foreign direct investment by the corporate sector. It does not include portfolio investment or agricultural investment, except for agro-based or agro-processing industry.
coalitions, and suggest that certain configurations of electoral coalitions with a narrow class basis are more favorable to growth-oriented policies than others. \(^6\) Specifically, \textit{narrow-right coalitions}, characterized by the joint presence of core groups with similar economically-advanced profiles and substantial representation of business interests, are most conducive to a growth-friendly policy agenda. Such coalitions represent a congruence of political and economic power and this overlap tends to be most favorable for the formulation and implementation of a growth-oriented framework.

If such narrow class coalitions are most favorable to growth-oriented policies, how do they emerge in the midst of a predominantly poor electorate? The second claim of my dissertation is that narrow growth-oriented coalitions can arise in poor democracies when the primary logic of electoral politics is non-economic and instead rests on symbolic factors. In several poor democracies, symbolic concerns such as identity, ethnicity or nationalism form the primary basis of electoral contestation; both party strategies of mobilization and voter attachments are driven by social factors rather than economic interests. Where social attachments cut across economic interests, class-based electoral collaboration is impeded and narrow coalitions can emerge even in the midst of poor electorates.

In the Indian case, I focus on the role of identity politics and specifically on caste politics. Identity politics forms the main mode of electoral mobilization by parties in India and also influences voter motivations. The effect of social factors on both party strategies and voter attachments prevent large lower class coalitions from forming in some cases, which we might have otherwise expected given the broader income distribution of the electorate. Instead, I find

\(^6\) Throughout this dissertation, the nature of electoral coalitions refers to the social base of voters who support a particular government and not to a coalition of parties in government. However, governments comprising a coalition of parties have often come to power in India. In such cases, the socio-economic vote base of all parties that comprise the government is taken into account.
that underlying social cleavage patterns critically affect the party strategies of coalition construction. In particular, certain cleavage structures allow for the emergence of narrow class coalitions, even though the electorate is largely poor. The link between social cleavage patterns and party strategies is complemented from below by the effect of identity on voter attachments.

By pointing to the link between social factors and economic policy, my argument emphasizes an association that is often overlooked in the political economy literature, which typically focuses on advanced industrial countries. At the most general level, I suggest that a confluence of political and economic power is conducive to the prioritization of growth-related policies in poor countries. The possibility of this overlap in developing democracies is often mediated by social factors and I attempt to explore the conditions under which the intersection of political and economic power can occur in the presence of poor electorates. In doing so, the dissertation highlights the marked difference in the political dynamics of policymaking in cases where social attachments cut across economic interests compared with those where class politics is well-developed.

The dissertation also engages with other key scholarly debates. In its emphasis on policies undertaken by governments, this dissertation shares an affinity with the developmental state literature. Unlike the case of classic developmental states in East Asia, which were supported by authoritarian political regimes, examining the state’s economic role in the Indian context provides insights into the constraints and challenges engendered by democratic contestation. By focusing on the competition for investment, the dissertation speaks to a debate in international political economy on the influence of mobile capital on policymaking. In analyzing the links between caste, entrepreneurship and policymaking, it contributes to the literature on ethnicity and economic outcomes. Finally, my dissertation joins a growing body of subnational studies on
India, which highlight the impact of diverse historical, social and political trajectories across states on varied outcomes within the country.

The remainder of this chapter focuses on the central argument, the empirical puzzle and the research design in more detail. Before elaborating on these aspects, I first outline the motivation behind a study of investment policies below.

1.2. Why a study of investment policies?

Understanding the factors leading to economic growth has been a long-standing concern in both academic and policy circles. Growth is one of the most vital facets of economic development; it is critical to reducing poverty and tends to be strongly correlated with a variety of outcomes that citizens care about such as health and education. In turn, investment is a key input into the growth process. The sheer magnitude of poverty in India and the indirect impact of investment through the growth process make a study of investment policies worthwhile.

The significance of investment to economic growth has been highlighted by theoretical, empirical and policy-oriented studies. At a theoretical level, neoclassical growth models clearly emphasize the role of capital accumulation (e.g., Barro and Sala-i-Martin 2004). At an empirical level, several studies in the economics literature have found a positive relationship between investment and growth (e.g., Barro 1997; Levine and Renelt 1992; Mankiw et al. 1992). The developmental state literature in political science highlights the crucial role that the state played in East Asia’s dramatic transformation (e.g., Amsden 1989; Evans 1995; Kohli 2004; Wade 1990). In particular, the state expressed its authority through the key avenues of savings and investment. For statists such as Amsden, Evans, Kohli and Wade, close ties between the state and private capital allowed the former to influence levels of private domestic investment and also
channel investment into high-growth sectors of the economy. The ability of the state to mold the key variable of investment was at the heart of East Asia’s growth miracle for these scholars.

The importance of investment and policies related to it has similarly been highlighted in policy circles. The World Bank, for example, claims that “as populations get larger, economic growth provides the only sustainable way of improving living standards. A good investment climate drives growth by encouraging investment and higher productivity. Investment underpins growth by bringing more inputs into the production process” (WorldBank 2005b: 5). Though central to the growth process, this dissertation does not claim that investment is the sole determinant of growth. As a voluminous literature in economics suggests, growth is multi-causal and a plethora of factors have been found to affect growth. Nevertheless, investment has been identified as one of the primary factors that drive growth at a proximate level of causation.

While it is widely accepted that investment matters for growth, the nature of investment in the developing world has markedly changed in character with the onset of neoliberal policies and the current era of globalization. A shift in the dominant development paradigm from statist to market models in much of the developing world in the 1980s meant that private investment began to assume far greater importance than public investment as a driver of economic growth. At the same time, increasing cross-border flows of capital has led governments to compete with each other to attract capital to their jurisdictions. To attract mobile capital, governments face pressure to create investor-friendly policy frameworks.

The Indian economic context after 1991 acts as a microcosm of the some of these broader trends. Like other parts of the developing world, market reforms in India led to a decline in the importance of public investment in India as a driver of growth and a concomitant increase in that

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7 Useful reviews on the determinants of growth can be found in Barro and Sala-i-Martin (2004), Bosworth and Collins (2004) and Durlauf and Quah (1999).
of private investment. As section 1.3 below will outline, economic liberalization in India brought about open competition between Indian states for private investment, albeit with very mixed results.

Other aspects specific to the Indian context also justify a focus on investment policies. While India’s overall performance has been impressive, growth has been extremely uneven. Healthy national averages mask extremely varied outcomes below. For several scholars, the discernible existence of “two Indias” has been clearly evident in the post-liberalization period (e.g., Ahluwalia 2000; Chatterjee 2008; Corbridge and Harriss 2000; Frankel 2005; Kohli 2006, 2012; Subramanian 2008). While states in the south and the west have driven the country’s economic resurgence, those in the populous north have fallen behind. Yet a disproportionate number of India’s poor continue to be concentrated in populous, slow-growing Hindi-belt states. At a proximate level of causation, many commentators have suggested that such regional growth differentials are themselves products of diverging investment (e.g., Ahluwalia 2000; Besley et al. 2007; Kohli 2006, 2012; Subramanian 2008).

Regional inequalities can be deeply consequential for federal polities such as India as they can act as sources of potential political tensions. More importantly, diverging economic outcomes have repercussions for the nature and quality of Indian democracy (e.g., Chatterjee 2008; Frankel 2005; Kohli 2006, 2012). For Kohli (2006), the spatial disparity of economic gains in conjunction with the “pro-business” nature of India’s current economic paradigm threatens to heighten the “two-track” nature of Indian democracy where policy-making is in the hands of a pro-business elite while the poor are strictly confined to the electoral process.

In addition to all these tangible reasons, a strong interest in the role of the state in development. State activism has been crucial to investment outcomes across regions in India, as
chapter 2 discusses, but the nature of tasks undertaken by the state has changed in the era of globalization compared with the case of classic developmental states in East Asia (e.g., Amsden 1989; Evans 1995; Johnson 1982; Kohli 2004; Wade 1990; Woo 1991). In particular, economic policymaking is now affected by the advent of mobile capital. A study of investment policies in India after 1991 allows for closer examination of the state’s role in an era of mobile capital.

Finally, the central claims of this dissertation focus on the impact of political factors on investment policies. To those familiar with India, the stress on the political determinants of policymaking will come as no surprise. In many ways, India exemplifies the claim that politics drives policymaking; it is a deeply political society and high levels of contestation inform every aspect of Indian democracy. The effect of politics is evident even in more seemingly technocratic areas such as investment promotion. Yet, the mechanics through which political factors operate in economic policymaking in India remains under-analyzed and this dissertation attempts to partially fill that gap.

For all these reasons, a focus on investment policies is worthwhile and of practical importance. The next section provides a background of economic liberalization, the ensuing competition for investment and divergent subnational policy responses.

1.3. The empirical puzzle: economic liberalization, subnational competition for investment and divergent policy responses

In response to a balance of payments crisis in the summer of 1991, India embarked on a path of market reforms. Socialist planning, an inward orientation and an interventionist state gave way to a more external outlook and decentralized structure that involved a very different role for the market and the state. The centerpiece of India’s post-independence policy regime – the
industrial licensing system – was virtually eliminated, drastically reducing state control of the private sector. Private investment supplanted public investment as the main engine of growth and this in turn had major consequences for the nature and content of policy-making in the country (e.g., Ahluwalia 2000; Jenkins 1999; Kohli 2004, 2006; Rudolph and Rudolph 2001; Singh and Srinivasan 2006; Sinha 2005). India also changed its external sector strategy considerably, easing regulations on foreign investment and gradually liberalizing its trade regime.

India’s economic reforms in 1991 were unexpected, extensive and represented a sea change in the economic policy framework of the country. In its quintessential style, the Economist suggested at the time: “For years the pace of economic reforms in India has been sedate, if not glacial. Yet in about as much time as it takes to say ‘International Monetary Fund’, Indians now face a flurry of reform intended to transform its inward-looking, control-bound economy into one favoring free markets and foreign trade. The Fabian founders of modern India will shudder in their graves” (Economist 1991: 36).

In all likelihood, India’s Fabian founders would have balked at the changes that occurred in 1991. More importantly, the process of economic liberalization had significant political and economic ramifications. Among the key changes, the 1991 reforms elevated the role of private corporate investment and engendered a major reconfiguration in the role of the central and state governments in the policy process. Prior to 1991, New Delhi enjoyed dominant control of economic policy but the onset of reforms led to a sharp decentralization in economic decision-making and brought state governments to the forefront of policy-making. Under India’s federal system, states have jurisdictional authority over several aspects of economic policy.8 Until 1991,

8 By the provisions of the Indian constitution, state governments have jurisdiction in the area of industries, except those declared by parliament to be necessary for defense purposes or expedient to public interest. States also have
the central government played a dominant role in economic decision-making but, with the virtual abolition of the industrial licensing system, New Delhi’s role in influencing the geographic distribution of investment has been effectively eliminated. This meant that private investment is no longer subject to geographical constraints by the federal government and one of the most salient aspects of liberalization is that states now compete to attract domestic and foreign private investment. According to Rudolph and Rudolph, “by the end of the 1990s, state chief ministers became the marquee players in India’s federal market economy. What has attracted media and policy attention in recent years is the competition among the states for international attention and for domestic and foreign private investment” (2001: 1541).

Growing subnational economic authority was at the same time politically reinforced by parallel transformations occurring in India’s vibrant democracy. The decline of the Congress, the onset of coalition governments at the center, the marked regionalization of Indian politics and major surges in the participation of lower castes in the populous northern states– processes that had their origins in the 1960s but reached their peak in the early 1990s – all led to a vastly different environment where the states began to enjoy new-found political leverage. In short, the era of reforms has seen a discernible shift in the locus of economic and political power from New Delhi to the states.

The new development framework altered India’s growth trajectory considerably. In contrast to the infamous “Hindu rate of growth” of 3.2 per cent between 1965-66 and 1980-81, India grew at a little over 6.5 per cent between 1991-92 and 2010-11. These robust national growth rates, however, have masked considerable regional differences below. It should be noted that significant responsibility in most policy areas relevant to investment promotion such as land, electricity, roads (excluding national highways), labor laws, certain taxes, special economic zones and law and order. However, the presence of the industrial licensing system until 1991 allowed the center to control the location of investment.
subnational disparities in economic performance are not purely artifacts of the liberalization era; dissimilarities across states have always characterized economic outcomes in India. Nevertheless, authors point out that inter-state growth disparities were not as pronounced in the first four decades after independence as they have been in the last two decades (e.g., Ahluwalia 2000; Kochhar et al. 2006b; Nagaraj 2006; Purfield 2006). In turn, several studies specifically point to diverging private investment levels across states as the proximate cause of regional growth differentials after 1991 (e.g., Ahluwalia 2000; Besley et al. 2007; Kohli 2006; Subramanian 2008). As figure 1.1 in the appendix suggests, there has been marked variation in the levels of investment attracted by Indian states. In addition, there has been temporal variation in investment outcomes over time as pointed out by figure 1.2.

These differences in investment, in turn, can be linked to both initial socioeconomic conditions as well as state agency – policies and measures undertaken by the state to attract investment to its jurisdiction. While initial socio-economic conditions have no doubt mattered, they do account for patterns of investment completely and state agency is a vital part of the explanation. Policies enacted by the state continue to play a critical part in explaining economic performance in India. Besley et al (2007) argue that subnational units with “pro-business” investment climates have enjoyed healthier growth rates and have been more successful in reducing poverty. Contrasting the growth experiences of Bihar and Gujarat, Kohli suggests: “A variety of Bihar’s initial conditions, including the investment climate, are clearly part of this story. However, it is also the case that repeated governments in Bihar have simply not been developmental…The absence of state activism for development is costing Bihar dearly” (2006: 1367). In a related vein, variation in policy frameworks across states and its attendant effects on
growth have similarly been emphasized by international financial institutions (e.g., Iarossi 2009; WorldBank 2002; WorldBank and InternationalFinanceCorporation 2009, 2004b).

Figure 1.1: Total Investment Proposals Across Indian States: 1991-2010

![Total Investment Proposals (1991-2010, in million rupees.)](image)

Figure 1.2: Temporal variation in investment proposals in select states

![Annual Investment in Select High and Middle Income States](image)

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9 Calculated based on data from SIA Statistics (January 2011), Department of Industrial Policy and Promotion, Ministry of Commerce and Industry (dipp.nic.in).

10 Calculated based on data from SIA Statistics (January 2011), Department of Industrial Policy and Promotion, Ministry of Commerce and Industry (dipp.nic.in).
Despite such observations on differences in state agency and policy frameworks related to investment across subnational governments in India, these aspects have not been extensively examined. Indian states were subject to a common, unexpected shock in the form of the 1991 reforms and are bound by similar constitutional, legal and financial provisions. Yet, there are considerable differences in the way subnational governments have reacted to the competition for investment. As chapter 2 lays out in extensive detail, some states in India have been far more proactive and aggressive in their attempts to attract capital to their jurisdictions. This has meant that both the speed and scope of policies formulated and implemented have differed across states. In some cases, policies have varied within states over time. The variation contravenes the expectations of the “convergence” hypotheses, which suggests that units competing for capital are likely to adopt similar business-friendly policies (e.g., Andrews 1994; Cerny 1993).

I try to understand these varied policy responses across Indian states in the competition for investment and ask the following question. Why have some states been more proactive and investor-friendly in policy terms than their counterparts?

1.4. The argument

1.4.1. An overview

In explaining subnational policy variation in the competition for investment, I advance a two-stage argument in this dissertation. Each stage of the argument is elaborated in detail in the next two sections but I first provide a brief overview of the argument here. Figures 1.3 and 1.4 provide a schematic representation of the argument.

I begin by suggesting that, at a proximate level, state activism in relation to investment promotion is dependent on the nature of electoral coalitions, the social base of voters, backing
governments. Typically, policymakers in units competing for mobile capital face two sets of incentives – pressures to undertake business-friendly policies and demands arising from the electorate that are often more redistributive. In developing countries, where decisions involve the use of limited resources or growth has not been inclusive, the two sets of pressures tend to be at odds with one another. In turn, the class profile of core voters who comprise electoral coalitions determine what goals governments prioritize and how they balance multiple aims in the context of limited resources. As a result, certain configurations of electoral coalitions are more conducive to pro-business policies than others.

Based on two dimensions – similarity of socioeconomic profile of core groups and the incorporation of business interests – coalitions are conceptualized as four types, narrow-right, narrow-left, wide-right and wide-left. I argue that states that have been more proactive and investor-friendly are backed by narrow-right electoral coalitions. Core groups of voters share a similar economically-advanced profile and business groups are also substantially incorporated in this type of coalition. The joint presence of these factors has two consequences. First, the class profile of the core groups allows policymakers to prioritize pro-business goals. There tends to be a coincidence between the interests of the core groups in narrow-right coalitions and the imperatives of the state to attract investment. The economically-advanced nature of core groups has meant that redistributive pressures exerted by narrow-right coalitions on policymakers are more muted than those arising from other types of coalitions. Second, the confined class profile of core groups also leads to fewer contradictory incentives for policymakers backed by narrow-right coalitions. As a result, states backed by narrow-right coalitions can prioritize investor-friendly policies in a consistent and coherent fashion. In contrast, as pointed out in the next
section, policymakers backed by the three other types of coalitions face constraints in promoting a coherent and consistent pro-business agenda.

If narrow-right coalitions with their confined class basis and substantial business representation are more conducive to pro-business policies, a causally prior question follows. How do they emerge in poor democracies in the first place? The second part of my argument suggests that these coalitions can arise in poor democracies when the primary basis of political mobilization is non-economic. In several developing countries, symbolic politics of various kinds – based on identity, ethnicity or nationalism – often acts as the primary basis of electoral contestation. A non-economic logic of political competition can lead to two consequences that allow narrow coalitions to emerge. Parties mobilize voters on the basis of such social attachments and voter attachments are based on social factors rather than economic interests. Social attachments, thus, cut across economic interests in electoral politics. As such, the notion of voters with varied economic interests acting on the basis of social identity and parties mobilizing on the basis of such factors leads to a distinct set of dynamics that prevents broad lower class coalitions from emerging, which we might have otherwise expected given the income distribution in developing democracies.

The argument on the origins of electoral coalitions developed in this dissertation is a mid-range explanation. The specific non-economic factors driving political mobilization and voter attachments are likely to be context specific. In the Indian case, I emphasize the role of identity politics, specifically caste politics. Caste is a hierarchical, endogamous social system that has functioned as a key axis of politics in India since independence. It forms the predominant basis through which parties mobilize electorally and also has a significant influence on voter attachments. As a result of the link between caste, party strategies and voter attachments, class-
based collaboration in electoral politics is undercut in some cases. The emergence of narrow coalitions with confined class bases is most evident in states where individual attachments of voters and party mobilization strategies are strongly driven by identity.

Apart from weakening direct class mobilization, the focus on identity has instead meant that social demography plays a vital role in explaining the nature and composition of electoral coalitions. As I explain in section 1.4.3, variations in social demography can be linked to the emergence of different types of electoral coalitions. I divide underlying cleavage structures in India into four types and suggest that certain types of electoral coalitions are more likely to emerge under particular cleavage structures. Though the explanation for the origins of electoral coalitions highlights pre-existing cleavage structures, it also emphasizes that coalition formation is not a static process. In particular, cleavage structures influence party strategies but the latter also have a feedback effect on subsequent decisions related to political mobilization. To reflect its dynamic and sequential nature, I chronologically trace the process of coalition formation in the case studies over time. In doing so, I highlight the impact of both social demography and political agency.

The remainder of this section expands on each part of the argument in more detail and also applies the argument specifically to the subnational context in India.
Figure 1.3: An overview of the argument

Figure 1.4: Applying the argument across Indian states
1.4.2. From electoral coalitions to investment policies

At a proximate level, the argument laid out in this dissertation suggests that certain configurations of electoral coalitions are more likely to be conducive to the formulation and implementation of an investor-friendly agenda than others. In particular, narrow-right electoral coalitions, characterized by the joint presence of similar economically-advanced core groups as well as substantial representation of business, are most likely to support a policy environment favorable to capital. By core voters, I refer to those who have a strong preference or attachment for a particular party and on whom the party depends significantly for its support. In advanced democracies, the grounds for such attachment are typically partisan or programmatic. In developing democracies, other considerations such as identity often form the basis for such predisposition to a particular party.

Based on the similarity of socio-economic profiles of core groups and the extent of business incorporation, electoral coalitions can be classified into four ideal types – narrow-right, narrow-left, wide-left and wide-right. The classification can be represented as a 2 x 2 (figure 1.5). Core groups can range from poor to economically-advanced and the first dimension tries to capture the extent to which these sections are similar in terms of their socioeconomic standing. In other words, this dimension assesses whether class bases of core voters are confined or diverse. The second dimension focuses on the level of business representation in coalitions, which can range from minimal to substantial. The category of business is assumed to include capitalists controlling large-scale industry as well as small entrepreneurs in the formal sector.

The core groups of narrow-right coalitions share a confined economically-advanced profile. Such coalitions also incorporate business interests substantially. Narrow-left coalitions
consist of similarly placed poor groups and there is minimal incorporation of business interests. Finally, both types of wide coalitions consist of mixture of poor and wealthy groups. However, business incorporation is minimal in wide-left coalitions and more significant in wide-right ones.

For a coalition to be classified as narrow-right, both factors (similarity of socio-economic profile of core groups and substantial incorporation of business) must be jointly present. Neither is individually sufficient. For example, a coalition of extremes with substantial business presence on one end and poor agricultural workers on the other, which would be classified as wide-right, is likely to place conflicting pressures on politicians. On the other hand, a coalition consisting of similarly placed poor groups may have congruent interests but these are likely to be purely redistributive and not supportive of a pro-business policy regime.

Figure 1.5: The classification of coalitions
1.4.3. Mechanisms: electoral coalitions and investment policies

What mechanisms link these different configurations to investment policies? I begin with the assumption that policymakers in developing countries trying to attract investment to their jurisdictions are faced with two distinct pressures – the incentives to undertake capital-friendly policies and redistributive pressures from the electorate. While most governments in poor and advanced-industrial societies face such choices, the context in which decisions are made is qualitatively different in developing countries.

In developing democracies, the two sets of pressures arising from capital and the electorate are often at odds with each other for several reasons. Developing democracies have to face challenges of catching-up arising from the very nature of late development but are simultaneously required to balance the imperatives of development and democracy within a context of limited resources. Creating a business-friendly policy framework typically requires that governments offer a variety of incentives, concessions and provide specialized infrastructure to attract capital to their jurisdictions.\(^{11}\)

Prioritizing a pro-business agenda has clear opportunity costs in poor countries and such costs can result in considerable political contestation.\(^{12}\) In addition, there is an inherent time-inconsistency problem. While capital has to be favored in the short-run through policies and measures, benefits of growth accrue only in the longer-term and are often uncertain. In sum, I suggest that policymakers in poor democracies are typically likely to face a trade-off between business-friendly goals, on one side, and redistributive imperatives, on the other.

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\(^{11}\) Chapter 2 focuses on these measures in more detail.

\(^{12}\) For instance, as discussed in chapter 2 of my dissertation, subsidized land provided by governments to private capital in India demonstrates this trend clearly.
If such a trade-off between capital-friendly and redistributive measures characterizes several developing democratic contexts, when can states in these contexts undertake business-friendly policies? I argue that the interests of core groups in electoral coalitions are significant in determining two aspects – the goals prioritized by the state and the balance achieved between multiple aims. Certain types of electoral coalitions allow policymakers to prioritize pro-business policies more than others. Specifically, narrow-right coalitions are most likely to be favorable to creating capital-friendly environments for two reasons. First, there is an alignment of the interests of the core groups and the state’s goals of investment promotion. This overlap of economic and political power is conducive to pro-business policies. The confined nature of economic groups in narrow-right coalitions also implies that policymakers are not subject to the intense redistributive pressures faced by those backed by the other coalition types. As a result, they enjoy insulation from pressures emanating from below and are able to create attractive investment climates. Second, policymakers backed by narrow-right coalitions are not subject to contradictory demands. In other words, they are not pulled in as many directions as policymakers backed by wide coalitions. Therefore, they are more likely to adopt a consistent and coherent pro-business agenda.

In contrast to narrow-right coalitions, narrow-left ones generate primarily redistributive impulses for politicians. Consequently, policies formulated by governments backed by narrow-left coalitions are likely to be far less business-friendly than those undertaken by other coalitions. The two types of wide coalitions represent intermediate cases. Wide coalitions share the feature that they include economically-dissimilar core groups with varied interests. While business incorporation is substantial in wide-right coalitions, it is minimal in wide-left ones. The diverse pressures arising from both types of wide coalitions require policymakers to balance a variety of
contrasting goals simultaneously and they are unlikely to prioritize growth-related policies to the extent that those backed by narrow-right coalitions can. These coalitions are also not driven by purely distributive motives as is the case with narrow-left coalitions. The record of governments supported by wide coalitions on growth-related outcomes tends to be mixed, though wide-right coalitions are more likely to be conducive to pro-business policies than wide-left ones.

1.4.4. The social origins of electoral coalitions

Narrow-right coalitions reflect a close alignment of political and economic power. How do such coalitions with a confined class basis emerge in the midst of poor electorates? Politicians in poor democracies, like those in advanced industrial countries, seek to construct electorally-successful coalitions. However, the logic of electoral competition and participation often differs in developing countries and rests on non-economic factors such as identity, ethnicity or nationalism rather than programmatic factors. This dynamic affects the choice of groups that parties choose to mobilize for electoral purposes. It also conditions voter attachments and motivations. When parties mobilize on non-economic factors and voters vote on the basis of such factors, class-based electoral collaboration is impeded. I argue that this can allow the emergence of narrow-right coalitions, even in the midst of poor electorates.

While non-economic modes of politics are prevalent in several developing countries, context matters significantly in explaining the origins of electoral coalitions. The specific non-

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13 One clarification is in order here. I treat the existence of politics based on non-economic factors such as identity or nationalism in developing democracies such as India as an empirical given. I do not attempt in the dissertation to address why politics follows a non-economic logic in the first place. Existing explanations throw light on this issue. Two different types of explanations exist for the prevalence of caste politics in India. Chandra (2004) offers a rational choice explanation and suggests that in patronage democracies, information constraints make it rational for voters to vote on the basis of caste and politicians to mobilize on the basis of caste. A more sociological explanation is offered by Kothari (1970b), who suggests that democracy in India was overlaid on a well-entrenched social structure of caste. Politicians found that caste was already embedded in social consciousness and, at the same time, was flexible enough to manipulate for electoral ends. As a result, it formed the main axis of political competition.
electoral modes and cleavage dimensions that are likely to affect political competition vary across different settings. In the case of India, I focus on the role of identity politics, specifically, caste politics and argue that such a dynamic has two related effects. I argue that such a focus has heightened the importance of social demography in electoral coalition construction by political parties. Specifically, I find that pre-existing social cleavage patterns determine the choice of groups that parties seek to target electorally and, therefore, the nature and composition of electoral coalitions. In focusing on the role of social cleavages in conditioning political competition, I follow a long literature in political science. Beginning with the classic work of Lipset and Rokkan (1967), the impact of social cleavages in influencing political competition, especially the nature of party systems, has been highlighted. In the case of Indian states, the targeting of groups on the basis of identity by parties is complemented from below by the influence of social attachments on voter behavior. These two complementary trends can result in coalitions that are not representative of the broader class profile of the electorate.

The sub-section below applies the two-stage explanation to Indian states. An illustration of how the explanation works across Indian states may make the general framework above clearer.

1.4.5. Applying the argument to Indian states

The trade-off between capital-friendly and redistributive measures is particularly evident in India. Growth since 1991 has not been inclusive, employment generation has been weak and benefits have not been equally distributed. Despite its recent growth success, India remains a largely poor and rural country.14 Moreover, the unorganized sector accounts for 92 per cent of

14 According to the 2001 Census, over 72 per cent of the Indian population lived in rural areas.
the total workforce and over 65 per cent of this group are engaged in agriculture (Sengupta 2007). There is a marked disconnect between the country’s occupation structure and India’s growth patterns. For a developing country, the composition of India’s GDP is idiosyncratic. Services accounted for almost 65 per cent of the country’s GDP in 2009-10 while agriculture and allied services accounted for 14.6 per cent.\footnote{Calculated from RBI (2010b), Table 3: Components of Gross Domestic Product (At Factor Cost)} Economic growth in the post-1991 period has also been driven by capital-intensive industries and the service sector (e.g., Kochhar et al. 2006b; Subramanian 2008). Employment generation in the organized sector has also been extremely poor (for e.g., Anant et al. 2006; Nagaraj 2006). In such a context, various governments have also chosen to offer a plethora of concessions including subsidized land, inputs and tax breaks to industry. Not surprisingly, privileging industry under these conditions has led to considerable political contestation.

Within this larger context though, some subnational governments have managed to prioritize investor-friendly policies in a consistent and coherent fashion. As the case studies in the dissertation show, Gujarat has consistently adopted a pro-business agenda in the post-liberalization period. Similarly, Andhra Pradesh (AP) has, in certain periods, been aggressive in attempting to attract investors. In contrast, Punjab has been consistently apathetic to the competition for investment. Like AP, Bihar exhibits temporal variation in policy performance. For most of the post-reforms period, it undertook no development initiatives of note. Since 2005, the state’s policy framework has undergone a sea change and a variety of policies have attempted to bring industry to Bihar.

As chapters 3 and 4 lay out, I associate these policy differences to the nature of electoral coalitions backing governments in these states. Narrow-right coalitions in Gujarat can be linked
to the state’s superior performance in the competition for investment while wide-right coalitions explain Punjab’s sluggish response. In addition, I argue that the shifts between narrow-right and wide-right coalitions in AP and narrow-left and wide-left ones in Bihar explain the temporal policy shifts in these states.

What explains the emergence of narrow-right coalitions in states such as Gujarat and AP? I offer a social origins explanation for the emergence of electoral coalitions in India. Like many other poor democracies, the logic of electoral politics in India has largely revolved around social identity. In particular, caste has played a major role in Indian politics since independence. This has been particularly true at the state-level (Chhibber 1999; Jaffrelot 2009b). There are a variety of avenues through which caste plays a prominent role in Indian politics – voters are primarily mobilized on the basis of caste, it plays a crucial role in candidate selection and poll promises often target specific caste groups. Several ethnic parties also exist at the regional level to represent interests of one or more specific castes (Chandra 2004). Chhibber and Petrocik (1989) show that even at the height of its national dominance, the Congress had very distinct caste bases across states.

Some scholars point to the clear and active use of social demography in the strategic calculations of political parties. In describing the use of caste surveys for electoral purposes by the Janata Dal in Karnataka in the mid-1990s, Gould suggests: “since caste has been a fundamental ingredient of political maneuvering in grass roots political arenas since modern Indian politics began, the decision of the Janata Dal leadership to employ scientific techniques to refine the process of identifying its ethnic nuances is perfectly understandable, and undoubtedly will be increasingly undertaken by all political groups in future elections. In principle, there is
nothing new about this. The UP Congress, the pioneers of caste manipulation, attempted a crude version of objectification as early as the second general election in 1957” (1997: 2338).

I highlight two avenues through which caste plays a key role – on party strategies and voter behavior. While caste remains the primary mode and idiom of political mobilization in India, caste cleavages tend to be localized and territorially contained within state boundaries (e.g., Brass 1990; Chhibber and Petrocik 1989; Chhibber 1999; Frankel 1989b; Kothari 1970b; Yadav 1999, 2004). As Yadav suggests, “there is very little that is common to all states in terms of patterns of social cleavages activated by politics. Not only are specific combinations unique to each state due to its social demography, but the nature of cleavage varies from state to state” (1999: 2398). Placing emphasis on these varied subnational social environments, I focus on two dimensions – numerical size of social groups and economic resource control – and suggest that social cleavages within Indian states can be divided into four basic patterns (described in the next sub-section). 16 As such, I argue that the variations in social demography have affected the nature and composition of electoral bases of support. Importantly, narrow-right coalitions have occurred in those cases where numerical size has coincided with economic resource control. These patterns have led to different modes of competition and divergent part strategies of political mobilization. The targeting of social groups by political parties in some states has been complemented from below by voter attachments. In some states, identity politics has a strong influence on voter decisions (Brass 1990; Shah 2004; Yadav 1999). This strengthens party strategies to target groups on the basis of caste. Figure 1.6 thematically traces the origins of narrow-right coalitions.

I detail the basic cleavage patterns and their influence on party strategies in the next section. These links are further explained for each case study in chapters 3 and 4.

1.4.5.1. Four cleavage patterns across Indian states

The first dimension of social cleavages that matters for coalition construction is group size. Group size influences party strategies in that it determines whether parties can rely on a few groups to construct electoral majorities or have to depend on a more diverse base. Both Posner (2004) and Chandra (2004) point to the effect of group size on political competition. As Chandra suggests, large social groups that can be collectively mobilized have been electorally efficacious across institutional contexts. This has been particularly true in first-past-the-post (FPTP) systems such as India’s, where the presence of large groups opens the possibility that parties will depend disproportionately on such sections to construct electoral majorities. Conversely, where groups are small, parties have incentives to employ a more catch-all strategy. This ability of parties to rely on a few specific groups is strongly reinforced by the fact that voter attachments occur on the basis of social identity.

While group size influences the likelihood of parties relying on confined or diverse electoral bases, the inclusion of business interests is linked to a second dimension – the nature of resource control embodied by certain social cleavages. In several developing countries, business interests tend to be concentrated within specific social and ethnic groups (e.g., Fafchamps 2000). Other scholars have highlighted historical examples of the dominance of certain ethnic groups over commerce (e.g., Greif 1993). In particular, in ranked or other hierarchical social institutions, there is often a relationship between social and economic status.
In India, certain groups have historically enjoyed access to resources, either capital or land, by virtue of their position in the social hierarchy. Access to resources, in turn, has resulted in those groups forming the main business sections in particular states. The association between ethnicity and capital is particularly evident in the fact that the social origins of entrepreneurship in India can be divided into two major strands. Entrepreneurs in the first and older strand have typically emerged from traditional merchant and trading communities within the social system. This includes groups such as Banias, Marwaris, Parsis, Chettiars, Gounders, Khatris, Aroras, Sindhis, Khojas and a variety of other regional variants (Damodaran 2008; Tripathi and Jumani 2007). Most of these groups occupied the position of merchants and traders within the traditional social hierarchy. As a result, they enjoyed access to capital and business networks and emerged as the country’s earliest industrialists.

A second, more recent, strand of entrepreneurs in India has arisen from certain landowning castes, that have moved from commercial agriculture to industry (e.g., Baru 2000; Damodaran 2008; Sinha 2005). This shift has been particularly true of “dominant castes” such as the Patidars in Gujarat and the Kammas and Reddys in Andhra Pradesh. The groups that form the bulk of capitalists in the country have, thus, historically enjoyed control over economic resources, whether capital in the case of the trading communities or land in the case of the dominant castes. This access to resources arose as a result of the location of these groups within social hierarchy, creating a significant link between caste and capital.

Based on the two dimensions of group size and resource control, I divide pre-existing cleavage structures into four patterns. The first pattern includes states with “dominant caste” patterns; a well-known concept in Indian sociology developed by Srinivas (1959). In these states, certain castes, typically non-Brahmin, share two features – they are numerically preponderant
relative to other castes and enjoy considerable economic power arising of out of landownership. Typically, dominant caste states include two or more rival groups. States such as Gujarat, Andhra Pradesh, Karnataka and Maharashtra tend to follow this pattern. In Gujarat and Andhra Pradesh, the traditional access to land of dominant castes enabled the transfer of surpluses from commercial agriculture into industry. As a result, these groups came to form a major part of the entrepreneurial base in those states.

The second pattern, which is found mostly in the populous Hindi-heartland states of the north, is one where the caste system conforms to the traditional four varna structure. These states have representation of castes (jatis) from all four varnas; lower castes form the vast majority of the population but upper castes dominated all aspects of social and political life until the 1990s. Importantly, certain large castes exist such as the Yadavs in Bihar (nearly 12 per cent of Bihar’s population) and the Jats in UP. Unlike dominant caste states, these large castes did not control economic resources and were socially marginalized. The entrepreneurial base in these states is thin and the few producer groups that exist are small in size. One other aspect of the cleavage structure in the Hindi-heartland has been emphasized by authors such as Jaffrelot (2003, 2009b). Upper castes form a greater proportion of the population in these states than in other parts of India.

The third variation, which is referred to in this dissertation as the southern pattern, exists in states such as Tamil Nadu and Kerala. The structure under the southern pattern has some similarities to the traditional varna structure found in the Hindi-heartland in that upper castes

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17 At the most basic level, the caste system can be conceived of a four-fold ritual hierarchy. The four main macro-groupings or varnas are the Brahmins, Kshatriyas, Vaishyas and Shudras. Outside these four broad groupings of the caste system are the Dalits or scheduled castes, who are considered to be at the bottom of the pyramid in terms of ritual status. Within these varnas lie a multitude of horizontal or segmental categories known as jatis. As scholars have pointed out, the actual political operationalization of caste tends to be as jati (e.g., Brass 1990; Chhibber 1999; Kothari 1970b; Yadav 1999). Jatis are largely localized.
were historically powerful, both politically and socially. However, most castes tend to be small and none is numerically preponderant. The apex of the structure tends to be much narrower with upper castes forming a much smaller proportion of the population than their counterparts in the Hindi-heartland, facilitating the emergence of lower caste social movements in the south even in the colonial era (Jaffrelot 2003). Moreover, the southern pattern includes a more notable entrepreneurial base than the Hindi-heartland configuration. A variety of landowning groups, smaller merchant castes and some upper castes came to form an entrepreneurial base but these capitalist groups tend to be small and fragmented by caste. Thus, entrepreneurial groups exist but, in contrast to the dominant caste pattern, these groups are numerically weak.

Finally, there is a fourth group of states such as Punjab and West Bengal where other dimensions such as religion have acted in conjunction with caste (Kohli 1989). The cross-cutting nature of cleavage patterns in these states has resulted in politically-relevant social groups being small size. As in the southern pattern, entrepreneurial groups exist and are small. The cross-cutting nature of cleavages and small group size implies that parties cannot rely disproportionately on a single social group to create electoral majorities.

1.4.5.2. From cleavage patterns to coalition types in India

These different patterns with their attendant mix of numerical size and resource control of social groups have affected party competition and coalition formation in dissimilar ways. Under India’s simple plurality system, large social groups have enjoyed considerable electoral salience and parties have been able to rely on a confined base of support where such sections are present. In short, narrow coalitions tend to occur where numerically sizeable sections are present. This has been the case in dominant caste states such as Gujarat and Andhra Pradesh or Hindi-
heartland states such as Bihar. In such states, certain parties have been able to rely on the support of relatively few large groups to construct winning electoral coalitions. The construction of successful narrow coalitions in dominant caste states is predicated on the fact that voter attachments amongst large caste groups have been strongly driven by social factors. In particular, the ability of parties to win with narrow coalitions in dominant caste states has been supported by a high degree of correlation in the vote choice of individuals within large caste blocs in these regions.

Wide coalitions, in contrast, have been constructed in states where numerous small groups exist but no group is large enough to dominate electorally. Wide coalitions have typically occurred under the southern and cross-cutting patterns in states such as Tamil Nadu, Kerala, West Bengal and Punjab. In such circumstances, parties have had to rely on a relatively diverse base of voters. The effect of identity on vote choice under these cleavage patterns also tends to be weaker; votes within a specific social group are typically more dispersed across party lines than dominant caste states.

If group size has driven how narrow or wide coalitions have been, the extent of business representation has been determined by the caste-capital link, which remains significant in India. Certain social groups are disproportionately represented in business by virtue of resource control embodied in certain cleavage structures in Indian states. Though the caste-capital association exists under all four cleavage patterns described earlier, the numerical strength of business groups varies under different cleavage structures and results in dissimilar levels of political leverage for capital across Indian states. If groups that control economic resources are also

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18 Narrow coalitions are not necessarily comprised of a single caste. In most cases, no single caste can provide sufficient electoral support and multi-caste coalitions are a necessity (Chhibber 1999). However, multi-caste coalitions in India do not always include a large number of groups.
numerically sizeable, this allows parties in poor democracies to construct electoral majorities around these economically-advanced sections. It is only under dominant caste structures that the two factors of size and resource control coincide. As a result, the political leverage of business groups has been significant under dominant caste patterns and narrow-right coalitions have been more likely to emerge under these structures.

A robust base of capital also exists under the southern Indian and cross-cutting cleavage patterns. However, producer groups in these cleavage patterns are small. The lack of numerical strength of single caste groups has meant that parties have resorted to catch-all strategies and targeted diverse bases of support to construct winning electoral coalitions. As a result, wide-right coalitions have arisen in these states. The core vote base of these wide-right coalitions includes business representation but also a variety of other groups with varied class profiles. Finally, the Hindi-heartland, over the last two decades, has seen configurations that are on the opposite end of the spectrum from narrow-right coalitions. Large caste groups exist in these states but these groups are also the most economically-marginalized sections of society. As a result, narrow-left coalitions have been more likely to arise in these states and the potential to create business-friendly coalitions has been limited. Figure 1.6, 1.7 and 1.8 thematically trace the origins of each of the four coalition types.

The ability of narrow-right coalitions to win elections has been assisted by the nature of India’s competitive FPTP system, where parties have formed governments with a plurality of vote. The vote share required to form governments at the state level in India in the last two decades has typically fluctuated between 35 and 40 per cent. In states where electoral
fragmentation is high, the threshold for victory has been particularly low. In some cases, social
groups are also geographically concentrated, leading to high electoral payoffs for parties that
mobilize these groups. In sum, elections in Indian states have been routinely won with much
less than 50 per cent of the vote share, allowing parties to rely on specific vote banks rather than
creating diverse bases of support. In the case of dominant caste states, these vote banks have
comprised of large caste groups that are entrepreneurial in nature leading to narrow-right
coalitions.

One caveat with relation to the explanation should be emphasized here. The focus on pre-
existing cleavage structures, however, does not imply that political agency is irrelevant. While
party strategies are predicated on the nature of the underlying cleavage structure, the process of
coalition-building is not static. Political agency matters and politicians have attempted to
aggregate or disaggregate cleavage dimensions with varying success. Since political competition
is also strategic, choices of parties at different points in time are also conditioned by what their
competitors do. In addition, past choices influence current mobilization. Coalition construction
can be thought of as an ongoing and sequential process where underlying cleavage structure
makes certain strategies and certain types of coalitions more likely in the first place. These
strategies, in turn, have a feedback effect. Coalitions within a particular state can, thus, shift over
time. To highlight the fact that coalition building is evolving, I chronologically trace the process
of coalition construction in the post-independence period in each of the case studies.

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19 For example, the average vote share of the largest party in elections in Bihar between 1990 and 2005 was 28.62
per cent.
20 One clear example of the electoral impact of spatial concentration is the case of the Kammas in Andhra Pradesh
discussed in chapter 4 of my dissertation. Though the Kammas are approximately 5 per cent, their geographic
concentration in coastal Andhra has allowed the TDP to win elections by depending on their support in substantial
measure.
Figure 1.6: Tracing the emergence and influence of narrow-right coalitions

Figure 1.7: Tracing the emergence and influence of narrow-left coalitions
1.5 Additional and alternative explanations

The argument advanced above differs from a variety of existing explanations on the politics of policymaking, economic growth and public goods provision. Studies in these areas offer additional hypotheses and insights that are relevant to an analysis of varied policy responses in the competition for investment. In the section below, I evaluate the relevance of each of these theories in explaining patterns of investment in the Indian case and juxtapose my argument against them. In doing so, I try to assess the explanatory power of my argument against other. In addition to outlining other arguments here, I also test for a variety of alternative and additional explanations in the quantitative analysis in chapter 5.

The existing scholarship relevant to this dissertation can be divided into two broad categories – studies pertaining specifically to investment outcomes and those on the politics of
policymaking, growth and public goods, which offer insights at a more general level. Each of these sets of explanations is examined below.

1.5.1 Explanations specific to a study of investment

1.5.1.1 Neoclassical economics, economic geography and expectations on patterns of investment

Theories arising out of neoclassical economics and economic geography focus on the role of socioeconomic determinants in explaining investment location. Though the focus of these explanations is not on policies but investment location itself, they are relevant to this dissertation. Neoclassical growth theories such as the Solow model suggest that economies with lower capital per worker tend to have higher rates of return. As a result, capital is expected to flow from capital-rich to capital-scarce areas (e.g., Barro and Sala-i-Martin 2004). Empirical challenges to this view led scholars to include additional factors such as human capital to standard neoclassical models as well as variables such as political instability, regime type, property rights and constitutional checks and balances (e.g., Alesina and Perotti 1996; Barro 1991, 1996, 1997; Lucas 1990; Stasavage 2002).

In contrast to neoclassical theories, the economic geography literature suggests that geographical concentration of economic activity, more generally, and firm location, more specifically, tends to occur because there are factors that can lead to increasing returns to scale for individual firms and result in agglomeration economies (e.g., Krugman 1991, 1998). Krugman (1998) suggests that there are a set of centripetal factors that promote geographical concentration such as market size, thick labor markets and information spillovers but also a set of centrifugal forces such as land, natural resources and pollution that oppose agglomeration.
Both sets of theories emphasize the role of socioeconomic variables in affecting investment location. Despite the expectations of these theories, socioeconomic determinants do not provide a complete explanation for subnational patterns of investment observed in India after economic liberalization. Figure 1.9 plots actual values of cumulative investment from 1991-2008 against values of investment that are predicted by initial socioeconomic conditions in 1991, specifically per capita income (as a proxy for level of economic development), state domestic product (as a proxy for market size), literacy (as a proxy for human capital) and road density (as a proxy for infrastructure). As figure 1.9 shows, several states lie above and below the line.

[Figure 1.9 here]

The fact that investment patterns do not fit expectations from neoclassical economics and economic geography and some states lie off the line is informative in itself. A bald focus on socioeconomic determinants does not provide a complete story and other factors matter. As Rudolph and Rudolph suggest, since 1991, “whether they [state governments] do well or badly economically depends on what they do for themselves. States can act in ways that transform their initial economic situation; agency can modify structure” (2001: 1541). As this dissertation suggests policies have varied across states and, in turn, it lays the emphasis squarely on the role of politics in explaining policy differences.

1.5.1.2 The political economy of foreign direct investment

Unlike theories from economics, a variety of political variables have been central to studies in international political economy (IPE) on the patterns of foreign direct investment. Political variables highlighted in the IPE literature include regime type (e.g., Jensen 2003, 2006; Feng 2001), various types of political institutions (e.g., Henisz 2000, 2002; Knack and Keefer 1995;
Stasavage 2002), political uncertainty (e.g., Brunetti et al. 1998) and participation in international trade agreements and preferential trade agreements (e.g., Büthe and Milner 2008). Despite the focus on political factors, which is more in line with this dissertation, varied subnational policy responses in India pose a puzzle for these theories as well. The subnational research design employed in this dissertation automatically controls for several political and institutional factors such as regime type, property rights, participation in trade agreements, electoral rules and formal constitutional checks and balances. As such it is not clear what type of institutions and what sources of political instability affect investment policies in a subnational context. The larger aim of this dissertation is to explore these factors.

1.5.2 Politics of policy and public goods

While existing literature on investment outcomes is broadly relevant, it does not offer direct analytical leverage in explaining the central empirical puzzle examined – policy variation across Indian states in the competition for investment. It is therefore worthwhile turning to studies of the politics of policymaking and economic growth, which offer more general hypotheses on policymaking. Explanations privileging political leadership, colonial inheritance, partisan preferences and ideology, political competition and ethnic diversity offer pertinent insights to a study of investment policies and are discussed below.

1.5.2.1 Leadership

When asked about the strengths and weaknesses of investing in particular states, businesspersons and other informed sources often cited political leadership as a defining feature. Chief ministers such as Narendra Modi in Gujarat, Chandrababu Naidu in AP, S.M. Krishna in Karnataka and Nitish Kumar in Bihar have been celebrated in the media at various times as being responsible for economic transformations in their states. This sole focus on individual agency is
not restricted to journalists alone. Rudolph and Rudolph (2001) too highlight the role of reform-friendly chief ministers as one of the key features of India’s post-1991 ‘federal market economy’. In describing the efforts of India’s reform-friendly chief ministers, they suggest: “From Dallas to Davos, he [Andhra Pradesh chief minister, Chandrababu Naidu] promoted his ambitious plans to transform Andhra Pradesh from a middle rank into a top rank state…Earlier, counter-intuitively, it had been Jyoti Basu, the long serving Communist chief minister of Bengal, who took the lead in aggressively wooing job and revenue-generating capital. By mid-2000, it was S.M. Krishna, Karnataka’s Congress chief minister, who appeared to be showing India its economic future” (2001: 1542).

To be certain, political leadership matters. But leadership cannot be examined in a vacuum nor can it be treated as an exogenous variable. In particular, I suggest that leaders need to be viewed as an intermediate part of the chain that links coalitions to policies. Arguments that treat leadership as an exogenous factor neglect the question of where and how preferences and constraints on individual leaders originate in the first place. In contrast, I argue that electoral coalitions mold leadership preferences as well as constraints. As the case studies outline, the fact that certain leaders have played a major role in creating a pro-business environment is reflective of broader interests of the electoral coalition backing them as well as the space offered to them by these coalitions to undertake investor-friendly policies. Policy agendas of leaders, therefore, need to be viewed as a product of broader coalition interests and pressures and not as individual predilections.

Empirically, strength and tenure of political leaders in India has neither been a necessary nor sufficient condition in creating favorable investment climates in India. Leaders such as Mayawati in Uttar Pradesh or Laloo Yadav in Bihar have enjoyed relatively long stints in power but their
policy agendas have lacked developmental focus. In contrast, Sinha (2004) points out that Gujarat performed exceedingly well after 1991 despite having considerable instability at the top; the state saw seven different chief ministers in the first decade after liberalization. As such, I try to demonstrate in the case studies that leadership is best viewed as a mediating factor influenced by the social base of voters and not as an exogenous variable.

1.5.2.2 Colonial inheritance

In contrast to political leadership, colonial inheritance is clearly an exogenous factor in explaining economic policies. The role of colonialism in affecting patterns of economic outcomes over time has been highlighted by a growing interdisciplinary literature (e.g., Acemoglu et al. 2001; Engerman and Sokoloff 2000; Kohli 2004; La Porta et al. 1999). In the Indian case, studies have focused on two sets of colonial institutions as having a significant impact on regional economic outcomes – nature of land tenure systems and direct vs. indirect British rule. British India fell under one of three land tenure systems – zamindari, ryotwari and mahalwari. Zamindari was a landlord-based system where intermediaries (zamindars) collected revenue from peasants. Revenue settlement in the ryotwari system occurred directly between the government and the cultivator. Finally, in a few parts of India, a village-based land tenure system (mahalwari) existed. Banerjee and Iyer (2005) find that areas previously under the zamindari system exhibit significantly lower levels of investments and productivity in agriculture as well as inferior outcomes in health and education when compared with non-zamindari regions.

Others focus on a second channel of colonial rule – direct vs. indirect rule. India witnessed British control for almost two centuries, first through the East India Company and then as a colony under the British crown. When the Crown formally took over administration of India in
1858, Queen Victoria’s proclamation included a provision that allowed princes and rulers in parts of the country that had remained unconquered to retain their titles and rights over their territory. Except for external affairs and defense, which were controlled by the British, these ‘princely states’ enjoyed considerable autonomy in internal administration. Approximately one-third of the Indian population was under indirect rule of more than 560 princes from 1858 until independence in 1947 (Metcalf and Metcalf 2001).

Banerjee et al. (2005) and Iyer (2010) find that areas previously under direct British control had lower access to public goods in the post-independence period than areas under princely states. Iyer however suggests that the effects of land tenure (zamindari vs. non-zamindari areas), described earlier, can be seen only in areas under direct rule. Studies such as Banerjee et al. (2005) and Iyer (2010) do not focus on the theoretical mechanisms that lead to the superior performance of areas previously under indirect rule. This is particularly relevant since Kohli (2004) emphasizes the role that direct colonial rule had in late development, specifically industrialization. Kohli argues that Japanese colonial rule in Korea was deep and penetrative and, in turn, was instrumental in creating the framework for the cohesive-capitalist state that oversaw the country’s miraculous growth transformation after World War II. In contrast, Kohli traces how indirect British rule in Nigeria resulted in the creation of a neo-patrimonial state with few developmental inclinations. In contrast to Banerjee et al. and Iyer, this logic suggests that indirect rule, through its influence on later patterns of state authority, may in fact lead to inferior economic outcomes.

Despite these contradictory arguments, two broad hypotheses on the impact of colonial rule can be generated. Extending the logic that economic performance is likely to be worse in zamindari areas than non-zamindari ones, it might be the case that the latter can be associated
more proactive investment policies. A second hypothesis would suggest that indirect rule affects future policy trajectories. However, studies differ with respect to the direction of the effect; Banerjee et al and Iyer’s findings would suggest areas previously under indirect rule should fare better while the underlying logic from Kohli’s study points to an opposite effect.

Whatever the direction of these expectations, an emphasis on colonial institutions falls short in explaining varied subnational investment policy responses for several reasons. The four case studies of Gujarat, Punjab, Andhra Pradesh and Bihar clearly demonstrate that there is no clear association between colonial institutions and government responses in the competition for investment. For a start, the nature of colonial institutions provides analytical purchase only for a cross-section of cases and cannot account for changes over time within units. Andhra Pradesh and Bihar have been more proactive at some points than others and the static variable of colonial institutions cannot account for temporal changes within these states. Even if we were to focus only on the cross-sectional element, there is no clear association between colonial institutions and subnational policy outcomes after 1991. The boundaries of Indian states, which were drawn on a linguistic basis, do not correspond to those of colonial institutions.

In the regression analysis in chapter 5, I include a control for the proportion of non-zamindari areas in each state. As the results consistently show, this variable does not have a significant influence on proxies for investment policy. In contrast, there is strong evidence linking electoral coalition types to investment policies. In addition, the case studies do not suggest a clear association between land tenure systems and policy outcomes. Zamindari areas were present in both Bihar and Andhra Pradesh; the latter also had several ryotwari districts. Despite the presence of large zamindari areas in both states, their performance differed for much of the post-1991 period. The focus on zamindari institutions also fails to explain why Punjab, which was
mainly under the third type of land tenure system, mahalwari, and was not subject to the influences of zamindari or ryotwari, has been apathetic to creating an investor-friendly framework.

As in the case of the hypothesis associated with land tenure systems, the four case studies refute the expectation regarding direct vs. indirect rule. The four case studies contain within them areas that were under both direct and indirect rule, though in differing proportions. Despite this, they see varied responses to the competition for investments. For example, a considerable portion of Gujarat was under indirect rule of numerous princely states while parts of it fell under the Bombay Presidency under direct British rule. Gujarat has, arguably, been the most business-friendly state in India in terms of its investment policies and studies such as Banerjee et al. (2005) and Iyer (2010) might point to the positive effects of indirect rule in these states. However, indirect rule was also similarly a significant feature in states such as Kerala, Rajasthan, Madhya Pradesh, Andhra Pradesh, Karnataka and Punjab (these states also had areas under direct rule). However, these states perform very differently than Gujarat despite similarly containing large areas previously under indirect rule. In short, these examples do not suggest a pattern of association between colonial institutions and subnational investment policy responses after 1991, as the literature would lead us to expect.

1.5.2.3 Partisan preferences and ideology

Evidence from advanced-industrial countries suggests that parties on the left and right have distinct economic objectives and these preferences affect the choice of economic strategies pursued (e.g., Alvarez et al. 1991; Boix 1997a, 1997b, 1998; Garrett and Lange 1985). For example, Boix (1997a) finds variation in supply-side growth policies in OECD countries
between left-wing and right-wing governments during the 1960-90 period – the former spent heavily on human and physical capital while the latter relied primarily on creating incentives for private agents. Alvarez et al (1991) and Garrett and Lange (1985) argue that either leftist governments backed by encompassing labor movements or right-wing governments in combination with weak unions are most successful in pursuing partisan preferences while simultaneously achieving favorable macroeconomic outcomes. Away from advanced-industrial economies, studies of market reforms in Latin America and Eastern Europe also point to the role of ideology and partisan preferences in affecting economic policy choice and implementation (for e.g., Murillo 2005, 2002; Murillo and Martinez-Gallardo 2007).

Explanations that emphasize partisan preferences and ideology in explaining policy choices have limited applicability across Indian states for several reasons. For a start, in contrast to advanced-industrial countries, the ideological positions of Indian parties tend to be far more fluid. Indeed, they often shift dramatically over time. There are instances where the same party has taken contradictory stands on a particular issue at the state and national levels or where the same party has taken different positions in different states. Second, it is difficult to make a clear left-right distinction between parties in the economic realm in India, especially at the regional level. Policies undertaken by governments have often deviated considerably from their espoused ideological positions on the left-right scale. Third, arguments in studies such as Alvarez et al (1991) and Garrett and Lang (1985) assume an organizational link between the labor movement and leftist parties but the union-party association in India tends to be very different. India is somewhat distinct in that almost all major parties have affiliated unions and this is not restricted to the communist parties alone. Examples on these three broader trends linked to parties are discussed below.
Party positions on economic issues such as labor reforms and FDI point clearly to shifting and contradictory stances. At the federal level, both the BJP and the Congress have attempted to implement market-friendly labor reforms during their time in office but have blocked the very same measures they prescribed when in opposition (Jenkins 2004a; Venkata Ratnam 2004).

Other cases offer a similar picture. As an opposition party in the early to mid-1990s, the BJP opposed foreign investment openly and advocated a “swadeshi” (national self-sufficiency) agenda but abandoned the theme and actively liberalized the FDI regime when it headed a coalition government between 1999 and 2004.

At the regional level, ideological moorings fluctuate even more. As the Andhra Pradesh case study in chapter 4 shows, the TDP under N.T. Rama Rao (NTR) openly opposed liberalization in its 1994 electoral campaign. Yet, Chandrababu Naidu, who replaced NTR as TDP party president and chief minister the very same year, shifted the party’s economic position firmly to the right. Indeed, Naidu was one of the most ardent proponents of the neo-liberal agenda in India (Kennedy 2004; Rudolph and Rudolph 2001).

Perhaps the most interesting case in terms of ideological ambiguity was the attempted reinvention of the Communist Party of India –Marxist, the CPI (M), in West Bengal as a business-friendly government since the mid-1990s. In an effort to reverse the state’s industrial decline, West Bengal, particularly during Buddhadeb Bhattacharjee’s tenure as chief minister, attempted to create a pro-business environment and attract investment. Its strategy included several concessions to capital. Ironically for a Communist government, these concessions included measures offering highly-subsidized agricultural land to industry.
Commenting on the disconnect between the party’s espoused ideology and its policies on the ground in West Bengal, the Economist pointed out: “India's two Communist parties are more powerful and more contradictory. Both use communist symbolism, but in practice support the mixed economy and rule of law… They also run three states: Kerala, Tripura and West Bengal. This latter state has been ruled by the Communist Party of India (Marxist) for 29 years, with a remarkable mixture of strong party discipline and ruthless electoral tactics. Traditional left-wing policies such as land reform have now been supplemented under the state's chief minister, Buddhadeb Bhattacharjee, by a keen search for foreign investment, and support for privatization – ideas that the party shuns at a national level” (2006b: 83). The communists’ attempted pro-business transformation in West Bengal was, however, cut short when the CPI (M)-led front lost power in 2011, the first time since 1977.

The case of the CPI (M) in West Bengal demonstrates the difficulty of placing Indian parties along a standard left-right scale but it also highlights another aspect. Parties behave very differently across regions and this is in part due to the fact that they have very different support bases across states (e.g., Chhibber and Petrocik 1989; Hasan 2002). While the CPI (M) was reinventing itself as a business-friendly government in West Bengal, the party did not adopt similar policies in Kerala. Moreover, the party opposed the broader neo-liberal agenda and the entry of foreign investment at the national level while being active in the search for FDI in West Bengal.

Finally one other distinction with advanced-industrial economies as well as Latin America needs to be noted. A formal link between leftist parties and labor unions forms a part of the partisanship story in studies such as Alvarez et al (1991), Garrett and Lange (1985) and Murillo (2005). India offer a very different environment with 92 per cent of the total workforce employed
by the unorganized sector (Sengupta 2007). Organized labor constitutes only 8 per cent of the total workforce but is also highly fragmented with a range of partisan affiliations. Estimates suggest that there are over 50,000 trade unions in India, which are split between 10 major trade union federations affiliated to different political parties ranging from the communist parties on the left to the BJP on the right (Teitelbaum 2006).

Given the nature and functioning of Indian parties, a focus on partisan preferences along the standard left-right dimension offers little analytical leverage. In contrast, my argument points to the influence of electoral coalitions. Moreover it suggests that the fluidity of partisan economic positions itself stems from the fact that the nature of electoral coalitions differ across states as well as within states over time.

1.5.2.4 Political competition

Dimensions of political competition have been linked to both policy adoption as well as economic performance (e.g., Besley et al. 2010; Bueno de Mesquita et al. 2001; Chhibber and Nooruddin 2004; Frye 2002; Murillo and Martinez-Gallardo 2007; Pinto and Timmons 2005). Bueno de Mesquita et al. (2001) argue that regimes characterized by smaller winning coalitions are more likely to deliver private goods while those backed by larger winning coalitions are more likely to provide public goods. Building on this insight, Chhibber and Nooruddin (2004) find that states in India with two-party competition require the support of a greater number of social groups and, as a result, provide more public goods than multi-party states.

Other studies of political competition focus on growth-related policies and outcomes. Looking at US states, Besley et al. (2010) find that the lack of political competition (measured as the difference between the Democratic vote share in a state from 0.5) is associated with “anti-
growth” policies (higher taxes, lower capital spending and reduced likelihood of using right-to-work laws). Pinto and Timmons (2005) find that an increase in competitiveness of political participation has varying effects on different components of growth – it decreases the rate of physical capital accumulation and labor mobilization but increases that of human capital accumulation.

In a related vein, Murillo and Martinez-Gallardo (2007) argue that political competition, particularly legislative advantage of the incumbent and ideological positions relative to the challenger, can explain adoption of reforms in telecom and electricity in eighteen Latin American countries between 1985 and 2000. Kitschelt and Wilkinson (2007), however, pose a caveat in relation to the effects of political competition. They suggest that the effects of political competition are contingent on the level of economic development.

Studies emphasizing the influence of political competition offer a variety of mechanisms in support. One hypothesis that emerges is that higher fragmentation is likely to be associated with lower public goods provision. If this hypothesis is extended to the subnational context in India and investment is assumed to be a public good, we might expect an inverse relationship between party system fragmentation and policies. A second hypothesis from Besley et al (2010) suggests low political competition should be associated with “anti-growth” policies. In other words, states with low political competition are more likely to be less proactive in the competition for investment.

Empirical evidence does not support either hypothesis. I include controls for party system fragmentation and vote share margins in the regression analysis and find no significant relationship between these variables and policies. Moreover, the case studies point to variation in
investment outcomes even within states that have similar levels of political competition, particularly on the metric of party fragmentation. Gujarat and Andhra Pradesh are both two-party states and have differed considerably in terms of investment attracted. Punjab is bipolar, with the Congress and SAD acting as the two main political players, but performs considerably worse than these states. Second, I find that there is temporal variation in policies and this occurs even when levels of party system fragmentation remains broadly the same within a state. This is the case in Andhra Pradesh and Bihar.

This dissertation shares the overall thrust of the studies cited earlier that political competition matters for policymaking. However, the mechanisms emphasized by this dissertation are significantly different. I suggest that the crucial factor is the social base of electoral coalitions. Political competition affects investment policies through the make-up of electoral coalitions but I find that variables such as party fragmentation or vote share differences have limited explanatory power. Moreover, different social cleavages across Indian states engender varying modes of political competition. As such, my dissertation differs from existing studies in emphasizing very different dynamics. Crucially, it emphasizes alternate links between political competition and policies at both a proximate and more distant level.

1.5.2.5 Ethnic fractionalization

In the context of the history of development, India’s growth transformation since 1991 is intriguing at two levels. As highlighted in the introduction to this chapter, India is a rare case of sustained high growth in a poor democracy. India’s story is also surprising at another level – growth has not only taken place in the midst of a poor electorate but an ethnically diverse one. A large body of literature in economics has found a negative link between ethno-linguistic
fractionalization and various economic outcomes including growth, public goods provision and government. Easterly and Levine (1997) find that high levels of ethnic diversity have a strong indirect effect on growth as they adversely affect policies such as schooling, political instability, exchange rate premiums, government deficits and infrastructure. Other studies link higher ethnic heterogeneity to poor provision of public goods or inferior government performance (e.g., Alesina et al. 1999; Alesina and La Ferrara 2005; Miguel and Gugerty 2005b; La Porta et al. 1999).

Ethnicity does play a consequential role in the explanation offered in this dissertation. Indeed, the dynamics of caste politics in India are central to my explanation. At a deeper level of causation, social cleavages, defined in terms of group size and resource control, influence party strategies of coalition construction. I do not dismiss explanations linked to ethnic fragmentation but my approach varies significantly from existing studies of ethnic heterogeneity described above. In particular, my explanation questions the specific mechanisms related to ethnicity implied by earlier studies. The sole focus on fragmentation is insufficient and a link between class and ethnicity is missing in these explanations. At a proximate level, I argue that the key factor driving economic policies is the class profile of electoral coalitions. It is the overlap of class interests of electoral coalitions and government imperatives of investment promotion that crucially results in pro-business policies. A disjuncture between class interests of coalitions and state incentives, in contrast, can be linked to weak policy responses.

To be certain, ethnic diversity enters my explanation but it does so at a more distant level of causation and through very different mechanisms. Critically, it is the focus on caste politics that allows narrow class coalitions to emerge. More broadly, certain types of social cleavages are likely to engender particular types of electoral coalitions through their effects on party strategies.
Unlike these other studies, I also focus on two dimensions related to social cleavages – the size of social groups and the nature of resource control. The studies cited earlier differ in that they do not make the link between ethnicity and economic endowments. Rather, they imply that ethnic fragmentation can be automatically associated with polarization and, in turn, corruption, rent-seeking and weak economic policy outcomes (e.g., Easterly and Levine 1997). In contrast to the sole focus on ethnic fragmentation and polarization, I take a broader view of how and why identity and ethnicity matters for policy outcomes.

1.6 Research design

This dissertation employs a nested research design (Lieberman 2005). In particular, it utilizes both qualitative and quantitative analysis. Four in-depth case studies are combined with time-series cross-section analysis of 14 major Indian states. Though primarily qualitative, the case studies also utilize quantitative analysis to highlight mechanisms related to voter attachments. Before outlining the specific research design in detail, the next section describes the decision to use a subnational level of analysis.

1.6.1 The choice of a subnational research design

A subnational research design was employed in this dissertation for its ability to minimize certain types of institutional variation as well as for reasons specific to the Indian context. As Snyder (2001) suggests, subnational research designs make it easier to construct controlled comparisons that increase the probability of obtaining valid causal inference from small-N research. Kohli argues that a comparative study of Indian states can “approximate the ceteris paribus assumption, often made, and necessary for comparative studies, better than most independent countries” (1987: 4). Snyder also points out that a subnational analysis can highlight
complexities in large, uneven transformations. Indian states included in this dissertation are bound by the same constitutional, fiscal and electoral framework. Several potential sources of institutional variation are controlled for, allowing a closer examination of political factors.

Context-specific reasons also justify a subnational comparison. The nature of shared responsibility in India’s federal system makes states appropriate units of analysis for many economic outcomes. Not surprisingly, a sizeable body of work in Indian political economy has utilized a subnational research design (e.g., Besley and Burgess 2004; Besley et al. 2007; Chhibber and Nooruddin 2004; Jenkins 2004b; Kohli 1987; Sinha 2005; Singh 2010a). As suggested in section 1.3, economic reforms led to decentralization in economic policymaking and states are now key actors in the process. Most importantly, the competition for investment is at the level of the states.

Away from methodological considerations, Indian states warrant dedicated attention based on their sheer size alone. Indian states are often more populous than most countries. India’s most populous state – Uttar Pradesh – alone has a population of 199.5 million, making it bigger than Brazil. The four main case studies in this dissertation – Gujarat, Andhra Pradesh, Bihar and Punjab – have a combined population of 277.6 million; Bihar being the largest of the four with a population of 103.8 million. In addition, these units are extremely diverse in social, political and cultural terms, akin to countries in many ways. This diversity along with the decentralization of political and economic power over the last two decades makes national-level generalizations a perilous exercise in the Indian context.

1.6.2 Nested research design and case selection

A nested design, combining both qualitative and quantitative analysis, forms the basis of the research strategy used (Lieberman 2005). Evidence from four in-depth case studies is first used
to develop the mechanisms of the core argument. The applicability of the argument is then tested on a broader group of 14 states through a quantitative, time-series cross-section framework. While the case studies are largely qualitative, they do include a measure of quantitative analysis within them as well. In particular, I analyze voter attachments using electoral survey data in chapters 3 and 4.

Four states (Gujarat, Punjab, Andhra Pradesh and Bihar) were treated as “model-building” cases and the basic argument was developed through these cases. The case studies are backed by 10 months of fieldwork. The case studies combine 110 interviews with businesspersons, bureaucrats, politicians and other informed observers with analysis of various policy and government documents, investor surveys, electoral survey data, macroeconomic data and numerous secondary sources.

I relied on the method suggested by Lieberman (2005) to pick the four “model-building” cases. At the outset, case selection was driven by two factors. As other scholars have observed, policies and measures undertaken by states varied across Indian states. However, the nature of policy differences across states was not well documented when I started this dissertation. This policy variation had to be documented systematically. I relied on fieldwork particularly the examination of government documents as well as interviews with investors and bureaucrats to lay out the nature of policy variation in the four case study states. To some extent, the devil was certainly in the details but these details had to be established first.

Given the lack of existing data on policy variation, I selected the cases on the basis of investment outcomes. To be certain, policies need not be perfectly correlated with outcomes. However, given the lack of data on policies, I treated outcomes as a broad approximation of policy. Using levels of proposed investment as a broad indicator of investment policies, I chose
the four “model-building” cases of this dissertation as follows. Following Lieberman, I began with preliminary quantitative analysis to examine the explanatory leverage of existing theories in accounting for the variation in outcomes observed across states in India after 1991. Existing studies from neoclassical economics and economic geography offer clear expectations in relation to spatial distribution of investment. In particular, they suggest that socioeconomic factors are likely to drive investment location. Most frequently, the variables identified as driving investment location include market size, level of economic development, infrastructure and human development.

To determine the adequacy of socioeconomic variables in explaining varied investment outcomes observed across Indian states, a simple cross-section OLS regression was first run. Cumulative investment across Indian states was regressed on proxies of four socio-economic variables identified in the literature (level of economic development, market size, human capital and infrastructure). Using values from this preliminary regression, figure 1.9 plots actual investment values against values predicted by socioeconomic variables identified in existing theories. As can be seen in figure 1.9, existing theories offer only a partial explanation for outcomes observed. Several states lie above and below the line, suggesting that additional factors matter in explaining investment patterns across Indian states.  

Based on the fact that existing theories had limited leverage, I then chose four “model-building” cases. Employing an “off-the-line” strategy, four cases – Gujarat, Andhra Pradesh, Punjab and Bihar – that are not well predicted by socioeconomic factors were chosen (indicated by the labels GUJ, AP, PUN and BIH in figure 1.9). Importantly, socioeconomic variables would have predicted broadly similar levels of investment in Gujarat, AP and Punjab but the actual outcomes in these states vary considerably from predicted ones, making the comparison a

\[\text{21 The regression on which figure 1.9 is based is included in the appendix to this chapter.}\]
potentially interesting one. Like Punjab, Bihar was chosen as an example of a state that underperformed relative to socioeconomic variables. The case of Bihar was also chosen as it could potentially elucidate how a poor state, with weak initial endowments, reacted to the competition for investment.

Figure 1.9: Case selection

In-depth analysis of these four case studies was first undertaken to allow for close analysis of the causal mechanisms. Using the theoretical insights developed in the case studies, I constructed a dataset of political and economic variables for a broader sample of 14 Indian states in the 1992-2010 period. I tested my argument on this broader sample within a quantitative framework, specifically through a time-series cross-section analysis. Apart from assessing whether my argument holds on a larger set of cases, the quantitative analysis also allowed me to evaluate the relevance of my argument with other explanations in a succinct fashion.
1.7 Roadmap of the dissertation

Asking why government responses varied in response in the competition for investment involves analyzing two components. What have more proactive states done in comparison to less proactive ones? In other words, how has the content of policies differed across states? Second, why have policies differed? The rest of the chapters in this dissertation respond to those two questions and are organized as follows.

Chapter 2 focuses on the policies and tasks undertaken by states in the context of investment promotion. Drawing on government policy documents, documents of business associations, newspaper reports, interviews with businesspersons and investor surveys, the chapter focuses on eight policy dimensions and compares variation in the four cases along these dimensions. Chapter 2 shows that the speed and scope of policies between states have varied and it expands on these differences. Data from investor surveys conducted by the World Bank in India are also used to suggest that investors care about state policies. It concludes by asking how the nature of tasks undertaken by the state in relation to economic development has changed in the neoliberal era compared with those highlighted in the case of classic developmental states in East Asia.

The four main case studies are included in chapters 3 and 4. Chapter 3 argues that narrow-right coalitions in Gujarat and wide-right coalitions in Punjab have affected policymaking and led to contrasting outcomes in the competition for investment in each of these states. In addition, the chapter traces how these particular types of coalitions emerged in these states in the first place. In doing so it emphasizes both the role of underlying ethnic cleavage structures as well as political agency. The chapter also includes evidence from survey data to examine the link between social identity and voter attachments, which is part of the main argument.
Chapter 4 includes case studies of Andhra Pradesh and Bihar. Though these states performed very differently for most of the post-reforms period, they exhibit temporal variation in levels of investment attracted. I show that these shifting outcomes can, in turn, be explained by the changing nature of nature of electoral coalitions over time – from narrow-right to wide right in the case of AP and from narrow-left to wide-left in Bihar. As in chapter 3, I also provide an explanation for how coalitions emerged in these states and analyze survey data on voter attachments to support my argument.

Chapter 5 expands the scope of analysis by testing the applicability of the core argument on a broader set of 14 Indian states. In particular, I use a time-series cross-section analysis on these states between 1992 and 2010. The chapter provides overall support to the main argument and the insights developed in chapters 3 and 4. Chapter 6 concludes by outlining the scholarly contributions and implications of the study.
Appendix to Chapter 1

Regression results used in Figure 1.9

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Coefficient</th>
<th>Standard Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Per Capita Income</td>
<td>0.217</td>
<td>(0.368)</td>
</tr>
<tr>
<td>Road Density</td>
<td>-0.201</td>
<td>(0.139)</td>
</tr>
<tr>
<td>Literacy Rate</td>
<td>1,347</td>
<td>(2,886)</td>
</tr>
<tr>
<td>GSDP</td>
<td>961.8**</td>
<td>(375.7)</td>
</tr>
<tr>
<td>Constant</td>
<td>-10,268*</td>
<td>(5,054)</td>
</tr>
</tbody>
</table>

Observations: 20  
R-squared: 0.375

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1
2. Chapter 2: Varied policy responses in the competition for investment

In 2006, the Tatas, one of India’s largest conglomerates and perhaps its most iconic one, announced that it would produce the world’s cheapest car, the Nano. Celebrated as an “icon of Indian ingenuity and entrepreneurialism”, the Nano was to be priced at $2,500 and the project aimed to bring car ownership within the reach of a class of consumers who would have otherwise never had access to it (Economist 2008: 85). Surprisingly, in 2006, the Tatas chose the communist-run state of West Bengal as the site of the production unit for this high-profile project. This was considered a major coup for West Bengal, which since the mid-1990s, was attempting to reinvent itself as a business-friendly state.

West Bengal managed to attract the Tatas through a generous package of concessions that included 997 acres of highly-subsidized farmland as well as other substantial but undisclosed sops, including tax breaks. The project, however, soon ran into trouble. Land acquisition by the government for the Tatas, some of it by forcible means, proved extremely contentious, drawing strong protests from local farmers, activists and the main opposition party. After two years of sustained, often violent, protests, the Tatas announced in 2008 that they would move out of West Bengal. Immediately, several other state governments went into overdrive, offering competing packages of concessions, hoping to bring the Nano project to their jurisdictions. In the end, Gujarat beat out rival offers from states such as Andhra Pradesh, Karnataka, and Maharashtra.

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22 At the time of the project’s inception, the Nano was to be priced at Rs. 100,000, which at the time of the announcement was approximately $2,500.
While the Gujarat government has chosen not to disclose details of the package offered to the Tatas, newspaper reports offer some broad hints on the nature of concessions involved. According to some press reports, among the more substantial benefits were 1,100 acres of highly-subsidized government land and a soft loan of Rs. 95,700 million at an interest rate of 0.1 per cent interest rate payable after 20 years (EconomicTimes 2008; IndianExpress 2008a). Other benefits are said to include exemptions from electricity duty, registration and transfer of land charges and free water supply (IndianExpress 2009).

Whatever the exact package of concessions, Gujarat’s proactive approach won over the Tatas. Commenting on the factors that influenced the decision of Tata Motors to relocate to Gujarat, a senior management official, who was directly involved with the negotiations, offered the following explanation. “When we announced the decision to move out [of West Bengal], we started having meetings with chief ministers of Gujarat, Maharashtra, Andhra Pradesh and Karnataka. We had offers from other states but when we had the meeting with the Gujarat Chief Minister, Narendra Modi, he was very keen… The three factors that influenced our decision in the end were location, commercial terms [concessions and subsidies] and political execution. It was in this third aspect that Gujarat stood out, way ahead of others in this respect…Many would suggest this was an exception for Nano but, even if it is 75 per cent of the treatment that we got, it is far superior to other states.”

23 Interview with a senior management official of Tata Motors; Mumbai, June 3rd, 2010.

In many ways, the Tata Nano episode epitomizes several key dynamics in relation to the competition for investment. For a start, it is amply clear that states actively court private investment and compete for it. As a result, capital, particularly big business, enjoys considerable leverage and bargaining power. The episode also suggests that policy differences exist across
states. Gujarat’s success clearly epitomizes its aggressive approach to attracting investment to the state. Moreover, even among the more proactive states, policy differences exist.

The broader aim of this dissertation is to understand the political determinants of this policy variation. Examining why state activism varies across subnational units involves asking a prior related question. How have policies differed across states? In this chapter, I address that question and examine the content of policies and measures undertaken in response to the competition for investment. In particular, I focus on the four case study states – Gujarat, Punjab, Andhra Pradesh and Bihar – and show how some have been more aggressive in the competition for investment than others.

In comparing policies across states in this chapter, I also engage in two additional tasks. I first identify the various policy dimensions that are important in investment promotion. To do this, I draw on policy reports from international financial institutions (IFIs) as well as interviews conducted during fieldwork. In the conclusion to this chapter, I also relate policies across states in India to the broader developmental state literature. The focus on policies undertaken by governments places the state squarely at the forefront of the analysis. In that sense, this dissertation shares an affinity with the developmental state literature. However, with increasing globalization and the spread of democracy, state intervention in the economy must now take place in a markedly different context than the one that characterized the experience of classic developmental states in East Asia. I end this chapter by juxtaposing the nature of state activism across Indian states against that of classic developmental states in East Asia. In doing so, I attempt to ask if the nature of state activism has changed and what we might learn from the Indian case in this regard.
The remainder of this chapter is organized as follows. The next section briefly summarizes the policy dimensions that are relevant in the competition for investment. A comparison of policies across the four case studies follows in section 2.2. Having established the nature of subnational policy differences, section 2.3 addresses a related issue. It draws on evidence from investor surveys to demonstrate that policies matter to micro-level investment decisions. The chapter concludes by comparing state activism across Indian states to the classic developmental states of East Asia.

2.1. Identifying relevant policy dimensions

Triggered by the debt crisis and subsequent pressure from Washington Consensus institutions, several developing countries shifted from a statist to a market model of development in the 1980s, resulting in greater emphasis on private investment. At the same time, growing levels of globalization led to increased competition for private capital, both across and within countries in the developed and developing world. As a major proponent of the shift away from statist models, international financial institutions such as the World Bank have strongly emphasized private sector development over the last decade.

In conjunction with this view, the World Bank in particular, through several policy reports, has stressed the benefits of a favorable investment climate (e.g., WorldBank 2002, 2005b, 2007A, 2007B, 2009; WorldBank and InternationalFinanceCorporation 2012, 2004a, 2009, 2004b). To facilitate comparison of policy responses across states, I examine these policy reports in order to identify key policy dimensions that affect investment decisions and to understand what IFIs consider as best practices in investment promotion. I should note here that I do not make any normative evaluations but simply treat recommendations of IFIs as a yardstick against
which to compare the actions of Indian states and to understand what constitutes investor-friendly measures. In addition to IFI reports, interviews conducted during fieldwork also allowed me develop a broader understanding of the policy dimensions that mattered to individual investors.

The investment climate is defined as a “set of location-specific factors shaping the opportunities and incentives for firms to invest productively, create jobs and expand. Government policies and behaviors exert a strong influence through their impact on costs, risks, and barriers to competition” (WorldBank 2005b: 20). This, in turn, affects the profitability of firms and consequently the decision to invest. Under the components of costs, risks, and barriers to competition, reports and investor surveys highlight a host of policy factors such as infrastructure, taxes, regulatory environment, labor laws, provision of public goods and security and enforcement of property rights that drive investment decisions. Policies identified as being favorable to firm activity include creating infrastructure, improving access to credit, easing regulation for firms to start and operate a business, curbing discretionary policies, streamlining tax systems, reducing disproportionate tax burdens on business, improving education and worker training, strengthening property rights and contract enforcement, and aiding information flows.

These policy reports also identify certain best practices. The 2004 Doing Business Report suggests that in terms of business regulation “one size can fit all” (WorldBank and InternationalFinanceCorporation 2004a: xvi). Apropos to this line of thinking, the annual Doing Business reports on business regulation spend considerable amount of time identifying “good practices” from cases around the world. For instance, the 2004 Doing Business argues that countries that perform well have a similar approach in that they simplify and deregulate in
competitive markets, focus on enhancing property rights, expand the use of technology and reduce court involvement in business matters.

Drawing on insights from the reports of these international financial institutions as well as interviews with investors conducted during fieldwork, this dissertation identifies eight policy areas across which subnational responses are compared – infrastructure, incentives and subsidies, regulatory environment for starting and conducting a business, labor laws, land acquisition, special economic zones, organizational framework and information, and branding and promotion activities. These eight policy areas broadly lie within the three dimensions of costs, risks, and barriers to competition identified by the World Bank as being central to the investment climate (e.g., WorldBank 2005b). While a more complete set of policies can be identified as relevant to the investment climate, these eight policy areas are those where government action has a direct and palpable effect. In addition, these are also contextual reasons for choosing these eight dimensions; subnational governments in India have considerable policy autonomy in these areas.

2.2. Comparing policies across the four case studies

Sections 2.2.1 to 2.2.8 below detail policy differences across the four case study states in each of the eight dimensions listed above. The comparison of policies is based on information collected through an analysis of state industrial policies, other government documents, and interviews with investors and bureaucrats conducted during fieldwork. The section suggests that some states have been considerably more proactive in the competition for investment; their policy responses have been more pro-business in scope or have been formulated at an earlier period of time.
Among the four case studies, Gujarat has been considerably more aggressive in attempting to attract investment. Indeed, Gujarat has, arguably, been India’s most investor-friendly state over the last two decades. The state’s rhetoric in its industrial policy documents matches its pro-business ambitions. For instance, its 2009 industrial policy suggests that the aim is to make “Gujarat the most attractive investment destination of not only in [sic] India but also that of the world” (Gujarat 2009: 9). Gujarat models itself after the developmental states of East Asia and, indeed, in many of its industrial policy documents, the state benchmarks itself against fast-growing economies in East Asia (e.g., Gujarat 2003). Gujarat’s industrial policy documents are also informative with regard to how the government views its overall role. Policy documents repeatedly emphasize that the state’s role in the post-liberalization environment is that of a “facilitator” to the private sector helping reduce transaction costs and not that of a “regulator and controller” (e.g., Gujarat 2000, 2003).

Punjab’s efforts stand in sharp contrast to Gujarat’s. At the time of economic liberalization in 1991, Punjab was India’s richest state in per capita income terms and possessed a variety of initial endowments that were potentially favorable to success in the competition for investment, particularly sound infrastructure and a healthy entrepreneurial base. Despite its initial advantages, Punjab has been simply too slow to come to terms with the needs of the post-liberalization environment (Ahluwalia et al. 2008). As chapter 3 will trace, competitive populism has had disastrous consequences for the state’s finances. The extremely tenuous nature of finances has meant that the state has not been able to offer substantial incentives or create quality infrastructure to attract investment.

Andhra Pradesh (AP) has been one of the more successful performers in the post-liberalization environment. However, its commitment to an investor-friendly agenda has neither
been as consistent nor as strong as Gujarat’s. The state’s pro-business commitment has also fluctuated over time. Under Chief Minister Chandrababu Naidu, AP articulated an ambitious overall plan for economic development. Naidu’s own affinity towards Washington Consensus policies led to the articulation of a vision for development that was significantly pro-business. This pro-business orientation, however, cost Naidu at the polls and his successor, Y.S. Rajasekhar Reddy, was considerably more reticent in adopting an overtly capital-friendly strategy. Since Reddy’s death in 2009, the state has also been in the midst of considerable political turmoil, which has adversely detracted from its policy commitments to business.

Economic development was firmly relegated to the back seat in Bihar in the first fifteen years after liberalization. Under the governments of Laloo Prasad Yadav and his wife, Rabri Devi, between 1990 and 2005, the state essentially abrogated its development functions. Even strong rhetorical commitment to social justice in this period translated into few substantial development improvements for lower castes.

Perhaps, the lack of commitment to industrial development is best exemplified by the circumstances surrounding Bihar’s 2002 industrial policy. The state’s 1995 Industrial Policy lapsed in August 2000 and the state subsequently went without an industrial policy for almost two years (Dayal 2002). Belatedly in 2002, the state extended the old industrial policy with retrospective effect from August 2000. However, with the stipulated time period for most incentives and concessions offered in the 1995 policy already expiring, this was essentially a fruitless exercise.

Bihar’s focus has, however, been dramatically different since 2005. A new regime has led to a sea-change in commitments to human development and investment promotion. Through a
multi-pronged focus on incentives, infrastructure creation, capital-friendly regulations and institutional development, the state has been actively trying to catch-up, though results are not yet evident in terms of actual investment.

Differences between the four states along each policy dimension identified earlier are discussed in detail below. Table 2.1 in the appendix summarizes these differences.

[Table 2.1 here]

2.2.1. Infrastructure

A sizeable literature in economics points to the positive effect of infrastructure on productivity and growth (Aschauer 1989; Calderon and Serven 2004; Canning 1999; Easterly and Rebelo 1993; Esfahani and Ramirez 2003; Röller and Waverman 2001). While initial infrastructure endowments of the four states varied, so too have their efforts in creating new infrastructure after 1991. By international standards, infrastructure in India is grossly inadequate. It has frequently been described as the main bottleneck to India’s growth. In a survey of Indian business, the Economist suggested: “For many investors in India, infrastructure determines where to build, and is the biggest operational challenge…Late last year a study by Morgan Stanley, an American investment bank, concluded, like many before it, that ‘the single most important macro constraint on the Indian economy, holding back its average growth, is the low spending on infrastructure.’ Foreign and local businesses, analysts and politicians alike have long recognized this truth, especially if they have visited China” (Economist 2006a).

24 Under the Indian constitution, the primary responsibility for most areas of infrastructure such as roads (excluding national highways) and electricity lie with subnational governments.
Within this broad picture of mediocrity, there are major regional differences and states have varied in their policy efforts to create new infrastructure. I highlight these differences by looking first at variation in the legal and institutional framework for infrastructure created by the states and then at specific policies related to roads and electricity.

2.2.1.1. Institutional and legal framework for infrastructure creation

Over the last decade, Gujarat has made infrastructure creation one of the main planks of its investment promotion strategy. It has also been noticeably more aggressive in attempting to attract private sector participation in infrastructure through public-private partnerships. It was among the first states in the country to pass an act, the Gujarat Infrastructure Development Act in 1999, to create a formal institutional framework for infrastructure development. Even prior to the passage of the act, the state created the Gujarat Infrastructure Development Board (GIDB) in 1995 dedicated to identifying new infrastructure projects, reviewing existing infrastructure and assisting with implementation. The state has also undertaken a review of its existing infrastructure and set targets through its Vision 2010 and Vision 2020 plans.

Gujarat has also been more innovative in its approach to infrastructure. To take full advantage of its extensive coastline and spur industrialization away from the developed Ahmedabad-Vadodara belt, the state through the Gujarat Maritime Board (GMB) put in place a port policy in 1995. Among other initiatives, Gujarat’s port policy allowed private sector to set up captive jetties, encouraged joint sector initiatives and also allowed private players to completely own and operate certain greenfield ports.25

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25 Captive ports are those where a particular company or companies has exclusive use of the facilities.
There are suggestions that Gujarat’s port policies in areas such as Hazira, Dahej, Sikka, Mundra and Pipavav have reaped considerable rewards in terms of investment (e.g., Aiyar 2008). Two prominent examples – that of Reliance Industries’ oil refinery in Jamnagar and Essar Steel’s plant in Hazira – lend some credence to this view. It is unlikely that either project would have been located in Gujarat if not for benefits arising from well-developed infrastructure facilities. In the case of Essar Steel’s factory, the choice is interesting since steel plants typically tend to be located near iron ore sources. Gujarat has no iron ore deposits but Essar has been able to take advantage of the state’s port policy and easy availability of electricity and natural gas to be competitive.26 The entire supply of crude oil refined by Reliance in Jamnagar is imported and the existence of captive port facilities is similarly central to the viability of the refinery. Both projects have also spurned the development of ancillary units in the area around Jamnagar and Hazira. In the case of Reliance, Gujarat has also reaped the benefits of vertical integration; the company manufactures a variety of petrochemical products derived from the by-products from its Jamnagar refinery. All this is done primarily through the use of ports.27

Other states have been slower than Gujarat in putting in place a strong infrastructure framework. They have also not been as comprehensive in their efforts. AP’s commitment to developing infrastructure has been variable, aggressive at some times more than others. In the mid-1990s, the state made a major effort in trying to reinvent itself as a business-friendly destination. The Andhra Pradesh Infrastructure Development Enabling Act was passed in 2001, two years after Gujarat’s legislative effort, and the Infrastructure Corporation of Andhra Pradesh (INCAP) came into existence in 2005. The Andhra Pradesh Industrial Investment Corporation

26 Interview with Resident Director, Essar Steel; Ahmedabad, September 2nd, 2009.
27 Interview with a senior bureaucrat, Gujarat Maritime Board, Gandhinagar, August 27, 2009
(APIIC), formed in 1973, has been active since the mid-1990s in developing industrial parks and acquiring land for industry.

Punjab’s infrastructure in 1991, particularly its road network, was significantly superior to many other states but failure to supplement this initial base substantially has hurt the state in attracting new investment. The Punjab Infrastructure Development and Regulation Act was passed in 2002 and the Punjab Infrastructure Development Board was created the same year. A pattern of competitive populism between the main political parties has adversely affected the state’s financial health since the mid-1990s, providing little scope for new infrastructure development. Moreover, this has also translated into poor maintenance of existing infrastructure.

Bihar’s story is one of two parts. Endowed with an extremely poor infrastructure base, the state made virtually no efforts for fifteen years between 1990 and 2005. A change of government in 2005 led to a major change in the state’s approach to infrastructure development, particularly in road and bridge construction. As part of a larger strategy to put in place an institutional structure for development, the Bihar State Infrastructure Development Act was passed in 2006 and an infrastructure development authority was also constituted.

2.2.1.2. Roads and electricity

If there are noticeable differences in overall approaches to infrastructure development across states, dissimilarities are even more evident when specific areas such as electricity and roads are examined. Out of 2,286 firms surveyed in the 2005 Firm Analysis and Competitiveness Survey conducted by the World Bank and Confederation of Indian Industry, 35.2 per cent of firms identified electricity as the biggest obstacle to their business, making it the single most frequently identified constraint by far (WorldBank 2005a).
Electricity is a concurrent subject under India’s federal system where both the center and regions enjoy responsibilities but the states have sole jurisdiction over state electricity boards, which are responsible for generation, transmission and distribution of electricity. By the early 1990s, most Indian states were saddled with dysfunctional state electricity boards. Growing demand, inadequate investment in generation facilities, major transmission and distribution losses due to theft and provision of free power to politically-vital interest groups resulted in an adverse situation. At the time, various international agencies as well as the central government actively recommended comprehensive state-level electricity reforms, most notably the unbundling of state electricity boards into separate transmission, generation and distribution companies. Authors such as Kochhar et al. (2005) suggest that electricity reforms are a good indicator of the reformist credentials of individual subnational governments.

An examination of electricity reforms suggests considerable differences in enthusiasm. AP was one of the forerunners, carrying out comprehensive electricity reforms through the Andhra Pradesh Electricity Reforms Bill in 1998. Other states have been more reluctant to undertake reforms or have been more half-hearted in their efforts. Gujarat was equally proactive but took a different approach from AP. Since the early 1990s, Gujarat encouraged captive (self) generation by industry, putting in place a captive power policy in 1998, which some observers suggest has enhanced the state’s generation capacity (Hansen 2008). In 2003, it followed AP in passing the Gujarat Electricity Industry (Reorganization and Regulation) Act. This led to the unbundling of the Gujarat Electricity Board into separate companies for transmission, distribution and generation.

Both Punjab and Bihar have been reluctant in overhauling their electricity sector. Despite the federal government’s recommendations that the process of electricity restructuring take place
by 2003, neither state did so. The Punjab cabinet finally approved unbundling of the state electricity board in April 2010. Bihar, on the other hand, has taken even fewer steps in improving its electricity situation; generation capacity remains extremely poor.

A comparison of expenditures on electricity also points to different priorities across these states. The average annual expenditure on energy (as a percentage of total state expenditure) between 1991-92 and 2009-10 was 10.4 per cent in Gujarat, 7.44 per cent in AP, 8.5 per cent in Punjab and 6.53 per cent in Bihar (calculated from RBI 2010a). Importantly, Gujarat also stands out in another aspect. Electricity subsidies and free electricity to farmers and other rural groups has been a frequent electoral sop offered by political parties in India. Unlike many other states, Gujarat has tended to eschew the use of electricity subsidies. This stands in strong contrast to Punjab as well as AP. Electricity subsidies have been extensively given to farmers in Punjab through the post-1991 period. In 2004, Y.S. Rajasekhar Reddy brought the Congress back to power in AP after a decade out of office on the back of several populist schemes, including the promise of free electricity to the state’s farmers (EconomicTimes 2004).

An examination of roads offers more evidence of differential state efforts. A quick glance at expenditures reveals differences in relative efforts. The average proportion of total expenditure spent on roads and bridges in Punjab between 1991-92 and 2009-10 was 1.86 per cent compared to 3.9 per cent compared in Gujarat and 2.9 per cent in AP.

Perhaps no state in India neglected developmental functions as much as Bihar did in the first fifteen years after liberalization. Equally, no state has seen as rapid a shift in its priorities as Bihar has after 2005. Though Bihar’s Chief Minister Lalu Prasad Yadav once famously declared that he would build roads in the state as smooth as the cheeks of prominent Bollywood actress
Hema Malini, there were virtually no substantive efforts under the regime that he, and subsequently his wife, presided over. In contrast, Bihar has been in overdrive in terms of road and bridge construction after the current regime headed by Nitish Kumar came to power in 2005. Through schemes such as the Mukhya Mantri Sadak Yojana (Chief Minister’s Road Scheme) and Mukhya Mantri Setu Nirman Yojana (Chief Minister’s Bridge Development Scheme), major emphasis has been accorded to road and bridge construction. This shift can be seen through the expenditures on road and bridge construction. The annual average expenditure of Bihar on road and bridges (as a percentage of total expenditure) was 2.98 per cent between 1991-92 and 2005-06 while it grew to 7.82 per cent between 2005-06 and 2009-10. The road density per 1000 km increased from 836.32 km in 2003 to 1275.73 km in 2008.

2.2.2 Regulatory environment related to starting and operating a business

The need for business-friendly regulations have been emphasized by several IFIs (e.g., WorldBank 2005b; WorldBank and InternationalFinanceCorporation 2004a). These reports also suggest that India remains among the more regulated economies in the world. For instance, in the World Bank and International Finance Corporation’s 2012 Doing Business report, India ranks 132 of 183 countries in terms of the ease of conducting business (WorldBank and InternationalFinanceCorporation 2012). Since the onset of the competition for capital in 1991, subnational units have undertaken several regulatory changes. Two aspects of the regulatory structure – easing bureaucratic procedures required to start a business and rationalizing the system of inspections by allowing self-certification – have received attention. Yet there tends to be variation in the scope and implementation of these changes.

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28 A variety of media reports have highlighted Lalu Prasad Yadav’s promise to build roads as “smooth as Hema Malini’s cheeks” (e.g., Joshi 1996).
In terms of easing procedures to start a business, several Indian states have adopted a “single window system” that, in theory, allows investors to obtain all governmental clearances required to start a business from a single point. In practice, however, the concept of obtaining all clearances from one single government node has not worked. In most states, investors continue to require clearances from multiple agencies in order to start and conduct a business. In the words of one bureaucrat in Gujarat: “Most states will tell you, they have a single point clearance system. If you go inside a little, a single point clearance system does not exist anywhere…Single point clearance is possible up to a point. It is possible in principle…Beyond that, it is not possible because everything has to be physically acquired. Land has to be acquired, planning has to be done, water has to be acquired and a power connection has to be given.”

Despite the overall failure of single window clearance systems to act as a one-stop-shop for approvals, some states have been more active in undertaking measures to ease regulations. The scope of the provisions of the single window system also varies across states. For instance, some states specify time limits that departments can take in giving clearances and include provisions for ‘deemed clearances’, where permission is assumed to be granted if government agencies exceed the specified time limit.

Gujarat has been a forerunner in easing regulations to start a business. Formally, its single window system was put in place in 2000. However, Sinha (2005) clearly outlines that Indextb, a government agency, has acted as a facilitator and initial point of contact for investors since 1978. Under Chandrababu Naidu’s government, AP was similarly proactive and undertook a variety of governance measures aimed at improving the ease of operating businesses. It was the first state

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29 Interviews with an official from the Industrial Extension Bureau (Indextb), Government of Gujarat; Gandhinagar, August 27, 2009.
in the country to enact formal legislation for the single window system and passed the Single Window Clearance Act in 2002. The Punjab Industrial Facilitation Act was passed in 2005 and a special cell in the Industries Department was designated to act as the single window facilitator. Bihar’s Single Window Act was passed in 2006.

Apart from differences in timing, the scope of these systems and the activities of investment facilitation agencies in AP and Gujarat stand out clearly from Punjab and Bihar. The Act in AP designates different committees to act as clearance points based on the level of investment. From its inception, AP’s single window legislation makes provisions for time-bound clearances and “deemed” approvals (where the committee in charge automatically gives approval if an individual department fails to meet time limits for clearances). Like AP, Gujarat’s single window system includes provisions for time-bound approvals and deemed clearances. Even prior to 1991, Indextb undertook a range of facilitation and information dissemination tasks (Sinha 2005). It continues to be extremely active, particularly with large projects, serving as an initial point of contact for prospective investors, setting up interviews with different government departments and providing a variety of other services related to promotion and information dissemination.

In contrast, Punjab’s agencies have been very slow to adapt to the needs to the post-liberalization environments and this is evident in many areas including regulatory measures. The scope of Punjab’s single window system is more limited than Gujarat’s or AP’s. For instance, until 2008, Punjab’s single window system did not have any provisions for time bound clearances or deemed approvals as the other two states did. One study describes the general failure of Punjab’s single window system thus: “The single window clearance system for multiple approvals from the state government has not worked. The Udyog Sahayak [Punjab’s
*single window facilitation cell* is the 17th stop on the train of approvals rather than the one and only one it is supposed to be” (Ahluwalia et al. 2008: 11).

Unlike single window systems, attempts at easing some regulatory requirements in terms of inspections of business operations has met with more success. Businesses in India are subject to variety of state and central laws that require inspections including a plethora of labor laws, social security laws and workplace safety acts. The four states all adopted self-certification norms and rationalized inspections but did so at different times. AP one of the first states to institute self-certification for industries and allows common annual returns to be filed under various laws. It was also a forerunner in its e-governance initiatives and has set up an on-line system for most registration and clearance processes. Gujarat has allowed self-certification with respect to numerous labor and workplace laws for small and medium enterprises since 2000. Punjab adopted similar measures of self-certification a few years later in 2005 while Bihar did so in 2006.

### 2.2.3 Concessions, subsidies and incentives

In the first decade after liberalization, sales tax concessions were one of the main instruments used by state governments to attract investment. 30 To stem a race to the bottom that was ensuing and as part of a larger attempt at overall tax reforms, the central government pushed for the implementation of a value-added tax (VAT) to replace the archaic sales tax system in 2000. Coordination problems and opposition from the states led to delays in implementation and

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30 Under the India’s system of fiscal federalism, tax powers are exclusively assigned to the center or to the states. Prior to 2003, the tax on the sale and purchase of goods (“sales tax”) was the main source of revenue for the states. States had complete power over the sales tax and used concessions as the primary tool of investment promotion.
the system finally came into force in 2003.\textsuperscript{31} The introduction of the value-added tax (VAT) system meant that sales tax concessions could no longer be used as the primary policy tool to attract investment. Nevertheless, states continue to use a variety of concessions and incentives to attract business to their jurisdictions including exemptions from stamp duty and registration fees, electricity duties and concessions on other types of taxes.

The four case studies states, however, have differed in their reliance and ability to offer concessions. Since 2000, Gujarat has moved towards a more broad-based approach that includes a focus on infrastructure creation and business-friendly regulatory measures (Gujarat 2000, 2003, 2009). Though its approach is now more broad-based, Gujarat continues to use a variety of non-sales tax subsidies liberally as can be seen in its discretionary packages to “mega investments.” The Tata Nano episode, described in the introduction, in many ways epitomizes a dynamic that has often characterized subnational competition for investment since 1991 – states in India have liberally used concessions and subsidies to attract large projects. At the same time, large investors have demonstrated considerable ability to bargain with state governments to obtain favorable terms.

The leverage that business enjoys tends to be magnified by the fact that concessions to large investors have typically been offered on a discretionary basis. Over the last two decades, most state industrial policies openly include provisions that allow for incentives to “mega investments” on a discretionary, case by case basis (e.g., Andhra Pradesh 1995, 2000, 2005; Gujarat 1995, 2003). In almost all cases, state governments have chosen not to make the contents

\textsuperscript{31} The center initially imposed a 2003 deadline for states to switch over to the value-added tax system. However, political wrangling meant that only one state switched over to the new system in 2003. A subsequent 2005 deadline saw most states switch to the system with a few exceptions; importantly those states where the opposition BJP was in power did not switch to the new system. By 2006, even these states had relented. Despite these different dates of adoption, the use of sales tax concessions by states effectively ended in 2003.
of these discretionary packages public. Discretionary concessions have been most starkly evident in certain sectors such as mining and telecom in India, which continue to be substantially regulated by the central government. In some cases, this has led to the government favoring certain corporate interests through the allocation of licenses and has involved considerable corruption, amply demonstrated by the “2G” telecom scandal as well as several episodes in the mining sector.

States have also offered a variety of subsidies to a broader group of investors besides large-scale ones. Though the use of sales tax concessions has been eliminated since 2000, states continue to offer a variety of other concessions and subsidies. These include other types of tax breaks as well as concessions on land, interest, stamp duty, electricity, and technology. While concessions and subsidies by themselves are not always sufficient in determining location decisions, they are often crucial in swinging decisions between two otherwise comparable locations. Equally, states unable to offer competitive concessions have lost out significantly on new investments, particularly large-scale projects.

Interviews also indicated that certain sectors appear to be more sensitive to concessions than others; sectors with low fixed capital investment and where products are easier to transport tend to be more sensitive to concessions and subsidies. An interesting case is the development of the pharmaceutical sector in the hill states of Himachal Pradesh and Uttaranchal. These states are designated as “special category” under India’s system of fiscal federalism. Accorded, special status for a 10 year period after 2000, these “hill” states were granted an exemption by the center and allowed by to offer generous tax and excise concessions to attract investment. These policies bore fruit in some sectors; in particular, these states saw the rapid development of a
pharmaceutical industry after the subsidies came in to place, which did not exist prior to the tax breaks.

Within this broader context, states have differed in their reliance on concessions. Since the elimination of the sales tax regime, Gujarat has continued to offer concessions but has adopted a more broad-based approach to investment promotion. Subsidies, however, continue to be used widely as the Nano case suggests. Media reports point to the continued use of subsidies as well. For example, in March 2012, a report of the Comptroller and Auditor General of India (CAG), tabled in the Gujarat Legislative Assembly, alleged that the government had passed on undue favors to the tune of Rs. 705.4 million (approximately $14 million) to Adani Energy and Rs. 122 million (roughly $2 million) to Essar Steel, both private corporations, through concessions on natural gas (IndianExpress 2012).32

AP has been more aggressive in basing its strategy on concessions than most other states. As a mid-range performer prior to 1991, AP officials suggested that they felt the need to be extremely aggressive in terms of concessions to industry to be competitive with states such as Maharashtra, Gujarat and Tamil Nadu, which had established industrial bases.33 In the early years of liberalization, AP was active in offering discretionary subsidies in terms of land, water supply and electricity, particularly to large investment projects. The scope of incentives offered continues to be wide and includes capital investment subsidies, commercial tax concessions, stamp duty reimbursement, interest subsidies for upgrading technology, concessional power

32 The CAG report was critical of the Gujarat State Petroleum Corporation (GSPC), a government firm, for undue benefits given to two private firms through its oil and gas business. In the case of Adani Energy, the report alleged that the GSPC bought natural gas from the open market and sold it to Adani Energy for a price lower than the market price. In the case of Essar Steel, GSPC waived capacity charges.
33 This was highlighted in interviews with senior bureaucrats, Industries Commissionerate, Government of Andhra Pradesh, November 10 and November 11, 2009, Hyderabad.
tariffs, concessions on raw material, reimbursement of expenses incurred in obtaining quality certification and patents, loan rebates and special concessions for thrust sectors such as information technology and tourism.

Unlike Gujarat, AP offers many of its incentives in the form of reimbursements. For example, it offers 100 per cent reimbursement of stamp and transfer duty paid by industry on the sale of land. Gujarat, on the other hand, offers the same subsidy in the form of an exemption. Interviews with investors and business association representatives in AP indicate that the reimbursement system tends to run into problems, particularly when the state’s finances are not buoyant. Since 2004, a weakening of state finances has led to a backlog of reimbursements owed to industry.34

Punjab’s finances have affected its ability to offer concessions even more drastically. A comparison of industrial policies before 2009 showed that Punjab offered fewer subsidies than either Gujarat or AP. Moreover, its precarious finances have meant that even promises made in industrial policies often remain unfulfilled. Both interviews as well as studies such as Ahluwalia et al. (2008) highlighted the fact that these unfulfilled promises meant that the credibility of the government with investors was low.

Since 2005, Bihar has been trying to actively catch-up with other states. Its 2006 industrial policy offers stamp duty exemptions, VAT subsidies, electricity duty exemptions, financial assistance for quality certifications, part reimbursement on expenses incurred in acquiring technical know-how and project reports and exemption of market fees. In addition,

34 Interviews with AP businessmen, November 2009. This was also highlighted in a meeting of the Federation of Andhra Pradesh Chambers of Commerce and Industry (FAPCCI) Hyderabad, November 24, 2009. The meeting was called to deliberate AP’s 2010-2015 industrial policy and the system of reimbursements was identified as one of the major problems by businesspersons at the meeting.
Bihar’s government has made repeated pleas to the central government to classify it as a special category state. This in part would allow it to offer additional excise and other tax incentives as has been the case with hill states such as Himachal Pradesh and Uttarakhand.

2.2.4 Land acquisition for industrial use

Closely related to the broader aspect of concessions to industry is the issue of land acquisition by governments for private industrial use. This has, arguably, been the most volatile and emotional issue surrounding industrialization since 1991. In a country where land holding is highly fragmented, the matter has resulted in considerable political contestation, pitted marginalized groups against private capital, and stalled numerous projects. As the previous section described, one of the most prominent examples that highlighted the problem of land acquisition by governments was the Tata Nano case. Sustained, often violent protests, against acquisition led to the Tatas to exit West Bengal and eventually set up the Nano plant in Sanand, Gujarat in 2008. A year before the Tatas decided to leave West Bengal, the state had been the site of another controversial episode involving the acquisition of 14,000 acres in Nandigram for the building of a special economic zone to be developed by the Indonesia-based Salim group in conjunction with the West Bengal Industrial Development Corporation. The Nandigram agitation included a particularly violent turn in March 2007, when clashes between protesting villagers and the West Bengal police resulted in police firing and deaths of 11 villagers (Dam 2007).

The case of West Bengal is hardly unique. Land acquisition problems continue to plague the single largest foreign direct investment project proposed in India till date – South Korean steel major Posco’s $12 billion steel plant in Orissa. Though the initial memorandum of understanding between Posco and the Orissa government was signed in 2005, the project was yet
to start in 2013 on account of difficulties in acquiring the 4,004 acres that was part of the agreement. Most notably, the Posco project met with protests from tribal groups, whose land is formally protected by provisions in the Indian constitution. The political tensions involved in land acquisition in the post-liberalization era have often stemmed from the fact that marginalized groups have viewed the process in zero-sum terms.

Perhaps, no episode emphasized this zero-sum view more starkly than the highly-publicized case of the bauxite mine proposed by Vedanta, a British firm, in the Niyamgiri Hills of Orissa. The mine was proposed on an area regarded by the socially and economically-marginalized Dongria Kondh tribe as sacred and over which they claimed customary rights. The initial memorandum of understanding (MoU) for the project was signed with the Orissa government in 2003 but protests from the Dongria Kondh over land acquisition drew support from a wide transnational network of Indian and international NGOs, including Amnesty International, social activists, environmentalists and several international celebrities. The issue also received considerable coverage in both the Indian and international press, particularly in Great Britain where Vedanta is listed. Subsequently, the Norwegian government, the Church of England and several European investment companies made decisions to sell shares held in Vedanta on ethical grounds. After five years of protests, legal battles in India’s Supreme Court, and extensive media coverage, the Government of India’s Ministry of Environment denied permission for the project in 2010, though the refusal was based on technical violations of various environmental laws (Hindu 2010).

Aside from NGOs such as Amnesty International and Survival International, the Dongria Kondh’s cause drew support in Britain from public figures including the Archbishop of Canterbury. Activists undertook a major publicity campaign in Britain and frequently disrupted Vedanta shareholder meetings. Media coverage often portrayed the issue in David vs. Goliath terms and frequently characterized it as a real life version of the Hollywood blockbuster film, Avatar, which came out at a time when there were active protests against the Vedanta project (e.g., CNN 2010). The activism paid dividends in Europe with several investment companies, the Church of England and the Norwegian government selling Vedanta shares that they held.
These examples are not uncommon and a sizeable list of projects facing land acquisition problems across Indian states can be drawn up. States have had different approaches to land acquisition but five broader problems are common to land acquisition throughout India and are worth noting here. First, land holdings in India are relatively small and highly-fragmented. A little more than 50 per cent of the population in rural India has land holdings of 0.4 hectares or less and 18.47 per cent has holdings less than 0.01 hectares (India 2007). Problems of fragmentation stemming from multiple veto points are compounded by the fact that title to land is often not clearly assigned in India, making acquisition more difficult and lengthening the legal process in India’s notoriously slow judicial system.

The second major issue pertains to the actual laws governing acquisition. Acquisition has largely occurred under the provisions of the Land Acquisition Act of 1894, which permits governments to acquire for “public purpose.” Under the Act, land can be compulsorily purchased at prices set by the administration in conjunction with market prices. A landowner whose land is notified has no choice but to sell (Mody 2010). The Act also does not recognize customary rights of those who have settled or are cultivating “revenue land.” Multiple levels of government also have jurisdictional rights over land acquisition. In addition to the Land Acquisition Act, which is a central act, several states such as Gujarat, Karnataka and Maharashtra have separate laws that permit land acquisition specifically for industry and are aimed making acquisition even easier than it is under the Land Acquisition Act. The Gujarat Industrial Development Corporation (GIDC) Act for instance allows the GIDC to notify land for acquisition and gives landowners no options but to sell (Mody 2010). One highly-contested issue surrounds the interpretation of what constitutes “public purpose” in these laws and whether acquiring land for private industrial use constitutes public purpose (Srinivasan and Sundaram 2008).
A third issue central to the politics of land acquisition throughout India is the conversion of land from agricultural to industrial use. Agricultural land falls under the sole jurisdiction of subnational governments in India. Most states typically have legal provisions that prevent automatic conversion to industrial use and require governments to amend or circumvent provisions to allow such a change. Not surprisingly, the act of democratically-elected governments taking over agricultural land in a largely rural country and turning it over to private industry has attracted considerable political protest. This problem has been heightened by the idiosyncratic nature of India’s economy; growth has been service-sector driven and even manufacturing tends to capital-intensive (e.g., Subramanian 2008). As such, the promise of future benefits in terms of employment tends to enjoy little credibility as local populations from whom land is acquired typically have few skills that can be transferred to capital-intensive or service industries.

A fourth issue that has been controversial has been the question of relief and rehabilitation. Given that the Land Acquisition Act forces landowners to sell once acquisition has been notified and at prices set by the administration, the question of fair remuneration is particularly salient. The number of litigations over land acquisition has been steadily increasing in India over time (Srinivasan and Sundaram 2008). Finally, as highlighted in the Vedanta and Posco cases, acquisition in some states has involved tribal land. Scheduled Tribes typically own small holdings located in forest and mineral-rich areas, most notably in Orissa, Chhattisgarh, Jharkhand and Madhya Pradesh.36 With the onset of liberalization and the opening of the mining sector, tribal land has come under increasing pressure from the private sector. The issue has

36 The economic marginalization of scheduled tribes is evident when household asset size across social groups is examined. In 2002, the average asset value of scheduled tribes was Rs. 136,640 in rural areas and Rs. 240,295 in urban areas, well below the average value across all social groups of Rs. 265,606 in rural areas and Rs. 417,158 in urban areas. In rural areas, 23.5 per cent of scheduled tribe households fell into the lowest asset class of Rs. 30,000 or less compared with 15.9 per cent for all social groups (India 2006).
assumed particular importance in light of the violent Maoist movement in these states. The Maoists, who claim to represent the interests of the larger tribal population, have suggested that collusion between the state and business has resulted in the illegal expropriation of tribal land and have demanded the suspension of mining activity (Lamont 2010).

While these issues have been common to the dynamics of land acquisition throughout India, some states have been marginally more successful at acquiring land for private industrial use. Arguably, Gujarat has witnessed less turmoil and contestation over land acquisition than most other Indian states. This was most notably highlighted in the case of the Tata Nano project, the government was able to identify almost 1100 acres of (government-owned) land for the project within a 48-hour span. It has been one of the states that has been active in acquiring land for purposes such as the creation of special economic zones (e.g., Fernandes 2007). Part of Gujarat’s strategy has been to acquire land first for a land bank from which allocations are then made to private players at a later time. This was the general strategy used by the Gujarat Maritime Board (GMB) to develop greenfield private ports, which formed a key part of its successful port-led industrialization activities. The GMB initially acquired land and then turned it over on a lease basis to private players. The Gujarat government over time has also actively facilitated acquisition by making necessary legal changes such as easing conversion of agricultural land to industrial use without prior approval. Similarly, it has amended procedures for industry to acquire land immediately adjacent to highways.

Bureaucrats in Gujarat suggested that land acquisition in Gujarat was relatively less controversial than other states for two reasons – large amounts of government-owned and waste

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37 Interviews with various bureaucrats in Gujarat, July-September 2009.
38 Interview with senior bureaucrat, Gujarat Maritime Board, Gandhinagar, August 27, 2009.
land was available in the state and that the government has typically encouraged buyers and sellers to negotiate directly. While the Gujarat government has not been involved in direct negotiations as frequently as those in in other states, it nevertheless has often been actively involved, particularly in the case of large projects. By and large, Gujarat’s strategy of acquiring land and transferring it first to a land bank seems to be more successful than cases where governments have stepped into acquire for specific projects.

Like its counterparts in Gujarat, AP’s government agencies such as APIIC have been active in acquiring and developing land for industrial use. Unlike Gujarat, land acquisition has been considerably more contentious. The state has tended to be directly involved in negotiating with landowners on behalf of industry. APIIC has also been active in building land banks to turn over for future industrial use. AP has also made the land conversion from agricultural to industrial use automatic on the payment of necessary fees. It also provides reimbursement on stamp and transfer duty on the sale and transfer of land to industry. Both AP and Gujarat provide concessional land to thrust sectors such as agro-processing (in Gujarat) and IT in Andhra Pradesh.

One of the main constraints to the growth of manufacturing sector in Punjab has been the prohibitive cost of land. Given the importance of agriculture in the state and high fertility of land, this is not surprising. Further, land holdings in Punjab are extremely small, making it more difficult for industry to acquire large tracts of private land. The political and economic leverage that agriculture enjoys in the state has meant that the Punjab government has been almost entirely reluctant to get involved in land acquisition. It has been much less proactive in

39 Interviews with various bureaucrats in Gujarat, July-September 2009.
developing land banks. In 2005, Punjab introduced a scheme for concessional allocation of land within industrial areas to industry.

However, unlike AP and Gujarat, the number of industrial areas and estates remain stagnant due to the high price of land. Bihar’s low industrialization has meant that land is not a major issue in the state. The government however has actively stayed away from creating SEZs or industrial areas. The 2006 industrial policy makes provisions for the establishment of land bank by the state to turn over for future industrial use.

2.2.5 Labor laws

Indian labor laws are among the most stringent in the world particularly with regard to employers’ ability to hire and fire (e.g., WorldBank 2006). Reform in this area has been a long-standing policy demand of business in India. Authors such as Panagariya also suggest that “the key barrier to the emergence of large-scale, unskilled-labor-intensive firms is the complex set of labor laws they face” (2008: 288). Besley and Burgess (2004) examine labor regulation across Indian states and find that pro-worker regulations resulted in lower output, employment, investment and productivity in the formal manufacturing sector.

Labor is a concurrent subject according to the Indian constitution with the center and states sharing jurisdictional authority. States are allowed to make amendments to both central and state laws. More importantly, the primary responsibility for enforcement of labor laws lies with state governments. Both these factors offer scope for differing regulatory environments across states, particularly in the area of labor market flexibility. Various governments at the national and state levels have demonstrated an inclination to reform labor laws in a pro-business direction but have abandoned such plans in the face of political opposition, mainly from unions.
affiliated with various political parties spanning the range of the ideological spectrum.

Nevertheless, labor reform has been taking place by “stealth” in India (Jenkins 2004a). This has partially occurred through the lax enforcement of existing labor laws, which is the sole responsibility of subnational governments, in the reforms era. This has, in turn, provided de facto flexibility to firms (e.g., Anant et al. 2006; Bhattacharjea 2006; Jenkins 2004a).

There extent to which de facto liberalization of labor laws has been occurring across states is difficult to measure. Formal legislative changes to labor laws have been few and far between due to political opposition but a few states have managed to make small inroads. One of the most contentious pieces of labor legislation in India has been the Industrial Disputes Act (IDA), in particular, section V of this law. This section mandates that firms employing more than 100 workers obtain state government permission before closure, lay-offs or retrenchment. Even a single lay-off requires state government authorization. Some states, however, have managed to make some changes to the IDA or allow firms to circumvent the rules lawfully. In Gujarat, for instance, firms in special economic zones (SEZs) enjoy considerable flexibility with respect to several provisions of section V of the IDA. The state has also reduced the number of labor inspections and allows self-certification for most labor laws.

Under Chandrababu Naidu, AP made headlines by amending another contentious labor law – the Contract Labor Act. The Contract Labor Act includes strong regulations against the use of contract labor in core activities of the firm and mandates that such labor be absorbed as permanent employees after a specified time. Along with the flexibility to hire and fire, business has been demanding the right to use contract labor since the start of the liberalization process. AP liberalized its contract labor laws in 2003 by amending the definition of core and non-core activities, making it easier for firms in the state to use contract labor. AP also allows flexibility
under section V of the IDA, the Minimum Wages Act, Shops and Labor Act and the Trade Union Act for firms in SEZs. AP also treats export-oriented units as public utilities. By this provision, the right of workers to strike is severely restricted. Gujarat and AP both allow information technology (IT) and some other sectors to operate three shifts, employ women workers at night and work for all days in the year, which required exemptions from several existing laws.

Punjab allows similar privileges to the IT sector in terms of shifts and work hours but has not carried out the legislative amendments to the Contract Labor Act or Section V of the IDA as Gujarat and AP have. Bihar’s labor regime is more stringent. Other than allowing flexibility to the IT sector in terms of hours, closure and women workers, it has taken very few formal steps to amend its labor laws.

Though it is not solely tied to state policy measures, the nature of labor relations varies across states in India. This can be seen through industrial dispute statistics. In 2007, there were 3,19,850 mandays lost in Andhra Pradesh due to industrial disputes (in the state sphere). The comparable numbers for Gujarat, Punjab and Bihar are 86,952, 49,015 and 44,971 respectively (India 2009 and 2010). These numbers are still significantly lower than the state with highest number of mandays lost in 2007 – West Bengal with 23,707,156.

### 2.2.6 Special Economic Zones (SEZs)

High levels of regulation and low quality infrastructure have typically impeded the ability of Indian states and the country as whole in attracting investment (e.g., Panagariya 2008). In a bid to circumvent stringent regulations in areas such as labor while simultaneously creating pockets of high quality infrastructure, the central government formulated a Special Economic
Zones (SEZ) Policy in 2000. Subsequently, an SEZ Act was passed (India 2009). SEZs essentially function as duty-free enclaves and units in these areas are entitled to a host of fiscal concessions and other subsidies. In many ways, SEZs are similar to export processing zones created by other developing countries. Along with receiving a variety of concessions and having access to duty free imports, firms in SEZs are subject to fewer clearance procedures and regulations, particularly labor laws. For example, the contentious section V-B of the Industrial Disputes Act is not applicable to firms located in SEZs in Gujarat and AP. In addition, compliance of laws in SEZs is typically done on the basis of self-certification and not through inspections.

Though touted as vital instruments to attract investment, states have varied in both their intent and capacity to create SEZs. Both AP and Gujarat have been among the most aggressive in promoting the concept of SEZs. AP passed its SEZ policy in 2002 while Gujarat passed a SEZ Act in 2004. Both states provide flexibility in labor laws to units within SEZs including greater flexibility in hiring and firing workers. Punjab brought out an SEZ Policy in 2005 but the state has been sluggish in its efforts to create SEZs. Bihar on the other hand has completely eschewed the concept.

The number of SEZs approved and created in each of these states provides a clear contrast. As of March 2013, forty seven SEZs have been approved in Gujarat (formal and in-principle approvals) while 32 have been notified. AP has 115 approvals and 76 notifications, the highest number in the country. Punjab in contrast has 8 approvals and only 2 notifications. Bihar is yet to approve a single SEZ. ⁴⁰

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⁴⁰ Calculations of the number of SEZs (formal and in-principle approvals) based on the list of functional special economic zones, Ministry of Commerce and Industry (www.sezindia.nic.in); accessed March 31st, 2013.
2.2.7 Formal organizational framework for industrialization and investment

Sinha (2005) points to differences in the organizational structure of states industrial apparatuses in explaining divergent patterns of investment witnessed in the pre-1991 period. State institutional structures have responded in varied ways to economic liberalization. In relation to investment promotion and industrialization, this is evident in two different areas – overall approach of the bureaucracy towards business and, at a more specific level, the functioning of state industrial development corporations and state finance corporations. These industrial and finance corporations were key players in the industrial apparatus of states prior to 1991. The original mandate of these organizations lost relevance with market reforms but some industrial and finance corporations managed to find a new role in the changed environment whereas others did not.

Similarly the onset of liberalization necessitated an attitudinal change in most state bureaucracies. Inured by years of dirigistic policies, most state bureaucracies had to adapt to an environment where they were required to become responsive to business needs. Bureaucracies in some states were able to make the transition more easily than others. In Gujarat’s case, the liberalization era did not involve a major transformation. As Sinha (2005) chronicles, Gujarat’s bureaucracy was always supportive of the private sector, even in the license-permit era. The nature of the state-business collaboration in Gujarat has, in many ways, been reminiscent of some of the classic developmental states of East Asia. Gujarat has built on this base after 1991, creating an even more investor-friendly climate after economic reforms.

In contrast, AP saw considerable change in the post-1991 period. AP was firmly a middle-rung state along most parameters of economic and social development before 1991. It
emerged as a strong performer in the post-1991 environment. In part, this involved building a stronger organizational framework and making bureaucratic institutions more responsive to industry. The impetus for this change began during Chandrababu Naidu’s regime between 1994 and 2004. In his autobiography, Naidu describes attempts to change the attitude of the bureaucracy in AP when he took over. “When I started interacting directly with industry, they would tell me: ‘your officials look down upon industry. They treat us as the starting point of all ills in society’… With the exception of Gujarat most states in the country are run by politicians and bureaucracies which have traditionally treated industry with suspicion…In Gujarat, the bureaucracy is entrepreneurial…they are investment-friendly, investor-friendly, corporate-friendly. Today in Andhra Pradesh, we are trying to create a similar environment in which industry and government can be partners in driving the state’s economic growth. But again, the mindset has to change all the way down” (Naidu 2000: 149).

Such attempts at increasing bureaucratic responsiveness to business has not occurred in Punjab. Ahluwalia et al (2008) suggest the state’s apathy to industry stems from experience with militancy in the 1980s when administrative functions took a back seat and a general tendency toward an “inspector-raj” was strongly institutionalized in the state.

Bihar’s story saw a major shift after 2005. Prior to 2005, the state’s Chief Minister Lalu Yadav viewed the process of economic development as an upper caste project and sought to put a brake on initiatives. Not surprisingly, bureaucrats had little power to function but this occurred in a context of a virtual breakdown of state authority. Since 2005, the state has seen major recovery under Nitish Kumar. One of the central planks of his broader strategy has been to rebuild the state’s institutional capacity. This has involved passing numerous laws, setting up
organizations, reviving existing corporations, and creating a credible environment to attract investment.

In addition to an attitudinal shift on the part of the bureaucracy, economic reforms have also required state agencies to adapt to the new environment. Certain state-run industrial corporations have managed to do so while others have become defunct. Prior to liberalization, all Indian states had set up industrial development and finance corporations. The main responsibilities of industrial development corporation included developing industrial areas, building industrial infrastructure, helping entrepreneurs obtain licenses from the central government, undertaking project financing and sharing risk in industrial projects through equity participation and joint-ventures. State finance corporations were set up primarily to provide low-interest loans to industry and often acted in conjunction with central government-owned banks, such as the Industrial Credit and Investment Corporation of India (ICICI) and Industrial Development Bank of India (IDBI), which were set up with the sole purpose of providing industrial finance.

Liberalization led to a major change in the context within which state industrial and finance corporations operated. Banks such as ICICI were privatized and subsequently began focusing on commercial banking rather than development finance for industry. Access to the country’s growing capital markets as well as foreign markets also offered new sources of finance for industry. As a result, the role of state finance corporations in providing capital to industry became far less relevant. In many states, state finance corporations have become defunct while in others, they lead a skeletal existence.
Liberalization similarly required industrial corporations to adapt to the new environment. Corporations in some states managed to adapt themselves faster to the post-1991 environment, performing different tasks than before, while they have not done so in other states. The Gujarat Industrial Development Corporation (GIDC) remains active; since 1991, it has primarily been involved in acquiring land, building industrial estates, developing industrial infrastructure, and allotting land to the private sector. Aspects such as project financing and risk sharing are, however, no longer priorities for GIDC. It also plays a less significant role in the regular maintenance of industrial estates and has devolved some of these responsibilities to business associations.

Unlike the GIDC, which found a new role in the post-1991 environment and remains viable, industrial development corporations in AP and Punjab are virtually defunct. Set up in 1960, Andhra Pradesh Industrial Corporation (APIDC) was the oldest industrial corporation in the country. Unlike its counterpart in Gujarat, APIDC has not been able to adapt to the changing business environment. The corporation was set up to perform four main functions – helping industry obtain licenses from the central government to set up in AP, starting joint ventures with the private sector, project financing, risk sharing through equity participation and industrial promotion through road shows and information events.41 With the elimination of the licensing system, decline of development finance and growing size of projects which have made equity participation unviable, APIDC has struggled to adapt. In 2006, the state government decided to shut down APIDC. However, the government did not implement this decision and APIDC continues to exist, albeit in a minimal form. In contrast to APIDC, the Andhra Pradesh Industrial Investment Corporation (APIIC) has managed to reorient its tasks successfully after 1991. With a

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41 Interview with senior bureaucrat, APIDC; Hyderabad, November 12, 2009.
focus on land acquisition and development (similar to GIDC’s post-1991 activities), APIIC has remained active and financially successful. Some interviewees suggested that the APIIC has survived as it has acted primarily as a developer at a time when the real estate market has grown exponentially in India.

The experience of the Punjab State Industrial Development Corporation (PSIDC) mirrors that of the APIDC. Its overall decline in the post-1991 environment led the government in 2006 to consider its closure. Bihar’s industrial apparatus, like other state institutions, was virtually dormant in the 1990s. Since 2005, the state has made a concerted effort to build its organizational and institutional framework for industrialization. This has included passing several major pieces of legislation, setting up organizations such as the Bihar Industrial Area Development Authority (BIADA) and the State Investment Promotion Board. In addition, some state-run infrastructure corporations such as the Road Construction Corporation and the Bridge Construction Corporation have been highly successful in recent times.

2.2.8 Branding and information dissemination

Through the 1990s, a handful of chief ministers acquired reputations for aggressively marketing their states to investors at various forums. For Rudolph and Rudolph (2001), this aspect of chief ministers acting as “entrepreneurs” is one of the aspects that distinguish India’s pre and post-1991 economic environment. Along with the initiatives of individual chief ministers, some state agencies have been more aggressive in their branding and promotion activities than others.

Gujarat, over the last decade, has institutionalized the promotional aspect better than any other state. Among numerous promotion activities, the state conducts a biannual investor summit.
– the Vibrant Gujarat summit – aimed at showcasing the state. Whatever its actual impact, Gujarat’s investor summits have garnered considerable attention in the Indian media. Gujarat has managed to attract some of the biggest names in Indian business and strengthen its credibility through their support of these events. One of most publicized episodes was in the 2007 Vibrant Gujarat summit when Ratan Tata, Chairman of the Tata Group, made the oft-quoted statement: “You are stupid if you are not in Gujarat” (Pandit 2008).

While the actual impact of such marketing and publicity is difficult to ascertain, other states have replicated Gujarat’s model by conducting their own summits. Given that investment is often driven by perceptions of businesspersons, these publicity drives appear may have some effect on the margins. Gujarat’s main investment facilitation agency, Indextb, also undertakes various other promotion activities such as road shows, participation in trade fairs and summits. It should be noted that Indextb was involved promotion and marketing activities, even in the pre-1991 environment (Sinha 2005).

AP has also been active in promotional and branding tasks. However, those marketing efforts were never institutionalized as they have been in Gujarat. Moreover, Chandrababu Naidu’s openly pro-business policies and rhetoric ultimately contributed to his electoral defeat in 2004, resulting in his successors considerably toning down the pro-business tone of the state. Unlike Gujarat and AP, Punjab government carries out few promotional activities. Since 2005, Bihar has been actively marketing itself through road shows and highlighting its changing business environment. Like Gujarat, it has also organized “Global Bihar” summits, aimed at showcasing changes in the state and attracting investment from domestic investors and overseas Biharis.
2.3 Policies and investor perceptions

As the previous section detailed, states have responded very differently to the competition for investment. While it is clear that policy differences exist, one peripheral issue needs to be addressed. Are investors affected by such policy differences? In this dissertation, I try to emphasize that policies matter in investment decisions in several ways. Chapter 1 briefly outlined claims from several existing studies that suggest that policies affect growth-related outcomes, including investment (e.g., Besley et al. 2007; Kochhar et al. 2006b; Purfield 2006). I draw on two other sources at the micro-level to suggest that investors respond to policies. Interviews conducted with investors during fieldwork strongly support the view that policies affect business prospects, and I utilize evidence from interviews throughout the case studies. In this section, I briefly draw on evidence from the 2005 Firm Analysis and Competitiveness Survey\(^\text{42}\) conducted by the World Bank and Confederation of Indian Industry to show that policies affect investor perceptions. The survey includes 2,286 organized sector firms of various sizes in 15 Indian states on several variables related to operation and profitability of businesses (WorldBank 2005a).

This survey data is useful in highlighting two aspects. First, the data clearly highlights that several policy dimensions under the jurisdiction of subnational governments are perceived as major or severe constraints to business operations and profitability. As figures 2.1 and 2.2 show, the policy dimension most commonly identified as a major or very severe constraint by respondents was electricity, which primarily falls under the jurisdiction of subnational governments in India. Thirty-six per cent of respondents identified electricity as a major or very

\(^\text{42}\) This survey is part of the Enterprise Surveys conducted by the Enterprise Analysis Group of the World Bank. The 2005 survey was conducted face-to-face and undertaken in partnership with the Confederation of Indian Industry. The data and associated information can be found at www.enterprisesurveys.org.
severe obstacle to business operations. Other factors most frequently identified by respondents as 
major or very severe constraints include corruption (27.96 per cent) and high taxes (over 35 per 
cent). A related question asks respondents to narrow choices and identify the single largest 
obstacle to operations and growth. Almost a third of the respondents (32.71 per cent) identified 
electricity as the single largest constraint while 15.51 per cent identified high taxes and almost 10 
per cent felt corruption most hindered their operations.

Second, the survey data also suggests that investors perceive differences in policy 
environments across states. The extent to which specific policy areas are viewed as constraints 
differs significantly across states. Certain states are also identified as having better business 
environments than others. Figure 2.3 disaggregates responses by states for specific policy areas. 
It is evident that the extent to which particular policies are viewed as major or very severe 
obstacles differ across states. For example, electricity is most commonly identified as the single 
biggest constraint by respondents in the survey but, as figure 2.3 shows, only 5.73 per cent of 
respondents in Gujarat and 3.75 per cent in AP identified electricity as a major or very severe 
constraint while comparable figures in Haryana and Bihar were 73.83 per cent and 72.73 per 
cent. Figure 2.3 also suggests that the extent to which other key dimensions such as access to 
land, taxes, labor regulations and corruption are viewed as obstacles to business varies across 
states.
Figure 2.1: Major and severe obstacles to business operations

![Chart showing the percentage of respondents facing major or very severe obstacles in various areas.

Source: WorldBank(2005)]

Figure 2.2: Policies most frequently identified as the single largest constraint to operations

![Chart showing the single largest constraint to operations and growth.

Source: WorldBank(2005)]
Investors view some states as having a better business environment than others. When asked to identify the state with the best business environment, respondents most frequently chose Maharashtra (23.42 per cent) and Gujarat (22.35 per cent). On average, respondents suggested that their cost of production would decrease by 11.34 per cent if they were located in the state which they considered to have the best business environment in the country.

Finally, the data is generally suggestive of policy factors directly affecting location decisions. Since respondents were allowed to identify more than one factor as affecting investment decisions and were not asked to rank these factors, it is difficult to gauge the relative importance of these different dimensions. Nevertheless, the data offer some insights on location decisions. A home bias exists with a majority of firms suggesting that they were located in a
particular state because the owners or major shareholders belonged to the state. Nevertheless, a sizeable portion – 30.39 per cent of respondents – suggested that concessions and benefits given by the state government drove location decisions. Almost 53 per cent suggested that natural resource availability was a factor in location decisions. These aspects lend some support to the view that both initial conditions as well as policy variables affect location decisions.

2.4 Conclusion: the changing role of the state in industrialization

In this chapter, I detailed the varied policy differences in the four case study states along a variety of dimensions. Based on a detailed examination of policies in the four case study states – Gujarat, Andhra Pradesh, Punjab and Bihar – I suggest some states have been more aggressive in the competition for investment than others. This has meant that policies have differed in speed and scope; aggressive states have formulated policies more investor-friendly in scope and have also adopted these measures at an earlier time.

Among the four main cases, Gujarat has been consistently more aggressive in the competition for investment than other states. In contrast, Punjab has been largely apathetic to the competition for investment throughout the post-1991 period. Like Gujarat, Andhra Pradesh has been one of the more business-friendly states in the country. However, its pro-business commitments have not been as consistent as Gujarat’s and have varied over time. For most of post-1991 period, Bihar’s government largely neglected development tasks. A change of government in 2005 led to a major transformation in governance and it has been active in undertaking a variety of policy measures aimed to attract investment since then. Having suggested that policies differ considerably across Indian states, the chapter also used data from the 2005 Firm Analysis and Competitiveness Survey, conducted by the World Bank and
Confederation of Indian Industry, to show that several policy factors under the purview of subnational governments are viewed as major obstacles to business operations and growth.

Conceptually, in its emphasis on the economic role of the state, this dissertation shares an affinity with the developmental state literature (e.g., Johnson 1982; Amsden 1989; Wade 1990; Evans 1995; Kohli 2004). Based largely on East Asia’s rapid industrialization after World War II, the developmental state literature argued that successful late developers have been backed by effective activist states. An analysis of investment promotion in India suggests that the economic role of the state in development remains as relevant today as it was during East Asia’s dramatic transformation. States perform vital tasks that affect investor decisions. However, the context within which the state has to operate is now qualitatively different. Increased capital mobility and electoral pressures have placed major constraints on the ability of states to effect successful economic change, a trend that did not exist earlier.

The effect of electoral pressures on the state’s ability to formulate economic policy forms the central theme of my argument and is elaborated through the four cases in chapters 3 and 4. The comparison of policies undertaken by more and less proactive states in this chapter speaks to another point on state involvement. In particular, it suggests that the type of policy tools across Indian states differs from those utilized by the classic developmental states of East Asia. As Kohli (2012) suggests, state intervention in India has always been largely facilitative rather than transformative. Such a focus on facilitation rather than direct involvement has been even more evident in the Indian context after 1991. States such as Gujarat see their primary role as creating a supporting environment where transactions costs for business are lowered. Unlike the classic developmental states, there are few attempts to manufacture comparative advantage or “pick winners.”
While the nature of state involvement appears to be less direct than the East Asian case, it is nevertheless substantial. More proactive states have developed sound infrastructure, created a favorable regulatory environment for capital and offered a range of concessions and subsidies to encourage business to locate in their jurisdictions. They have developed bureaucratic apparatuses that are more responsive to the needs of capital. States that have been more aggressive in undertaking such tasks have reaped rewards in terms of investment. This is particularly true of infrastructure and special economic zones, where states that have moved first have benefitted considerably.

Certain policy tools are clearly less prevalent in today’s globalized context. One prominent example is that of concessional finance. In the case of success stories such as South Korea, firms relied heavily on state-owned banks for finance requirements. Governments, in turn, extracted performance from firms through their control of finance. In the Indian case, state-owned banks and development corporations were major sources of finance prior to 1991. Financial liberalization since 1991 has led to a markedly different scenario. The growth of the Indian stock market, private banks and the ability to raise capital abroad has meant more diverse sources of finance for firms. In turn, this has limited the use of a policy tool previously available to the state.

The shift in the type of policy tools used also demonstrates the considerable leverage that mobile capital enjoys. Successful state involvement in the Indian context has involved more carrots than sticks. Widespread use of concessions and subsidies, particularly in areas such as land, continues to be prevalent. Such sops to business are clearly suggestive of business’ growing power after 1991. Large investors, in particular, are able to bargain between competing states to extract favorable terms.
Subnational policy responses also speak to a second broader debate. Proponents of the convergence hypothesis have argued that units competing for mobile capital are likely to adopt similar capital-friendly policies (Andrews 1994; Cerny 1993). At the extreme, this view suggests a race to the bottom in several policy areas. An examination of policies in the competition for investment in India does indeed suggest that mobile capital possesses considerable leverage. However, this does not automatically lead to similar policy responses across competing units. As section 2.2 outlined in considerable detail, the speed and scope of policies has differed across units. As the next two chapters will try to suggest, these differences are due to the varying nature of political constraints placed on subnational governments. In particular, I argue that certain types of electoral coalitions allow governments to create more business-friendly environments than others. In that sense, viewpoints that predict policy convergence largely neglect the power of political constraints, particularly in a democracy that is largely poor.
## Appendix – Chapter 2

### Table 2.1: Policy variation across states

<table>
<thead>
<tr>
<th>Overall approach</th>
<th>Gujarat</th>
<th>Andhra Pradesh</th>
<th>Punjab</th>
<th>Bihar</th>
</tr>
</thead>
<tbody>
<tr>
<td>India’s most business-friendly state. Adopted pro-business policies earlier and policies tend to be more capital-friendly in scope than other states. Since 2003, a more broad-based approach that goes beyond tax concessions and emphasizes infrastructure.</td>
<td>More pro-business at some times than others. Commitment slowed since 2004. Strong reliance prior to 2003 on tax and non-tax concessions to attract capital. Continues to rely strongly on concessions and incentives to attract business.</td>
<td>Slow to react to market reforms and apathetic to the competition for investment. Lags behind many other states in policy efforts. Competitive populism and attendant fiscal problems detracted from ability to compete for investment.</td>
<td>Virtually no policy initiatives between 1990 and 2005. Significantly more proactive since 2005. Since 2005, multi-pronged approach that focuses on infrastructure, business-friendly regulations, organizational development and concessions.</td>
<td></td>
</tr>
</tbody>
</table>


| Infrastructure (electricity) | Captive power policy has facilitated surplus electricity generation. Gujarat Electricity (Reorganization and Regulation) Act in 2003. Average annual state expenditure on energy (as % of total expenditure) between 1991-92 and 2009-10 was 10.4%. Generally eschewed electricity subsidies, unlike other states. | Early mover on electricity reforms. Electricity Reforms Bill passed in 1998 but growing shortfall. Average annual state expenditure on energy (as % of total expenditure) between 1991-92 and 2009-10 was 7.44%. Free electricity to farmers and other rural groups after 2004. | Very slow to undertake process of electricity restructuring reforms. Major electricity shortfall. Average annual state expenditure on energy (as % of total expenditure) between 1991-92 and 2009-10 was 8.5%. Electricity subsidies through the post-1991 period have had an adverse effect on state finances. | Electricity remains a major constraint. Few substantial policy measures to restructure electricity sector. Average annual state expenditure on energy (as % of total expenditure) between 1991-92 and 2009-10 was 6.53%. |

| Infrastructure (Roads) | Excellent road network. Consistently strengthened its strong initial base after 1991. Average annual state expenditure on roads and bridges (as % of total expenditure) between 1991-92 and 2009-10 was 3.9%. | Less proactive than Gujarat. Average annual state expenditure on roads and bridges (as % of total expenditure) between 1991-92 and 2009-10 was 2.9%. | Strong initial base in 1991 but very few efforts to supplement. Average annual state expenditure on roads and bridges (as % of total expenditure) between 1991-92 and 2009-10 was 1.9%. | Poor initial base. Few policy initiatives prior to 2005. Perhaps, most proactive state in India in road and bridge construction after 2005. Major success of road and bridge corporations after 2005. Average annual expenditure on road and bridges (as a % of total expenditure) was 2.98 per cent between 1991-92 and 2005-06 while it grew to 7.82 per cent between 2005-06 and 2009-10. |

Average annual state expenditure on energy (as % of total expenditure) between 1991-92 and 2009-10 was 10.4%. Generally eschewed electricity subsidies, unlike other states. Electricity Reforms Bill passed in 1998 but growing shortfall. Average annual state expenditure on energy (as % of total expenditure) between 1991-92 and 2009-10 was 7.44%. Free electricity to farmers and other rural groups after 2004. Very slow to undertake process of electricity restructuring reforms. Major electricity shortfall. Average annual state expenditure on energy (as % of total expenditure) between 1991-92 and 2009-10 was 8.5%. Electricity subsidies through the post-1991 period have had an adverse effect on state finances. Electricity remains a major constraint. Few substantial policy measures to restructure electricity sector. Average annual state expenditure on energy (as % of total expenditure) between 1991-92 and 2009-10 was 6.53%. Excellent road network. Consistently strengthened its strong initial base after 1991. Average annual state expenditure on roads and bridges (as % of total expenditure) between 1991-92 and 2009-10 was 3.9%. Less proactive than Gujarat. Average annual state expenditure on roads and bridges (as % of total expenditure) between 1991-92 and 2009-10 was 2.9%. Strong initial base in 1991 but very few efforts to supplement. Average annual state expenditure on roads and bridges (as % of total expenditure) between 1991-92 and 2009-10 was 1.9%. Poor initial base. Few policy initiatives prior to 2005. Perhaps, most proactive state in India in road and bridge construction after 2005. Major success of road and bridge corporations after 2005. Average annual expenditure on road and bridges (as a % of total expenditure) was 2.98 per cent between 1991-92 and 2005-06 while it grew to 7.82 per cent between 2005-06 and 2009-10.
<table>
<thead>
<tr>
<th>Gujarat</th>
<th>Andhra Pradesh</th>
<th>Punjab</th>
<th>Bihar</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Incentives and subsidies</strong></td>
<td>Strong reliance on tax concessions prior to 2003. Sizeable subsidies to large investors. Over time, focus has shifted to other aspects of investment promotion but continues to offer subsidies comparable to competitors including land, capital investment subsidies, commercial tax concessions, stamp duty and technology reimbursements.</td>
<td>Very aggressive in offering concessions during 1995-2004. Strong reliance on tax concessions prior to 2003. Offers concessions on land stamp duty and capital investments.</td>
<td>Poor fiscal situation has meant few concessions. State not able to provide subsidies promised in policy statements, leading to low credibility with investors.</td>
</tr>
<tr>
<td><strong>Labor laws/environment</strong></td>
<td>Labor law flexibility in SEZs and IT sector, particularly with respect to hiring and firing in section V of the Industrial Disputes Act. Low mandays lost.</td>
<td>Amended Contract Labor Act. Labor law flexibility in SEZs and IT with respect to V of the IDA, the Minimum Wages Act, Shops and Labor Act and the Trade Union Act. Export-oriented units treated as public utilities and right to strike is restricted. More mandays lost than other three states.</td>
<td>Low mandays lost. Labor law flexibility in SEZs and IT but scope not as wide as Gujarat or AP.</td>
</tr>
<tr>
<td><strong>Land acquisition</strong></td>
<td>Land acquisition by government has been less contentious. State has been proactive in creating land banks and then transferring to industry. Active in providing subsidized land for large projects. Amended laws to allow easier conversion from agricultural to industrial use and to acquire land around highways.</td>
<td>Government involvement has been more contentious than Gujarat. APIIC active in acquiring land and building land banks.</td>
<td>Land is major constraint for manufacturing. State reluctant to acquire land.</td>
</tr>
<tr>
<td><strong>Special Economic Zones (SEZs)</strong></td>
<td>SEZ policy in 2004. 53 SEZs approved and 30 have been notified (as of 3/30/2012).</td>
<td>SEZ policy in 2002. 116 approvals for SEZs and 76 have been notified (as of 3/30/2012).</td>
<td>8 approvals and 2 notifications for SEZs (as of 3/30/2012).</td>
</tr>
<tr>
<td>Institutional framework for industrialization</td>
<td>Gujarat</td>
<td>Andhra Pradesh</td>
<td>Punjab</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>---------</td>
<td>----------------</td>
<td>--------</td>
</tr>
<tr>
<td>Business-friendly bureaucracy both before and after 1991. State corporations have adapted effectively to post-liberalization environment. Indextb, GIDC, GIDB, GIIC, GFC, GMB all active.</td>
<td>Bureaucracy had to adapt to post-1991 context. More industry-friendly over time. Not as effective as Gujarat’s bureaucracy. Industrial corporations have had mixed results after 1991. APIIC is proactive but APIIDC and APSFC are virtually defunct.</td>
<td>Bureaucracy generally apathetic to industry and has not adapted to post-liberalization environment. Corporations performed poorly. PSIDC defunct.</td>
<td>Deinstitutionalization of various state organizations prior to 2005. Bureaucracy had little autonomy prior to 2005 and virtual standstill in development efforts. Strong emphasis after 2005 in rebuilding institutional framework.</td>
</tr>
</tbody>
</table>

| Branding, promotion and information activities | Major effort in promoting state as investment destination and information dissemination through Vibrant Gujarat investor summits. Indextb plays an active role in these areas. Institutionalized branding and promotion activities more than other states. | Major efforts in promoting state 1994-2004. Pro-business rhetoric more muted after. Efforts not as institutionalized as Gujarat. | Few efforts at promotion and information dissemination. | Post-2005 thrust on promotion to domestic investors and diaspora. Global investor summits similar to Vibrant Gujarat-type events. |
3. Chapter 3: Contrasting coalitions and outcomes: Gujarat and Punjab

“It is stupid if you are not in Gujarat”
– Ratan Tata, former Chairman, Tata Group (quoted in Fontanella-Khan 2012)

“Frankly, why would you invest in Punjab in manufacturing if you are sane? We have roots here. We are part of the SME [small and medium enterprise] sector and SME guys cannot move. Large firms can. Hero has moved out of Punjab. Mittal has moved out. Only the SME firms stay here.”
– Interview with a Ludhiana businessperson, May 6, 2010

When viewed along several indicators at the start of the reforms process in 1991, Gujarat and Punjab appear broadly similar. The two states were among the richest in the country, though Punjab’s per capita income of Rs. 3825 was a little higher than Gujarat’s (Rs. 2381).\footnote{Per capita income in constant 1980-81 prices. Data from the Central Statistics Office, Ministry of Statistics and Program Implementation, Government of India (mospi.nic.in)} Like most regions in India, a majority of the population in both states was rural; nearly 63 per cent in Gujarat and a little over 66 per cent in Punjab. Both states were middling performers in terms of education with Gujarat’s literacy rate of 58.5 per cent being lower than Punjab’s 61.3 per cent.\footnote{Data from the Census of India (1991).} The levels of rural and urban inequality in the two states were almost identical – Gujarat’s rural GINI coefficient was 0.26 to Punjab’s 0.24 while its urban GINI was 0.29 to Punjab’s 0.28.\footnote{Data from the Planning Commission of India (planningcommission.nic.in)} Compared with the poor overall quality of infrastructure in most Indian states, Gujarat and Punjab were also relatively well-endowed and both possessed a sound infrastructure base.

While industry enjoyed a more prominent place in Gujarat’s economy in 1991, accounting for 36.7 per cent of the state’s domestic product, it also had a notable presence in Punjab, representing almost a quarter of the domestic product in a state that has historically been India’s
grain bowl. Both regions also possessed an existing culture of entrepreneurship. Even in pre-colonial times, Gujarat was a major trading hub with links to Africa and the Middle East (Pocock 1972; Streefkerk 1997). It was one of the areas in India where indigenous industry first took root in the colonial period; the first Indian-owned textile mill was set up in Ahmedabad in 1861. Punjab’s entrepreneurial history is more recent but the state had a thriving industrial base, particularly in the small-scale sector, at the start of the liberalization process.

In sum, a number of initial conditions suggest that the two states might have plausibly been expected to perform similarly in the competition for investment after 1991. Yet, they have taken vastly different approaches. Gujarat has, arguably, been more proactive in the competition for investment than any other Indian state. As the previous chapter highlighted, it has undertaken policies that are more business-friendly in scope and has been a forerunner in formulating and implementing such policies. Moreover, its emphasis on attracting new investment has been consistently strong throughout the post-reforms period. Punjab’s policy response offers a sharp contrast. Despite being better endowed in 1991 than many of its counterparts, Punjab was slow to respond to the post-liberalization framework and has exhibited a weak commitment towards an investor-friendly policy agenda. Ironically, Punjab’s industrial growth was well above the national average during the period of Sikh militancy in the state in the 1980s but the return of peace since the early 1990s has coincided with a major slowdown in both industry and agriculture.

In this chapter, I focus on Gujarat and Punjab to demonstrate the two-stage argument of this dissertation. At a proximate level, I argue that the contrasting responses of Punjab and Gujarat to

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47 Data from Central Statistics Office, Ministry of Statistics and Program Implementation, Government of India (mospi.nic.in)
the competition for investment can be explained by the differing nature of electoral coalitions that have backed governments in the two states. Since 1991, the BJP has dominated politics in Gujarat and various governments have been supported by narrow-right coalitions consisting of three core social groups – the Patidars, Brahmins and Banias. These groups share a similar economically-advanced profile and the coalition also incorporates business interests substantially. The state’s pro-business agenda has been aligned with the interests of these core groups and, as a result, successive narrow-right coalitions have been strongly supportive of the state’s investor-friendly policy framework. Moreover, the confined class profile of these core groups has meant that redistributive pressures placed by this coalition on policymakers have been less intense than those seen elsewhere. Various Gujarat governments have been able to formulate and implement a coherent and consistent pro-business agenda through the post-1991 period.

In contrast, I suggest that wide-right coalitions in Punjab account for its sluggish results. Punjab has seen regular alternation of Congress and Akali Dal (SAD)-BJP governments over the last two decades. Both sets of governments have been backed by wide-right electoral coalitions comprising of social groups with a diverse range of economic interests. As a result, Punjab’s governments have been preoccupied with balancing a variety of economic interests and have been pulled in different directions by divergent demands. Successive Congress and SAD-BJP governments have managed these contradictory pressures by resorting to populist measures. A cycle of competitive populism has characterized Punjab’s politics for most of the post-1991 period and this has led to a major weakening in the state’s financial position. In turn, poor fiscal health has meant that the state has been unable to create a business-friendly investment climate.
Having suggested that narrow-right coalitions in Gujarat and wide-right coalitions in Punjab explain varied responses to the competition for investment, I go a step back in this chapter and trace the social origins of these coalitions. Identity politics has been the primary mode of electoral mobilization in India and this has affected both party strategies of coalition construction and voter attachments.

Dominant caste patterns in Gujarat, which involve an overlap of group size and resource control, have laid the foundation for the emergence of narrow-right coalitions. Since the mid-1990s, the BJP has essentially had a stranglehold on the state’s electoral scene and has won with narrow-right coalitions comprising of three core groups – the Patidars, Banias and Brahmins. The numerical size of the Patidars has allowed the BJP to rely primarily on this group along with the Banias and Brahmins to construct electoral majorities. Moreover, these three groups constitute the bulk of entrepreneurial interests in Gujarat. As demonstrated through survey data later in the chapter, the BJP’s disproportionate reliance on these sections is complemented by the fact that voters from the Patidar, Brahmin and Banias castes overwhelmingly support the BJP over the rival Congress, limiting its incentive to construct broad bases of support and reinforcing its strategy of targeting these economically-powerful castes.

Punjab’s cross-cutting cleavage structure is inherently conducive to building wide coalitions. It is a Sikh-majority state where caste acts in conjunction with other cleavage dimensions, most notably religion and a rural-urban divide. This has created considerable fragmentation in the social structure. Entrepreneurial interests exist but, unlike Gujarat, are not numerically sizeable. The nature of Punjab’s cross-cutting cleavages has meant that parties cannot win elections by disproportionately relying on a small set of social groups.
Party strategies have adapted to this reality. The Congress since the 1950s has built a catch-all base of support. The main rival to the Congress in the state has been the SAD. As a party that has historically represented Sikh interests, the SAD’s ability to win elections on its own is limited. To overcome this, the party has allied with the Hindu-nationalist BJP over the last two decades. SAD-BJP governments have combined the rural and Sikh vote base of the former with the urban and Hindu base of the latter.

While caste structures have been crucial, coalition formation is a sequential process and the history of mobilization matters in explaining the timing of particular coalitions. To reflect the fact that the construction of social bases of support is a process, I trace coalition formation through the post-independence period in both states. I also use survey data of individuals from the 2002 assembly elections in both states to demonstrate the relationship between social identity and voter attachments. In Gujarat, social identity is strongly significant in determining vote choice and certain social groups are very closely attached to either the BJP or the Congress. This complements the strategy of these parties to target a narrow range of social groups. Though present to some degree, the link between social identity and vote choice is not as prevalent in Punjab.

Figures 3.1 and 3.2 apply the two-stage argument of the dissertation to Gujarat and Punjab. In the rest of this chapter, I delineate the central explanation with respect to Gujarat and Punjab in more detail.
Figure 3.1: Applying the argument to Gujarat

- **Identity politics**
  - **Dominant caste cleavages**
    - Overlap of group size and entrepreneurial identity
  - **Party strategies of coalition construction**
    - BJP's reliance on Patels, Brahmins, and Banias
    - Congress' support from Scheduled Castes, Dalits, Adivasis, and Muslims
  - **Voter attachments**
    - Strong social identity-vote choice link
  - **Narrow-right coalitions of the BJP**
    - Prioritization of pro-business policies
    - Relatively muted redistributive pressures
  - **Investor-friendly policies since 1991**

Figure 3.2: Applying the argument to Punjab

- **Identity politics**
  - **Cross-cutting patterns**
    - Small groups
    - Entrepreneurial groups exist but small
  - **Party strategies of coalition construction**
    - Incentives to target wide base
    - Congress' catch-all base
    - Complementary bases of SAD and BJP
  - **Voter attachments**
    - Weaker role of social identity
  - **Wide-right coalitions**
    - Multiple pressures
    - Rivalry politics
  - **Mixed agenda**
3.1 Gujarat – narrow-right alliances and business-friendly policies

3.1.1 Economic background and performance

Created in 1960 from the bifurcation of the erstwhile Bombay state, Gujarat has been one of India’s most industrialized and prosperous regions over the last five decades. Its per capita income of Rs. 49,030 ranked fourth among major Indian states in 2009-10 and its poverty headcount ratio of 16.8 per cent in 2004-05 was well below the national average of 27.5 per cent. Though it accounts for about 5 per cent of India’s population, Gujarat is responsible for a significant portion of the country’s industrial output. In 2009-10, it produced 17.6 per cent of the total industrial output of organized sector in the country.

Gujarat is somewhat distinct from other Indian states in terms of its economic structure. Given India’s stage of economic development, a vast majority of states follow an idiosyncratic pattern in that services tend to account for the major portion of gross state domestic product (GSDP). Gujarat broadly follows this trend but industry’s share of income tends to be higher than most major Indian states. While agriculture contributed a little more than 12 per cent of GSDP in 2010-11, industry accounted for 40.7 per cent and services for 47.2 per cent. As a point of comparison, industry’s share of India’s national GDP was approximately 28 per cent while services constituted almost 60 per cent.

The antecedents of Gujarat’s industrial success can be traced considerably far back in time. The region that would eventually become Gujarat had a long history of maritime trade and was a

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48 Data on per capita net state product (in constant 2004-05 prices) from RBI (2011), table 9. Poverty headcount ratio is percentage below the poverty line in 2004-05 based on the uniform recall period (official estimates) from RBI (RBI 2011), table 162.
49 Population figures from the Census of India 2011 (provisional tables, Table 1; censusindia.gov.in). Share of industrial output calculated from total output data of the factory sector from the Annual Survey of Industries 2009-10, CSO, Government of India (Table 3).
50 Calculations based on GSDP data from Central Statistical Organization, Government of India (mospi.nic.in).
51 Data from the Reserve Bank of India (dbie.rbi.org.in).
thriving commercial center even in medieval times (e.g., Pocock 1972; Tripathi and Jumani 2007). Gujarat, along with Bombay, was also a forerunner in terms of machine-age manufacturing in colonial India; the first textile mill financed by Indian capital was set up in Ahmedabad in 1861 (e.g., Damodaran 2008). By the turn of the 20th century, Ahmedabad became a key industrial hub. Unlike other parts of India, where foreign capital had a major presence, Ahmedabad did not have a single textile mill in the 1890s under the control of non-Indians (Tripathi and Jumani 2007). Some industrial development financed by indigenous capital also occurred away from the directly British-ruled areas of present day Gujarat, specifically in the princely state of Baroda (Streefkerk 1997).

Gujarat built on these advantages after independence. After the formation of the state in 1960, the state put in place a strong framework for industrialization and growth (Sinha 2005). Despite the constraining effects of the license-permit raj, Sinha suggests that Gujarat’s “bureaucratic developmentalism” ensured high investment flows. In particular, the state’s bureaucracy managed to mitigate the constraining effects of central rules through bureaucratic pressure, lobbying and monitoring; a strategy she terms “bureaucratic infiltration.”

Gujarat’s growth acceleration in the post-reforms period has been even more rapid. Between 1991-92 and 2009-10, the state’s gross state domestic product (GSDP) grew at an average annual rate of over 8.1 per cent compared to a national average of 6.5 per cent. The state’s aggressive policy response to the competition for investment has reaped considerable dividends. Between 1991 and 2010, Gujarat received 11.8 per cent of investment in the country by total value and 12.4 per cent in terms of total number of investment proposals.52

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52 Data from SIA Statistics (January 2011), Department of Industrial Policy and Promotion, Ministry of Commerce and Industry (dipp.nic.in).
On the surface, Gujarat’s proactive response in the competition for investment after 1991 is not entirely surprising given its long history of entrepreneurship and industrial development. In many ways, since its formation in 1960, Gujarat has been a classic developmental state (Kohli 2009, 2012; Sinha 2005). For a start, the state has been central to industrial development in Gujarat. As was the case with classic developmental states, Gujarat has prioritized growth more than other development objectives. Relative to its per capita income levels, the state underperforms in terms of human development. For example, it has a sex ratio of 918 females per 1000 males, a figure that is both below the national average of 940 and a long distance away from the best performing state, Kerala at 1084.\textsuperscript{53} Illicit political trends have also accompanied Gujarat’s high-growth phase. Notably, the state’s politics has been characterized by strongly majoritarian trends and certain groups, chiefly Muslims, have been socially, economically and politically excluded (e.g., Hirway 2000).

While pre-1991 factors have no doubt shaped Gujarat’s response to the competition for private investment in the post-1991 period, a sole focus on continuity leaves several issues unaddressed. First, how and why has Gujarat maintained its economic dominance in the post-1991 period when some other states have managed to squander their pre-1991 advantages? As the case study of Punjab will show, favorable initial conditions are not sufficient for success in the competition for investment. Second, Gujarat has been more proactive and has outperformed other high and middle income states in attracting investment after 1991. How and why did Gujarat adapt more effectively to the new framework than similarly placed states? These questions merit further explanation and sections 3.1.2 to 3.1.6 attempt to provide that. Section 3.1.2 begins by providing an introduction to Gujarat’s social structure.

\textsuperscript{53} Data from the Census of India, 2011 (censusindia.net)
3.1.2 A brief overview of Gujarat’s social structures: dominant caste patterns and a history of entrepreneurship

In this section, I offer a brief overview of Gujarat’s social structure. In the description that follows, I emphasize two key aspects. First, large social groups exist in Gujarat. Second, the history of entrepreneurship in the state is closely associated with the social structure. Both these factors facilitate the emergence of narrow-right coalitions in the state, which represent an overlap between economic and political power.

Gujarat’s social structure is characterized by what M.N. Srinivas, defined in his seminal 1959 study as “dominant caste” patterns. According to Srinivas, “a caste maybe said to be ‘dominant’ when it preponderates numerically over the other castes, and when it also wields preponderant economic and political power. A large and powerful caste group can be more easily dominant if its position in the local caste hierarchy is not too low” (1959: 1). In this dissertation, I argue that this very coincidence of size and economic power, embedded within dominant caste patterns, acts as an enabling factor in allowing the emergence of narrow-right coalitions in some Indian states.

In Gujarat, the Patidars constitute the main dominant caste. By Indian standards, they are numerically sizeable, accounting for over 12 per cent of the state’s population (e.g., Shah 1989).\(^{54}\) The Patidars have enjoyed considerable economic clout arising from their ownership of land in the countryside (Kohli 1990; Kothari and Maru 1970; Shah 1989; Sheth 1976a, 1998). As the next sub-section will outline in more detail, this access to land allowed the Patidars to accrue

\(^{54}\) The 1931 census in India was the last one to collect information on individual castes other than scheduled castes and scheduled tribes. Scheduled caste and scheduled tribe populations have since been counted in each Indian census. Despite the short-coming of not having current details on individual castes, most studies on Indian politics, including the ones cited in this paragraph, use the 1931 data and extrapolate from it.
surpluses from commercial agriculture, which were in turn transferred to industry. As is the case with most caste groups in India, there is an element of economic differentiation within the Patidars. Studying the Patidars in the 1970s, Pocock (1972) found that members within the Patidar community range from wealthy landowners to emigrants in other parts of the world to agricultural labor who work on the fields of fellow-caste landowners. Kohli (1990) and Sinha (2005) also point to a class distinction between two Patidar sub-castes – Leuva and Kadwa Patels. Kohli suggests that the Leuvas occupied a higher position in terms of income and social status and controlled important positions in commerce, trading, education and producer cooperatives (1990: 254). The Kadwas, on the other hand, were largely dependent on cash-crop agriculture.

The historic control of land of the Patidars also afforded a degree of political clout. Frankel (1989) suggests that power relations in parts of western India, including Gujarat, historically rested on military skills and the control of land. As a result, groups such as the Patidars also became politically powerful. The political leverage of the Patidars was reinforced by the fact that they were mobilized in large numbers into the nationalist movement before independence. Their leader, Sardar Patel, was the most powerful Congressman after Nehru in the early post-independence period and this gave the Patidars a powerful voice within the Gujarat Congress (Kohli 1990).

The Brahmins (approximately 4 per cent of the population) and Banias (almost 3 per cent) form the two major upper caste groups in Gujarat. Along with the Patidars, these groups are the state’s most economically-advanced. Historically a trading and merchant caste, the Banias constituted the earliest wave of indigenous industrial entrepreneurs in the colonial period in Gujarat as well as other parts of India. They continue to form a major section of Gujarat’s
entrepreneurial base. Brahmins in Gujarat are mainly found in white-collar professions but a section (the Anavils) owned land and subsequently entered industry. Unlike the case in some other parts of India, Brahminical hegemony was weaker in Gujarat and social and political prestige was not tied directly to ritual values and religious knowledge (Frankel 1989c). This offered space for groups such as the Patidars to garner political leverage. In the first few years after independence, the Brahmins and Banias were overrepresented within the Congress party in Gujarat. However, the larger and economically-powerful Patidars, who had been vital within the nationalist movement, soon gained a firm foothold in the Congress’ power structure. In turn, this trifecta of economically-advanced castes – the Patidars, Brahmins and Banias – has largely controlled Gujarati politics for most of its fifty-two year history since the state’s formation in 1960.

The main lines of political conflict in Gujarat have been between the Patidars, Brahmins and Banias, on one hand, and another large group, the Kshatriyas, on the other. The Kshatriyas, who constitute a little more than 29 per cent of Gujarat’s population have represented the main challenge to the Patidar political dominance (Kohli 1990; Kothari and Maru 1970). The Kshatriyas exhibit considerable economic diversity and include some wealthy sub-castes such as the Rajputs as well as several poorer sections such as the Bariyas within their ranks. Since the 1970s, the Kshatriyas have formed the bulwark of the Congress’ social base in Gujarat.

The most economically and socially-marginalized groups in Gujarat include Dalits (Scheduled Castes) and Adivasis (Scheduled Tribes), who form 7.1 per cent and 14.8 per cent of the population respectively, and Muslims who are approximately 9.1 per cent of the population.55

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55Data from Census of India 2001 (censusindia.gov.in).
3.1.2.1 The social origins of entrepreneurship in Gujarat

Two aspects of Gujarat’s caste structure are central to the explanation for the emergence of narrow-right coalitions in the state. First, as the sub-section above highlighted, Gujarat’s social structure includes relatively large caste groups. Second, the history of entrepreneurship in Gujarat has been closely tied to the social structure. Certain social groups account for the bulk of the business base in the state. This has been aided by the control of economic resources that these groups enjoyed due to their historical position in the caste structure.

In particular, there have been two main routes to industrial entrepreneurship in Gujarat. The first and older strand of industrial entrepreneurship was dominated by merchant and trading groups such as the Banias and Parsis, who used their access to capital and social networks to enter industry. In medieval times, Gujarat was the site of long distance trade with Africa, Europe and other parts of Asia. This legacy meant that Gujarat was the most commercialized region prior to the arrival of the British. Not surprisingly, groups such as the Banias, who occupied the position of merchants and traders within the social system’s division of labor, were at the heart of this commercial system (Streefkerk 1997).

With the arrival of the British and the Dutch East India Companies, the Banias, along with other indigenous mercantile groups such as the Parsis lost out on overseas trade. Realizing that they could not compete with the colonial powers, the Banias increasingly looked domestically for business opportunities (Streefkerk 1997). In the 17th century, they provided mercantile, financial and other services for expanding British interests. When modern industry appeared in India around 1850, these merchant and trading groups were best placed to enter industry and became the first indigenous industrial entrepreneurs in the country. Of the twenty six textile mills
that existed in Gujarat in 1898, Banias controlled twenty-two, Brahmans two and Parsis and Patidars one each (Shah 1989: 69). The centrality of the Banias to Gujarat’s economic life continued through the independence period and even today, they remain one of the key entrepreneurial groups in Gujarat.

While mercantile and trading groups were part of the first wave of industrial entrepreneurs in Gujarat, a second, and later, strand was dominated by the Patidars. While access to capital and social networks aided the entry of the merchant and trading groups to industry, it was the access to land that facilitated the entry of the Patidars. The Patidars became economically powerful through the control of land, which increased between the 17th and 19th centuries, first under Gujarat’s Mughal and Maratha rulers and later under the British (Pocock 1972; Shah 1989). With the development of transportation facilities under the British in the early 19th century, the economic position of the Patidars was strengthened even further. The caste turned to commercial agriculture and began to cultivate cash crops such as cotton, tobacco and indigo (Rutten 1986; Shah 1989). Subsequently, since the early 20th century, the Patidars began shifting investible surpluses from agriculture to industry. The transfer of surpluses to industry occurred in greater scale after 1960 was catalyzed by the state’s efforts to spur industrialization. Sinha (2005) suggests that Patidar farmers and landholders in Gujarat formed the “vanguard” of an industrial revolution when the state government came forward with credit and infrastructural facilities.

Two other factors also aided Patidar entry into industry. From the late 1800s, the Patidars would invest significantly in education and dramatic improvements in literacy rates occurred in the period between 1900 and 1930 (Shah 1989). Affected by a famine and plague, which hit Gujarat between 1899 and 1902, landowning Patidars also began to migrate overseas. Migration
has remained a constant feature since. The standard pattern in Patidar families after the 1960s was for one child within each family to go abroad while others remained behind in Gujarat looking after land (Sinha 2005). Overseas migration added to the investible surpluses that were generated through commercial agriculture, further easing entry into industry. Patidar dominance of business began with investment in agro-industry, particularly rural agricultural cooperatives. With a foothold in these sectors, the Patidars rapidly diversified into other segments of industry in the 1970s and 1980s (Damodaran 2008).

There remain key long term continuities in terms of the social make-up of industrial entrepreneurship in Gujarat. Shinoda (2000) examines the composition of entrepreneurs in the small-scale industrial sector in Gujarat and finds that Patidars have a dominant presence. His data also shows that Patidar, Brahmin and Bania entrepreneurs tend to be more involved in capital intensive and hi-tech sectors while entrepreneurs from artisanal castes tend to be concentrated in sectors such as wood and metal products to which they were traditionally linked by the caste system. The case of the Banias exhibits even greater long-term continuity. The Banias were part of the earliest wave of entrepreneurship in Gujarat and continue to maintain a significant presence. In his analysis of the history of industrial development in South Gujarat, Streefkerk (2006), finds that Banias have been prominent, constituting a large proportion of entrepreneurs, from the pre-machine age in the 16th century into the last decade of the 20th century.

To sum up, this section tried to provide an introduction to Gujarat’s social structure. It tried to emphasize two aspects of Gujarat’s dominant caste structure – the numerical size of certain caste groups in Gujarat and the link between the social structure and entrepreneurship. Both these factors in turn have engendered a type of political dynamics that has allowed governments
backed by narrow-right coalitions to come to power after 1990. These coalitions have remained a regular feature in Gujarat’s political landscape over the last two decades. This political landscape is introduced in more detail in the next section.

3.1.3 Politics prior to economic liberalization: Congress dominance and decline

While Gujarat’s economic prosperity has a long lineage, its political history is more recent. Prior to independence, Gujarat consisted of numerous independent units that had never been ruled as a distinct entity by a single political authority (Shah 1989). During the colonial period, approximately one-fifth of the state, mostly in mainland Gujarat, fell under direct British rule. The remaining four-fifths was under indirect British rule and controlled by more than three hundred princely states (Wood 1984). After independence, Gujarat fell under the jurisdiction of the state of Bombay. As part of the broader reorganization of Indian states on a linguistic basis, Bombay was divided and the state of Gujarat came into existence in 1960.

Gujarat’s politics has seen considerable change since the state’s formation in 1960 and these shifting dynamics have had a cumulative effect in explaining the emergence of narrow-right coalitions in the post-liberalization period. For the purposes of this case study, the contours of Gujarat’s politics from its formation to the present can be divided broadly into four different periods – politics prior to 1967, politics between 1967 and 1980, the decade of the 1980s and politics in the post-liberalization era.

Through these different eras, two aspects have remained a continuing thread in Gujarat’s political history. First, as Sanghavi (2011) points out, bipolar competition has generally characterized the electoral sphere in the state with the Congress forming one pole and varying parties, most notably the BJP since the 1990s, forming the other pole. Second, Gujarat’s politics
has largely been a story of the continuing dominance of three castes – the Patidars, Brahmins and Banias. Except for the decade of the 1980s, when they were excluded from the highest rungs of power, these three castes have controlled politics in the state. However, the political modes through which they have exerted power have differed over time. Most notably, these groups shifted their allegiances away from the Congress and began to back the BJP in substantial measure since 1990.

3.1.3.1 Politics before 1967: One party hegemony, intra-elite harmony and low mobilization

In the immediate aftermath of the formation of Gujarat in 1960, the Congress towered over the political scene, winning assembly elections in 1962, 1967 and 1972. The state’s economically-advanced castes, namely the Patidars, Brahmins and Banias tightly controlled Gujarati politics in this period and the Congress’ internal dynamics reflected their supremacy. Unlike these three groups, the sizeable Kshatriyas remained outside the Congress’ power structure in Gujarat until the late 1960s.

Low levels of mobilization of marginalized groups and intra-elite harmony meant that the state’s politics in these early years appeared “gentle and peaceful in tradition and commercial in style and technique” (Sheth 1976b: 68). In a similar vein, Kohli suggests that “the gentlemen elite of Gujarat ruled relatively peacefully because they tended to agree with each other on significant issues and because they enjoyed unquestioned dominance in the social structure” (1990: 245). Though politically uneventful when compared with subsequent decades, Gujarat put in place the institutional framework for subsequent industrialization at this time. The framework was backed by a pro-development coalition consisting of upper castes, agriculturalists-turned capitalists (the Patidars) as well as some disenfranchised social groups, all of whom acquired
stakes in the industrialization of the state (Sinha 2005). Lack of competition to the Congress meant that potential opposition to this growth-framework never found a political voice.

3.1.3.2 Politics between 1967 and 1980: conflict, instability and a realignment of social bases

The general placidity of Gujarat’s politics would be jolted by events at the end of the 1960s. As in several other parts of India, the 1967 Lok Sabha elections was a key marker in the politics of Gujarat. It was the first time after independence that the Congress lost power in several states and was seriously challenged in others, marking the decline of one-party dominance in India. Though it held on to power in Gujarat, the Congress faced a notable challenge from several opposition parties, chiefly the Swatantra.

While the 1967 elections signaled the end of Congress hegemony, the character of Gujarat’s politics would be indelibly altered two years later when the party split at the national-level. After Prime Minister Lal Bahadur Shastri’s death in 1966, a coterie of regional leaders within the Congress – “the Syndicate” – engineered the succession that elevated Indira Gandhi to the position of prime minister. Expecting Indira Gandhi to be a pliable figurehead, the Syndicate hoped to control the levers of power.

However, they were in for a rude shock. With no intention of remaining under the clutches of the Syndicate, Indira Gandhi started to carve out her own power base. The internal battles within the Congress came to a head in 1969 and the party split into two – the Congress (R) led by Indira Gandhi and the Congress (O) headed by members of the Syndicate. One of the most prominent leaders of the Syndicate, Morarji Desai, enjoyed considerable appeal in Gujarat and his influence meant that the majority of party members in the state supported the Congress (O), rather than Indira Gandhi’s wing, at the time of the split in 1969. The Congress (O)’s time at the helm of
Gujarat’s politics would, however, be short-lived and Indira Gandhi’s wing of the party wrested control in Gujarat in the early 1970s.

Crucially, the split in the Congress in 1969 led to a major realignment in the social base of the party in Gujarat and paved the way for considerable political instability and violence over the next two decades. At the heart of the turmoil was conflict between the Patidar-Brahmin-Bania alliance and the Kshatriyas. While the state’s two numerically large castes – the Patidars and Kshatriyas – long opposed each other, particularly in rural areas, their rivalry took on greater proportions in the political arena after the late 1960s (e.g., Kohli 1990; Shah 2007). Since the early 20th century, various sub-groups within the Kshatriyas began to organize themselves through a federation – the Kshatriya Sabha – to counter Patidar political dominance (Kothari and Maru 1970). In the first two decades after independence, the Congress leadership in Gujarat was heavily dominated by the Patidars, Brahmins and Banias and this led to considerable alienation on the part of the Kshatriyas.

The split in the Congress in 1969 led the way for a decisive change. By 1971, the battle lines in Gujarat were clearly drawn between Indira Gandhi’s Congress (R) and a right-leaning coalition of the Congress (O), Swatantra and Jan Sangh. This was accompanied by a clear division in the social bases of the two opposing camps; Kshatriyas and other excluded groups moved towards Indira Gandhi’s party while the established Patidar-Brahmin-Bania elite backed the Congress (O)-Swatantra-Jan Sangh coalition. Throughout the country, Indira Gandhi’s broader strategy was to mobilize weaker socio-economic sections. In Gujarat, the sizeable Kshatriyas were ripe for mobilization as an independent political force and this was substantially exploited by Indira Gandhi. Her party, which eventually came to be recognized as the official wing of the Congress, targeted the Kshatriyas as well as Dalits and Adivasis through a strong
rhetoric of populism and a variety of redistributive promises. The strategy paid off handsomely in the 1972 Gujarat assembly elections, which her Congress won with a huge majority – 140 seats in a house of 168. Kshatriya representation in the legislature as well as the leadership of the Congress increased significantly. Sheth (1976b) shows that the proportion of Kshatriyas in the Gujarat legislative assembly increased from 9.8 per cent in 1960 to 25 per cent in 1972.

The ascendancy of the Kshatriyas and other marginalized groups elicited a sharp response from the Brahmin-Bania-Patidar alliance. This response took the form of the mass Navnirman (“social regeneration”) movement, which resulted in more than two months of civil disorder and violence in Gujarat in 1974. The reaction of the upper castes occurred within a broader backdrop of general social and political churning throughout India in the early 1970s. An inflationary climate prevailed in the country at the time and, in Gujarat, internal party conflicts heightened popular unrest. Despite its sizeable majority, the Congress (R)’s government was wracked by infighting, with rival groups supposedly offering large sums of money to buy the support of legislators. This heightened urban middle class anger against what they perceived as corrupt politics in the midst of a difficult economic environment (Shah 1974).

In this uncertain climate, what started as an urban student-led protest against rising food costs morphed into a major upheaval with the stated aim of overturning Gujarat’s corrupt politics. Strongly supported by the upper caste base of the Congress (O) and Jan Sangh, who had been excluded from power, the Navnirman protests resulted in a 73 day cycle of violent street protests and government repression, leaving 103 dead and resulting in over 8200 arrests (Wood 1975).

The Navnirman protesters succeeded in bringing down the government of Indira Gandhi’s wing of the Congress but the next five years witnessed continuing political instability. In the
1975 assembly elections, a coalition of the Congress (O), Jan Sangh and others, defeated Indira Gandhi’s Congress. The electoral defeat in Gujarat acted, in part, as a trigger for Indira Gandhi’s proclamation of a national emergency in 1975. The proclamation suspended elections, the judicial enforcement of fundamental rights and, essentially, allowed Indira Gandhi to rule by decree for two years.

The Emergency ended in 1977 but Gujarat’s political turmoil continued unabated. Between 1975 and 1980, the state saw four different governments – two formed by Indira Gandhi’s Congress and two by the Janata coalition. The two sets of governments (Congress and Janata) had distinctly different social bases and this social polarization would remain a feature in Gujarat’s politics since. The Janata depended on the established elite – the Patidar-Brahmin-Bania coalition. The Congress, on the other hand, aligned with the more marginalized groups in the state – the Kshatriyas, Harijans (Scheduled Castes), Adivasis (Scheduled Tribes) and Muslims.

3.1.3.3 The 1980s: Social conflict, political turmoil and the emergence of the BJP

The Congress’ attempts to consolidate its base among the Kshatriyas, Dalits, Adivasis and Muslims would take the form of an electoral strategy known as KHAM, an acronym for these four groups. The Congress successfully employed the KHAM strategy to come back to power in 1980. Over the next decade, it reestablished electoral dominance in Gujarat, albeit through a markedly different social base than the one it relied on in the 1960s. Paradoxically, electoral dominance would not be accompanied by political stability and conflict between the state’s main social groups set the stage for another tumultuous decade (Kohli 1990). Members of the KHAM alliance were rewarded with considerable representation in the Madhavsinh Solanki-
led government in 1980; Solanki himself was the first Chief Minister of the state who did not belong to the Patidar, Bania or Brahmin castes. Almost seventy percent of Solanki’s cabinet was filled with legislators with a KHAM background, a clear signal to the upper castes of the changing power dynamics (Wood 1987). Though displaced from the state apparatus, the Patidars continued to control a significant portion of trade, commerce, agriculture and other sources of economic power (Kohli 1990).

A few months into the Solanki government’s tenure, Gujarat once again witnessed riots in 1981. The riots were triggered when a group of upper caste and Patidar medical students protested the government’s reservation (affirmative action) policies, which reserved seats in colleges for the Scheduled Castes, Scheduled Tribes and Other Backward Classes. The protests developed into a full-blown caste conflict with Scheduled Castes being the main target of the anti-reservation protesters (Wood 1987). Despite this, the Solanki government managed to survive the unrest and finished its full term in 1985, the first government in Gujarat in almost two decades to do so.

Drawing on its successful KHAM strategy as well as the broader sympathy wave following Indira Gandhi’s assassination in 1984, Solanki and the Congress returned to power in 1985 with a handsome majority. But the victory came under controversial circumstances. Two months before the state elections in March 1985, Solanki, in a move aimed at consolidating his core support base, announced that the reserved quota for backward class candidates in colleges and government employment would be raised from 10 to 28 per cent (Kohli 1990; Wood 1987). This was in addition to the 21 per cent already reserved for Dalits and Adivasis.

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56 Sections of the Kshatriyas constitute a major portion of the backward classes in Gujarat
Demonstrations became particularly violent after the Congress’ electoral victory in March 1985. Violence intensified and over a six month period, 275 people would be killed, thousands injured and considerable damage to property occurred (Wood 1987). Solanki was replaced by another Congress leader, Amarsinh Chaudhary. Chaudhary gave into the demands of the protesting elite castes, by dropping several KHAM members from his cabinet and then putting reservations on hold, measures which effectively ended the protests.

The 1981 and 1985 riots were largely led by the urban middle class. Shah (1987) suggests that these riots were a struggle within the middle classes – between the established Patidar, Brahmin and Bania castes, on one hand, against entrants from lower castes. Importantly, both sets of anti-reservation riots allowed the dominant Patidar-Brahmin-Bania alliance to regain their political hold on the state and this dominance continues till today (Patel 1999; Shah 1987, 1991, 1996, 2007; Sud 2007). However, this would occur in the 1990s through a new political vehicle – the Hindu-nationalist BJP. What began as anti-reservation protests against the Solanki government in 1985 was taken over by the BJP and its affiliates and was soon transformed into riots against the state’s Muslims and lower castes (e.g., Patel 1985). For Shah (1996, 2007), the anti-reservation riots of 1985 was the crucial point at which the BJP established its hold in Gujarat and reaped the rewards of a strategy that attempted to cut the electoral pie across religious lines.

As the next section will suggest, the BJP grew in strength after gaining ground through the anti-reservation riots in 1985. Before proceeding to detail the party’s consolidation of power in the 1990s, a broader point on the BJP’s rise needs to be noted here. The party’s upward trajectory in Gujarat cannot be conceived of as a sudden occurrence precipitated by the 1985 riots. In fact, the BJP’s ascendancy is directly related to the spread of the Hindu nationalist
movement in Gujarat since the 1960s. Since the 1960s, various components of the Sangh Parivar attempted to spread the ideology of Hindutva (Hindu nationalism) in a bid to cut across caste divisions by appealing to a notion of Hindu unity. In the late 1950s and early 1960s, the Jan Sangh, which would reemerge as the BJP in 1980, laid the foundation in Gujarat through its anti-Muslim propaganda in cultural events and public meetings. By the mid-1960s, the Jan Sangh adopted more militant tactics and was actively involved in Hindu-Muslim riots in 1969 by “provoking people, taking the initiative in leading mobs or simply by providing money or materials to the rioters” (Shah 2002: 155).

The major turning point for the Hindu nationalists in Gujarat came in the form of the 1974 Navnirman movement. The Jan Sangh capitalized on the alienation of the Patidar-Bania-Brahmin alliance from the Congress and expanded its support among these groups through active participation in the Navnirman movement (Shah 1998). The BJP came into existence in 1980 as the new avatar of the Jan Sangh and consolidated its base among the three elite castes. By the early 1980s the support bases of the two main parties were clearly polarized; the Congress enjoyed support primarily from lower caste sections while the Patidar-Brahmin-Bania castes supported opposition parties including the BJP (Kohli 1990).

At the same time that these state-level changes were taking place, national-level shifts complemented the BJP’s growing power in Gujarat. By the late 1980s, the BJP intensified its mobilization campaign throughout India and relied strongly on the militant side of repertoire. It upped the ante after the 1989 parliamentary elections, focusing on the Ayodhya issue; a campaign which would change the course of the BJP’s political fortunes in India. The

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57 The Sangh Parivar is the umbrella Hindu nationalist organization, which includes among its affiliates the BJP, RSS and VHP among others.
polarization created by the Ayodhya issue as well as the implementation of the Mandal Commission recommendations at the national level by the V.P. Singh government in 1990 allowed the BJP to tighten its grip on the support of upper castes in much of north and west India. Gujarat proved to be one of the BJP’s strongholds and the party would enjoy considerable success in the state in the 1990s.

3.1.4 The post-1991 period: from political instability to majoritarian politics and a pro-business model

With the foothold it gained in Gujarat from the anti-reservation riots in 1985 as well as the fallout of the Ayodhya and Mandal issues, the BJP began to dominate electoral politics in Gujarat. In the first decade after 1991, electoral dominance was, however, accompanied by considerable leadership instability. Since 2001, Gujarat has been led by the controversial Narendra Modi and has put in place a model that has combined pro-business policies with majoritarian politics.

The rest of this section details politics in Gujarat in the 1990s and three general points are emphasized in the account that follows. First, despite the instability in BJP’s leadership in Gujarat in the 1990s, the party remained successful at the polls. Second, even in the midst of its leadership problems prior to 2001, the BJP has been continuously backed by a narrow-right coalition that includes three core groups – Patidars, Banias and Brahmins – over the last two decades. The polarization of social bases of political parties that began in the 1970s continued. Third, Gujarat’s politics since the 1990s has been reminiscent of some broader trends generally associated with classic developmental states in that pro-business attitudes have been accompanied by exclusionary politics. While classic developmental states in East Asia typically
excluded groups such as labor, politics in Gujarat has played out along identity lines in the form of Hindu majoritarianism with the exclusion of certain social groups, most notably of Muslims.

The BJP first came to power in Gujarat as part of a coalition government from 1990 to 1994 with the socialist Janata Dal (JD) and Chimanbhai Patel as chief minister. The JD-BJP victory unseated the Congress from the helm of Gujarat’s politics for the first time in a decade. However, the 1990s would be marked by considerable leadership instability in Gujarat. Patel’s tenure as chief minister of the JD-BJP coalition government exemplified the chaotic situation that prevailed at the time. In his four year term as chief minister between 1990 and 1994, Patel would represent three different parties – the JD, the JD(G) and the Congress. Patel, who had been with the Congress and had been the chief minister of Gujarat at the time of the Navnirman riots in 1974, defected from the Congress to the JD in the late 1980s. He subsequently broke away from the JD to form the JD (G). Subsequently, he re-entered the Congress when the JD (G) merged with it and remained in the Congress until his death in 1994.

Patel’s defection from the JD made it non-competitive by the time the 1995 elections came around. With Patel out of the party, the JD collapsed in Gujarat and the 1995 elections was a straight fight between the BJP and the Congress. Combining Hindu nationalist appeals with a promise of ridding Gujarat of fear, hunger and corruption, the BJP won 42.5 per cent of the vote share and 121 of 182 seats (Shah 1996). For the first time in the state’s history, the BJP formed the government in Gujarat by itself. Since then, the BJP has almost continuously headed governments in the state by itself.58

58 The sole exception was a brief period between 1996 and 1998 when a group of defectors led by Shankarsinh Vaghela broke away from the BJP to form a new party, the RJP, which briefly headed the government with the outside support of the Congress. Vaghela lasted a year in power before being replaced by Dilip Parikh, who had a similarly short term in office.
Despite its comfortable majority, the BJP had considerable difficulty managing power and was beset by intense factional rivalry and leadership struggles. The main lines of conflict were between a group led by Shankarsinh Vaghela, an OBC leader credited with expanding the BJP’s support base to include marginalized social groups, and a rival group headed by the Keshubhai Patel and Narendra Modi, the BJP state-wing’s general secretary at the time. The two factions warred openly for the leadership of the party. Keshubhai Patel became chief minister after the 1995 elections but lasted less than a year in office. He was replaced by Suresh Mehta, who similarly enjoyed a short tenure in office. Ironically, the Congress could not take advantage of this internal dissension.

The BJP, however, suffered the consequences of the alienation of the Vaghela group. In the 1996 parliamentary elections, it saw reduced support from OBC, Dalit and Adivasi voters; groups whose support Vaghela was credited in bringing to the BJP. Crucially, Vaghela, along with 44 legislators loyal to him, split from the BJP to form the Rashtriya Janata Party (RJP) in 1996. The split brought down the BJP government and the RJP would come to form the government with Vaghela as chief minister and outside support from the Congress in 1996. A year later in 1997, Vaghela’s capricious leadership and attempts to cut into the Congress’ core support base resulted in the latter withdrawing support and installing another chief minister of its own choice, Dilip Parikh. Parikh would be Gujarat’s fourth chief minister in three years but his government too did not last long and the state faced another round of assembly elections in 1998.

A three-way fight between the BJP, RJP and Congress ensued for the 1998 elections. With the Congress and RJP cutting into each other’s core support bases, the BJP recorded a comfortable victory. Even a second electoral victory in the state in three years did not stem the intense internal rivalry within the BJP, creating increasing disenchantment with the party in the
general population (Shah 2002). This prompted the party’s national executive in 2001 to replace Keshubhai Patel as chief minister with Narendra Modi, setting the stage for the tenure of a controversial figure.

Before discussing Modi’s tenure in more detail, one point needs to be highlighted. Despite the frequent changes in leadership in the 1990s, the BJP’s electoral victories were largely based on the strong support that it continually received from the Patidars, Brahmins and Banias in this period (the social bases of electoral coalitions in analyzed in greater detail in the next section). Consistent with the party’s efforts throughout the country in the 1990s, the BJP attempted to expand it support beyond the upper castes to the OBCs, SCs and STs. However, its attempts had mixed, and in some cases, temporary support. By and large, more marginalized groups continued to support the Congress. Voter attachments are analyzed in greater detail later in the chapter. For now, it is sufficient to emphasize that despite numerous leadership changes, there was a strong element of continuity in the BJP’s social bases of support.

In the 2000s, the BJP would not witness the leadership struggles of the previous decade. Since 2001, Narendra Modi has been the chief minister of the state and his tenure has been the longest one till date in Gujarat’s history. Once described as a “classic, clinical case of a fascist” by social psychologist Ashis Nandy, few figures have been as controversial in India’s political scene as Modi.\(^{59}\) Celebrated in business circles for leading an efficient, investor-friendly and relatively clean administration, he is equally vilified outside these circles for his role in the 2002 Godhra pogrom, where over 3000 people, mainly Muslims, were killed. Though he is yet to be personally convicted, Modi has been implicated in a variety of court cases and it is increasingly clear that these riots occurred with state patronage (e.g., Shah 2007).

\(^{59}\) Nandy (2002).
For some authors, the Godhra massacre was symptomatic of a larger model put in place by Modi, which inherently relies on a narrow majoritarian politics built around the exclusion of certain groups, chiefly Muslims (e.g., Mehta 2011). Others similarly suggest that Godhra was the continuation of the Sangh Parivar’s tactics of building militant Hindu nationalism with considerable planning and state patronage (e.g., Shah 2007). They point out that communal polarization has always been one of the tools used by the BJP to make electoral inroads. In Modi’s case, the imperative to use the militant tactics might have been compounded by the fact that he did have an existing personal support base when he came to head the government.

Modi’s political beginnings were with the hardline RSS and, until he became chief minister, he was largely known as an organization man who had controlled the internal levers of power within the BJP (Mehta 2011; Shah 2007). He was central to the BJP’s organization in Gujarat since the late 1980s and gained visibility when arranging the Gujarat leg of L.K. Advani’s controversial rath yatra as part of the Ayodhya campaign in 1990. Though a prime mover within the party, Modi had never contested a state election till he took over as chief minister. When he finally did in 2001, he barely managed to sneak through with a margin of 1,400 votes in the Rajkot by-election.

Whatever the motivation, the Godhra killings created considerable polarization between Hindus and Muslims. In the 2002 elections that followed the riots, Modi and the BJP won with over 50 per cent of the vote; a rarity given levels of fragmentation typically seen in state elections in India over the last two decades. In social terms, as the next section will analyze in greater detail, the economically-advanced Patidar-Bania-Brahmin trifecta has remained at the heart of the BJP’s support base in Gujarat.
Under Modi, Gujarat has consolidated a model that is strongly reminiscent of the classic developmental states of East Asia. As authors have long suggested, Gujarat has exemplified characteristics of developmental states since its formation in 1960 (e.g., Sinha 2005). However, the state’s pro-business inclinations, its pace of growth and the political formula complementing this model shows some differences under Modi when compared with past trends. In a pattern similar to other developmental states and its own past, Gujarat has prioritized growth and investment to the exclusion of other development metrics. In line with its focus, the state has generally outperformed its counterparts on growth-related indicators. Gujarat has been one of the fastest growing states and its net state domestic product has grown at average rate of over 11.1 per cent during the period 2002-03 to 2009-10.60 Its business-friendly state apparatus has been particularly successful in attracting investment.

Performance on other measures of economic development has, however, been much less impressive. Gujarat’s human development record has historically failed to match its growth record and it remains an underperformer in this realm relative to its per capita income. The state has, in the recent past, focused more on aspects such as education and has seen some improvements in indicators such as literacy, agricultural growth, electrification of villages and water supply but it remains a nascent trend. As with developmental states of the past, close state-business relations are a primary component of Gujarat’s model. The state enjoys strong credibility with big business. As chapter 2 outlined in greater detail, the state has formulated policies that are more business-friendly in scope than its counterparts and has implemented many of these policies earlier than its rivals.

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60 RBI (2011).
The developmental states of East Asia were built around a narrow politics that involved close state-business relations at the apex, the exclusion of certain classes and a degree of authoritarianism. Gujarat typifies some of these trends, particularly exclusion and a degree of authoritarianism. As some authors have described, Gujarat’s model reflects a brand of authoritarian developmentalism, implicitly involving a bargain of economic development for the “end of dissent and an intolerance for any questioning of a moral order where individual freedoms, and indeed minority freedoms, would always seem hostage to the pulls and pressures of a certain kind of muscular majoritarianism” (Mehta 2011: 113).

Certain social groups, most notably Muslims, Dalits and Adivasis, have not benefited from Gujarat’s development gains as much as other sections. Bhalla (2012) finds that Muslims have performed considerably worse than other social groups in Gujarat. They also fare worse than Muslims in many other states on certain metrics of equity. Between 1999-00 and 2009-10, he finds that Gujarat ranked 16 out of 17 major states in terms of improvements in female youth education among Muslims. Similarly, decline in poverty appears to be uneven across social groups. On the whole, poverty declined in Gujarat in this period among all socioeconomic groups. However, when the extent of the decline in poverty among the upper caste non-minority is compared to the decline in poverty of marginalized groups such as Muslims and Dalits, Gujarat ranks 11th among 17 major states (Bhalla 2012).

The exclusion of certain social groups has been even more evident in the political sphere. While Gujarat’s developmental bent has long been a feature since its formation in 1960, the political strategy that has complemented its economic model has varied over time. Under Modi, the BJP’s political strategy has revolved around three main components. In keeping with the larger ideological platform of the BJP, Hindu nationalism has formed the core of Modi’s political
strategy. A strident anti-Muslim platform has continued to be a key piece of Modi’s political strategy. The Godhra riots in 2002, where over 3000 people, largely Muslim, were killed is a stark reminder of this platform.

The BJP under Modi has increasingly combined the theme of Hindu nationalism with a second component – Gujarati “asmita” (pride) (Mehta 2011). The emphasis on asmita itself has been a central element of several political mobilization and electoral campaigns. Over the last decade, the BJP and Sangh Parivar in Gujarat has consciously organized numerous events and coined slogans with the aim of building Gujarati subnationalism; a theme that has resonated strongly with the party’s core constituency (Shah 2002). Finally, the BJP has highlighted the state’s development achievements and its role in providing governance and political stability.

The rhetoric of development and good governance has been repeatedly used as a foil to deflect criticisms of the state’s involvement in the post-Godhra riots. Modi has frequently responded to questions of his role in the riots by suggesting that the criticism comes from those who are jealous of Gujarat’s development achievements and seeking to slow its progress (Mehta 2011; Shah 2011). Politically, the rhetoric of development and governance has been combined in substantial measure with identity politics themes over the last two decades in Gujarat.

In sum, two key points surrounding Gujarat’s model over the last two decades stands out. The state has been unambiguously pro-business in its policy framework. This, in turn, has seen it attract high levels of investment and achieve high growth rates. But this model has been accompanied by majoritarian and illiberal politics.
3.1.5 Tracing the mechanism – coalitions, interests and policies

The previous section offered an introduction to Gujarat’s politics over time. In part, it tried to chronicle the evolution of the social bases of various parties in the state over time. In this section, I focus on linking the nature of electoral coalitions to Gujarat’s proactive response to the competition for investment after 1991.

At a proximate level, I argue that Gujarat’s ability to prioritize investment promotion and advance a pro-business agenda can be explained by the nature of electoral coalitions backing governments. Narrow-right coalitions have almost continuously backed Gujarat governments over the last two decades and this has had two consequences. First, the core groups in the coalition are strongly supportive of a pro-business agenda, allowing the state to prioritize the goals of investment promotion, specifically, and growth, more generally. Second, these priorities have been reinforced by the fact that redistributive pressures placed on Gujarat governments have been less intense than those seen elsewhere in India. As a result of both these factors, the state in Gujarat has been able to formulate a coherent and consistent investor-friendly agenda over two decades. Below, I first describe the composition of Gujarat’s electoral coalitions and then trace the two mechanisms through which these coalitions allow the state to adopt a pro-business agenda.

The BJP’s electoral strength in Gujarat over the last two decades has been derived primarily from its mobilization of three groups – the Patidars, Banias and Patidars. These groups form the core support of the BJP – the party relies disproportionately on their support when compared to other social groups. The party’s strategy has been complemented strongly by the fact that these groups have voted resoundingly for the BJP over the last two decades. Since the 1980s, the BJP
began to take advantage of the disaffection of the Patidar-Brahmin-Bania alliance with the Congress. By the 1990s, the polarization in the social bases of the BJP and Congress was markedly evident with the established Patidar, Bania and Brahmins supporting the former and the more marginalized sections in Gujarat rallying behind the latter.

The polarization of the social bases of the two parties is clearly evident through a simple examination of electoral survey data. Table 3.1 is based on calculations from Center for the Study of Developing Societies (CSDS) survey data of the 2002 Gujarat Assembly elections. As table 3.1 suggests, the BJP receives substantial support from the Patidars and upper castes (the grouping includes Brahmins, Banias and other smaller upper caste groups). Over 81 per cent of Patidars and 67 per cent of the upper castes voted for the BJP in 2002. In contrast, the Muslims, Dalits and Adivasis strongly support the Congress.

This data points to two trends that have been a key feature of Gujarat politics over the last two decades. First, there is a high degree of correlation in the vote choice of members of certain social groups for each of the two parties. Despite economic differentiation among them, there is a high degree of correlation in the vote choice of individuals within the same social group. Second, the Congress and the BJP attract support from opposite ends of the social hierarchy. Data from secondary sources (table 3.2 and 3.3) of other elections in the 1990s and 2000s show very similar trends. Both parties are able to count on the support of entire social groups and the core supporters of the BJP and Congress have remained stable over time with the Patidar – upper caste grouping exhibiting a strong preference for the BJP and more marginalized groups equally robust in their affinity for the Congress.
Table 3.1: Vote choice by social group (2002 Gujarat Assembly Elections)
(Percentage vote of respondents for BJP and Congress by caste/community)

<table>
<thead>
<tr>
<th>Social Group</th>
<th>BJP</th>
<th>Congress (INC)</th>
<th>Others</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Muslims</td>
<td>8.96</td>
<td>65.67</td>
<td>25.37</td>
<td>67</td>
</tr>
<tr>
<td>Adivasis</td>
<td>25.45</td>
<td>52.73</td>
<td>21.82</td>
<td>110</td>
</tr>
<tr>
<td>Dalits</td>
<td>22.32</td>
<td>61.61</td>
<td>16.07</td>
<td>112</td>
</tr>
<tr>
<td>OBCs</td>
<td>55.53</td>
<td>37.40</td>
<td>7.06</td>
<td>524</td>
</tr>
<tr>
<td>Patidars</td>
<td>81.82</td>
<td>9.79</td>
<td>8.39</td>
<td>286</td>
</tr>
<tr>
<td>Upper castes</td>
<td>67.02</td>
<td>29.26</td>
<td>3.72</td>
<td>188</td>
</tr>
<tr>
<td>Others</td>
<td>33.33</td>
<td>66.67</td>
<td>0.00</td>
<td>3</td>
</tr>
</tbody>
</table>


Table 3.2: Vote Choice by Social Group in Gujarat (2009 Lok Sabha Elections)
(Percentage vote of respondents for BJP and Congress by caste/community)

<table>
<thead>
<tr>
<th>Social Group</th>
<th>BJP</th>
<th>INC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brahmins</td>
<td>61</td>
<td>25</td>
</tr>
<tr>
<td>Patidars</td>
<td>87</td>
<td>9</td>
</tr>
<tr>
<td>Other upper castes</td>
<td>67</td>
<td>28</td>
</tr>
<tr>
<td>Koli (OBC)</td>
<td>45</td>
<td>41</td>
</tr>
<tr>
<td>Kshatriya (OBC)</td>
<td>43</td>
<td>51</td>
</tr>
<tr>
<td>Other OBC</td>
<td>60</td>
<td>37</td>
</tr>
<tr>
<td>Dalits</td>
<td>20</td>
<td>61</td>
</tr>
<tr>
<td>Bhil (Adivasi)</td>
<td>27</td>
<td>68</td>
</tr>
<tr>
<td>Other Adivasis</td>
<td>45</td>
<td>42</td>
</tr>
<tr>
<td>Muslims</td>
<td>13</td>
<td>69</td>
</tr>
</tbody>
</table>

Source: Jani (2009)
Table 3.3: Vote Choice by Social Group in Gujarat

(Percentage vote of respondents for BJP and Congress by caste/community)

<table>
<thead>
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</thead>
<tbody>
<tr>
<td></td>
<td>BJP</td>
<td>INC</td>
<td>BJP</td>
<td>INC</td>
<td>BJP</td>
</tr>
<tr>
<td>Upper Castes</td>
<td>67</td>
<td>20</td>
<td>76</td>
<td>18</td>
<td>77</td>
</tr>
<tr>
<td>OBCs</td>
<td>38</td>
<td>38</td>
<td>65</td>
<td>30</td>
<td>57</td>
</tr>
<tr>
<td>Scheduled Castes</td>
<td>17</td>
<td>61</td>
<td>61</td>
<td>35</td>
<td>47</td>
</tr>
<tr>
<td>Scheduled Tribes</td>
<td>29</td>
<td>59</td>
<td>34</td>
<td>55</td>
<td>43</td>
</tr>
<tr>
<td>Muslims</td>
<td>7</td>
<td>47</td>
<td>33</td>
<td>65</td>
<td>38</td>
</tr>
</tbody>
</table>

Note: Lok Sabha elections. The rest are state assembly elections. The abbreviation INC is used for the Congress.
Source: Data from Shah (2007), table 6.4, p.173.
The electoral data also demonstrate another key trend. While the Patidars, Banias and Brahmins have firmly been in the BJP’s fold since the 1980s, the party attempted to widen its base to include sections of the OBCs, Dalits and Adivasis, through a combination of Hindu unity appeals, Gujarati subnationalism and welfare programs since the mid-1990s (e.g., Heath 1999; Patel 1999; Shah 2007; Sud 2007). These attempts at expansion, however, have seen mixed and, in some cases, temporary results. Though the BJP did see some success in attracting support from the Dalits, Adivasis and OBCs in the mid-1990s. However, a sizeable portion of Dalits and OBCs moved back to the Congress in recent times.

For several authors, the BJP’s inability to hold onto the support of more marginalized groups is not surprising. Sud suggests: “Despite symbolic gestures like the Ekatmata Yatras, or Hindu unity processions, of 1983 and 1995, and more concrete actions like the use of BJP government’s development resources to woo the lower caste constituency, Gujarati-Hindu unity is proving elusive for the Hindu right. The latter’s own cadres continue to show tremendous bias against the lower and backward castes and the Adivasi tribals” (2007: 144). Shah similarly stresses the caste bias within the BJP and suggests that “the upper and middle-caste members of the BJP still dominate its apparatus and constitutes a hard core that resists the late comers from the Dalit and OBC communities” (1998: 265-266).

I classify the electoral coalitions comprising of the Patidars, Banias and Brahmins, which have backed successive Gujarat governments since the 1990s, as narrow-right. These three core groups are among the most economically-advanced in the state and share a similar class profile. The representation of economically-marginalized groups in this electoral coalition is limited. As such, this electoral coalition has a confined class basis. This coalition also satisfies the second criterion for narrow-right coalitions. As explained earlier, Patidars, Banias and Brahmins
comprise the bulk of the capitalists in Gujarat. Business presence in the BJP’s coalitions has therefore been substantial.

The Banias were a merchant and trading caste in the traditional social structure. When modern industry first appeared under the British in the late 19th century, access to finance and business networks allowed the Banias to constitute the first stream of indigenous industrialists in India. A second wave of entrepreneurship in Gujarat was dominated by the Patidars. Their control of land and transfer of surpluses from commercial agriculture resulted in a shift to industrial entrepreneurship. Importantly, there remain long-term continuities in terms of the social composition of entrepreneurs in Gujarat and the three established castes continue to be overrepresented in industry (e.g., Shinoda 2000; Streefkerk 2006).

Gujarat’s pro-business agenda is firmly in line with the interests of the Patidars, Brahmins and Banias. Essentially, there is a coincidence between the interests of these groups and the state’s goals of attracting investment. This overlap of interests has allowed the prioritization of investment promotion over other tasks. It is only more recently that the state has begun to belatedly focus on other development indicators such as education. Gujarat not only adopted policies that are business-friendly but has typically undertaken these policies at an earlier time period that its counterparts.

The prioritization of investment and growth has been strongly reinforced by the fact that redistributive pressures arising from the BJP’s electoral coalition are relatively muted. The class profile of the core groups backing BJP governments in Gujarat has meant that redistributive pressures have been less intense than those seen elsewhere. This is highlighted for example in the case of the acquisition of land by governments for private industry. Land acquisition has been a
highly volatile issue in several states but Gujarat has seen fewer problems in this area than other states.

As such, these muted pressures for redistribution have meant that successive Gujarat governments have not been forced to adopt contradictory policies that might otherwise have diluted its business-friendly agenda. In particular, Gujarat has been relatively distinct in terms of Indian states in that populism has not dominated the policy agenda. The government has tended not to reward electoral support through large populist schemes such as free electricity. The finances of the state have remained buoyant, letting the state focus on improving its business environment and building infrastructure. These trends stand in sharp contrast to Punjab, discussed later in this chapter.

3.1.6 Explaining the emergence of narrow-right coalitions in Gujarat

If the overlap of interests of narrow-right coalitions and the state has driven Gujarat’s business-friendly agenda, how did such coalitions in the state? What explains the timing of this emergence in Gujarat since the 1990s? I suggest that the answer lies in the prevalence of a non-economic logic of politics. This logic, through its effect on both party strategies and voter attachments, can cause narrow coalitions to emerge even in the presence of largely poor electorates. In the case of Indian states, I focus specifically on identity politics, which has been the key basis of political mobilization in India over time. I argue that the focus on identity politics has had two significant effects – first on party strategies of electoral coalition construction and mobilization and, second, on voter decisions.

In terms of party strategies, I highlight the role of social demography and suggest that variation in underlying social cleavages has affected the type of electoral coalitions that parties
have chosen to construct. Identity politics has also had an effect on voters. In Gujarat, there is a high degree of correlation in the vote choice of individual members within a particular social group. As a result, the BJP can disproportionately rely on a relatively small number of groups. The role of identity in both party and voter decisions has importantly impeded the development of class politics in many Indian states.

The two avenues through which social identity affects the emergence of electoral coalitions – party strategies and voter attachments – are analyzed with particular reference to Gujarat in turn below.

3.1.6.1 Social cleavages and party strategies of coalition construction in Gujarat

The first effect on identity politics is on party strategies. In Gujarat, the emergence of narrow-right coalitions can be traced to the state’s dominant caste patterns. Under dominant caste patterns, certain groups are numerically preponderant and have also enjoyed control over economic resources by virtue of their social position. Critically, the coincidence of resource control and numerical preponderance inherent in dominant caste patterns has allowed for a subsequent overlap of economic and political power.

Dominant caste patterns have influenced party strategies in two ways. First, large social groups are present under dominant caste patterns. Numerically sizeable groups possess considerable electoral leverage and are attractive targets for political parties (e.g., Chandra 2004; Posner 2004). This is particularly true of first-past-the-post (FPTP) systems such as India. When voters, in turn, act on the basis of social attachments and there is considerable correlation in the vote choice of individuals within a large social group, the necessity of having to build broad-based coalitions to win electoral majorities is limited. The weak incentive to build broad-based
coalitions has been amplified by the fact that state politics in India has been highly-fragmented and regionalized over the last two decades. Fragmentation has meant that thresholds for victory are typically well below 50 per cent. Diminishing thresholds for victory reinforce the impetus for parties to target specific vote banks and makes the pay-offs to attracting large caste groups even greater.

In Gujarat, the BJP derives its core support from the Patidars, Banias and Brahmins. In particular, support from the dominant Patidar caste is a crucial factor in the emergence of narrow-right coalitions. Patidars constitute almost 12 per cent of the state’s population, a sizeable share by Indian standards, and also tend to constitute a major portion of Gujarat’s entrepreneurs. The BJP has chosen to depend on the Patidars, along with the Banias and Brahmins, for its core electoral support in Gujarat. Through its primary reliance on these groups, it has managed to dominate the electoral space over the last two decades. As such, the ability to achieve comfortable electoral victories while relying on the support of these three groups limits the necessity to construct broad bases of support. This is not to suggest that the BJP does not receive any support from other groups. While it does receive support from a section of the OBCs as well as Adivasis and Dalits, these groups overwhelmingly support the rival Congress party. Their support for the BJP has also varied over time, unlike the three established castes, which have continuously allied with the BJP in large proportions over the last two decades.

The overlap between numerical strength and economic preponderance inherent in dominant caste patterns also explains a second characteristic associated with narrow-right coalitions – the substantial levels of business representation. In particular when numerically-sizeable groups targeted by parties are also entrepreneurial, this can lead to substantial business presence in
electoral coalitions. It is this exact conjunction of size and entrepreneurial identity that has facilitated narrow-right coalitions in Gujarat.

The Patidars have a history of landownership and this allowed their entry in large numbers into industrial entrepreneurship. Since the early 20th century, and particularly after 1960, the Patidars came to transfer surpluses from commercial agriculture and overseas migration into industry, subsequently dominating the entrepreneurial scene in Gujarat (Shinoda 2000; Sinha 2005; Streefkerk 1997). Like the Patidars, the Banias made use of their access to capital and financial networks and are similarly overrepresented among Gujarat’s entrepreneurial class. Together, the presence of these social groups has ensured sizeable entrepreneurial representation in electoral coalitions backing governments over the last two decades.

While the underlying caste structure has limited the BJP’s need to construct broad bases of electoral support, a longer historical lens is, however, necessary to understand the specific timing behind the emergence of narrow-right coalitions in Gujarat since the 1990s. In particular, the sequence of political mobilization, also examined in the overview of Gujarat’s political history earlier, matters in explaining why narrow-right coalitions came to specifically support the BJP in the 1990s. More extensive details of the twists and turns of Gujarat’s politics are included in section 3.1.3. It is worth reiterating some of those trends briefly here in explaining the timing of the emergence of electoral coalitions.

Historically, the main lines of party competition in Gujarat have been structured around the Patidars and Kshatriyas; the latter are also numerically large and form a major part of the OBC category. Until the 1970s, Gujarat witnessed one-party dominance of the Congress and control of party politics lay in the hands of a set of Patidar, Brahmin and Bania elite. Though numerically
sizeable, the Kshatriyas had been excluded from the top rungs of power of the Congress, leading to considerable disenchantment.

The emergence of Indira Gandhi and the split in the Congress in 1969 would provide the avenue for Kshatriya political expression. As part of her battles with the Syndicate, Indira Gandhi mobilized the poor throughout the country. In Gujarat, this would result in a realignment of the support base of the party. From the mid-1970s, under Indira Gandhi’s direction, the Congress would put in place a strategy of nominating backward castes, tribals and Muslim candidates on the party’s tickets (Sud 2007). From a party that was once dominated by the Patidars, Brahmins and Banias, the Congress in the 1970s shifted its base to the Kshatriyas, Dalits, Adivasis and Muslims (this electoral strategy known by the acronym KHAM would prove fruitful for the Congress in the 1980s). This realignment of the Congress’s base in the 1970s would be crucial in setting the stage for the trajectories of Gujarat’s politics over the next three decades.

The rise of these more marginalized castes within the Congress meant a relatively sudden exclusion of the three established castes from the highest rungs of power both within the Congress as well as the government. The Patidar-Bania-Brahmin alliance reacted violently to their exclusion. This was first expressed through the Navnirman movement in 1974. These groups also importantly switched their allegiance away from the Congress, first helping the Janata coalition win the 1977 assembly elections and subsequently backing the BJP from the 1980s.

Attempts by the Congress to increase reservations in 1985 for the OBCs brought out a second wave of violent agitations in the form of anti-reservations protests headed by the Patidar-
Brahmin-Bania group. It was these protests in 1985 that proved to be decisive for the BJP’s fortunes in Gujarat. Throwing its weight and organization behind the three established castes, the BJP managed to channel their discontent into riots against Muslims and lower castes. The BJP’s Hindu-nationalist appeals played strongly to the Patidar-Bania-Brahmin trifecta and this alliance helped the BJP come to power and has since helped it remain almost continuously at the helm of Gujarat’s affairs (Patel 1999; Shah 1987, 1991, 1996, 2007; Sud 2007).

In the 1990s, the BJP attempted to expand its base to OBCs, Adivasis and SCs. On the whole it has seen mixed results; while the BJP has made some inroads into some sections of the OBCs and Adivasis, the Congress continues to receive a plurality of votes from OBCs, Dalits and Adivasis. These general patterns of polarization – the Patidar, Brahmins and Banias backing one party and the OBCs, Adivasis, Dalits and Muslims supporting the other – had their roots in the realignment that took place in the early 1970s and remain clearly evident even today.

3.1.6.2 The role of identity in voter attachments in Gujarat

In the previous section, I argued that the nature of Gujarat’s caste cleavages has affected the incentives of political parties. The BJP’s disproportionate reliance on these three core groups has been complemented by the nature of voter attachments. In particular, there is considerable similarity in the voting decisions of individuals belonging to the Patidars, Banias and Brahmins. Even though there is an element of economic differentiation within these social groups, individuals typically vote en masse for the BJP. Such social affinity is not exclusive to the BJP; the more socially-marginalized Dalits, Adivasis and Muslims show equally strong support for the Congress. The Congress and BJP rely substantially on groups at the opposite end of the socio-economic spectrum in Gujarat.
Survey data from the 2002 Assembly elections in Gujarat confirms the link between social identity and voter attachments. Social identity is strongly significant in determining vote choice in Gujarat as seen earlier in tables 3.1, 3.2 and 3.3. Table 3.4 includes results of a basic multinomial logit analysis of the determinants of vote choice in the 2002 Gujarat assembly elections. A regression of vote choice as the dependent variable and social group, locality, gender and class (education level is used as proxy for class) was run. Vote choice for the Congress was used as the reference category. Social group is a categorical variable that was constructed based on caste and religion of the individual respondent and consists of 7 categories – Muslims, Adivasis, Dalits, OBCs, Patidars, upper castes and a residual category of others. Broadly, the categorical variable of social group was constructed in such a way that higher values correspond to a higher position on the traditional social hierarchy.

The results in table 3.4 show that controlling for gender, locality and education (treated as proxy for class), social group is strongly significant in predicting vote choice for the BJP when compared with the Congress. In particular, the log odds of voting for the BJP compared with the Congress are much greater for groups that are higher on the traditional social hierarchy. While table 3.4 analyzes survey data from the 2002 assembly elections, tables 3.2 and 3.3, drawn from the secondary literature, shows that the correlation between social identity and vote choice remains high throughout the last two decades.

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61 Data from the Centre for the Study of Developing Societies (CSDS) survey of the 2002 Gujarat Assembly elections.
Table 3.4: Social identity and vote choice in Gujarat (2002 Assembly elections)

Vote choice for Congress is reference category

<table>
<thead>
<tr>
<th></th>
<th>BJP</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Constant</strong></td>
<td>-2.84</td>
<td>-2.22</td>
</tr>
<tr>
<td></td>
<td>(0.38)***</td>
<td>(0.55)***</td>
</tr>
<tr>
<td><strong>Social Group</strong></td>
<td>0.61</td>
<td>-0.10</td>
</tr>
<tr>
<td></td>
<td>(0.06)***</td>
<td>(0.07)</td>
</tr>
<tr>
<td><strong>Gender</strong></td>
<td>-0.05</td>
<td>0.12</td>
</tr>
<tr>
<td></td>
<td>(0.13)</td>
<td>(0.21)</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td>0.17</td>
<td>0.093</td>
</tr>
<tr>
<td></td>
<td>(0.06)**</td>
<td>(0.092)</td>
</tr>
<tr>
<td><strong>Locality</strong></td>
<td>0.38</td>
<td>0.74</td>
</tr>
<tr>
<td></td>
<td>(0.17)**</td>
<td>(0.24)**</td>
</tr>
</tbody>
</table>

|                           | Pseudo R-squared | 0.093 | 0.093 |
|                           | Log likelihood   | -1080.60 | -1080.60 |
|                           | Observations     | 1290 | 1290 |

Multinomial logit estimates with standard errors in parentheses

** p<0.05; *** p<0.01(two-tailed)

Source: Calculated using data from the Centre for the Study of Developing Societies (CSDS) post-poll survey of Gujarat Assembly elections, 2002.
Figure 3.3: Predicted Probability of Voting for the BJP by Social Group and Class

Predicted Probability of Voting for the BJP by Social Group

Source: Calculated using data from the Centre for the Study of Developing Societies (CSDS) post-poll survey of Gujarat Assembly elections, 2002.
A comparison of the impact of social identity and class can be seen in figure 3.1 above.

Figure 3.1 compares the predicted probabilities for rural males with primary education, rural males with a college degree or higher, urban males with primary education and urban males with a college degree or higher. The figure clearly shows that the predicted probability of voting for the BJP increases substantially among upper castes and Patidars compared with Dalits, Adivasis and Muslims even within the same class. Whether the individual has low or high educational attainments, the predicted probability of voting for the BJP compared with the Congress increases from more marginalized social groups to those traditionally higher in the social hierarchy.

In this section, I argued that Gujarat’s proactive response in the competition for investment can be traced to narrow-right coalitions. These coalitions have allowed the state to prioritize a coherent investor-friendly policy framework. Identity politics forms a crucial part of the story. The impact of identity politics on both party strategies and voter attachments helps explain the emergence of narrow-right coalitions in Gujarat.

3.2 Punjab – Wide-right coalitions and competitive populism

Despite possessing sound infrastructure and a relatively well-developed industrial base prior to reforms, Punjab has been slow to react to the post-1991 environment. As chapter 2 suggested, its policies have not been as investor-friendly as Gujarat or AP. I argue that the state’s sluggish response to the competition for investment can be traced to wide-right coalitions that have backed governments in Punjab since the 1990s. The diverse groups in Punjab’s wide-right coalitions have contradictory interests. This has, in turn, necessitated a complex balancing act on the part of successive governments and various governments have chosen to employ a populist
strategy to placate different groups. This has resulted in a vicious cycle of competitive populism that has drained the state’s finances and adversely affected its ability to undertake business-friendly policies. Resources aside, the strong leverage of agricultural interests in these coalitions has also meant that policy-makers, by and large, do not have strong electoral incentives to be industry-friendly.

As in the case of Gujarat, these coalitions have social origins. Like other parts of India, identity has played an important role in Punjab’s politics. However, unlike Gujarat’s dominant caste patterns, the cross-cutting nature of cleavages in Punjab has structured electoral competition very differently. In particular, cross-cutting cleavages have meant that parties have to target a broad range of social groups to come to power. In addition, voter loyalties are also more dispersed. Unlike Gujarat, where specific social groups were strongly tied to particular parties, attachments within social groups tend to be divided across parties in Punjab.

3.2.1 Background: economic structure and performance

For most of India’s post-independence history, the state has been one of the richest in the country. At the start of the economic liberalization process, Punjab’s per capital income was higher than all other Indian states except Goa. By 2009-10, its rank slipped and the state’s per capita income of Rs. 43,539 was seventh among all Indian states. Poverty has tended to be lower in Punjab than most other Indian states and it currently has a poverty ratio of 15.9 per cent, well below the national average. In addition, income inequality has historically been low.

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62 Delhi also had a higher per capita than Punjab but was classified as a union territory. Union territories tend to be extremely small administrative units in population and area when compared with states in India.
63 RBI (2011). Punjab ranks seventh in terms of per capita income among all Indian states in 2009-10. This does not include union territories.
Backed by high levels of public investment in irrigation during the colonial era as well as the early years of independence, agriculture has been the mainstay of Punjab over time. The state was at the forefront of the Green Revolution in the 1960s and 1970s. Though it is relatively small in terms of total population (2.3 per cent of India’s population), Punjab produces a considerable portion of the country’s agricultural output. In 2009-10, it accounted for 12.5 per cent of the total food grain production in India.\(^{64}\) As is the case in most Indian states, there is a mismatch between the sectoral composition of GSDP and employment patterns. While almost 70 per cent of the state is rural, agriculture contributes only a quarter of the state’s GSDP. Both industry and services account for a greater portion of the state’s gross domestic product; the share of industry is nearly 32 per cent while that of services is 44 per cent.\(^{65}\)

Though Punjab does not have as long an entrepreneurial lineage as Gujarat, it nevertheless had a vibrant business sector prior to liberalization. In fact, the origins of industrial entrepreneurship in Punjab can be traced to the pre-independence period – social groups such as Banias and Khatris had a business presence in northwest India. The influx of migrants from Pakistan after partition in 1947 catalyzed industrial entrepreneurship in the state, resulting in the development of a thriving small-scale industrial sector. With manufacturing hubs such as Ludhiana, Amritsar and Jalandhar, the state emerged as a strong industrial performer in the 1960s and 1970s, most notably in sectors such as automobile components, bicycles and woolen textiles.

While the state has enjoyed higher levels of prosperity than most of the country in the post-independence period, the history of Punjab has been “marked by endemic conflict, with repeated

\(^{64}\) Population figures from the Census of India 2011 (provisional tables, Table 1; censusindia.gov.in; accessed May 30, 2011). Food grain production from RBI (2010), Table 23.

\(^{65}\) GSDP data from Central Statistical Organization, Government of India (mospi.nic.in).
outbursts of violence, among the various groups settled in the region” (Nayar 1968: 435). The most traumatic of those episodes of violence occurred at the time of independence in 1947, when Punjab was partitioned between Indian and Pakistan. Two-thirds of undivided Punjab and half its population went to Pakistan (Anand 1976; Kumar and Sharma 2009). More consequentially, the state witnessed tremendous levels of displacement, turmoil and violence as a result of partition. The state managed to recover and was the key site of the Green Revolution in the country in the 1960s and 1970s. Political troubles once again surfaced in the form of a Sikh separatist movement in the late 1970s and 1980s.

The period of militancy came to an end in the early 1990s and the state has remained peaceful since. Ironically, Punjab has regressed in terms of agricultural and industrial growth since the early 1990s. Despite being in the throes of militancy for most of the 1980s, the state’s industrial growth performance was well above the national average. However, the return of peace in Punjab coincided with slow industrial growth and the state recorded rates that were considerably below the national average in the 1990s. While Punjab’s manufacturing growth between 1980 and 1990 was 9.32 per cent, it decelerated to 5.74 per cent between 1991 and 2001.

The state’s economic slowdown over the last two decades is evident in its performance in the competition for investment. Punjab’s inability to compete effectively in the competition for investment has been a central feature of its economic regression in the post-1991 period. With its rich agricultural base, good infrastructure and entrepreneurial culture, Punjab had sound initial conditions to attract investment in 1991. Yet, the state has simply been too slow to adjust to the needs of economic liberalization (e.g., Ahluwalia et al. 2008; Singh 2005).
The sections below will examine the roots of this apathy. I begin by describing Punjab’s cross-cutting social cleavage patterns. These cleavages have resulted in a particular pattern of political competition, which is outlined in 3.2.3 and 3.2.4. These political dynamics have fostered wide-right coalitions in Punjab. The link between these coalitions account and the state’s weak response to the competition for investment is discussed in 3.2.5. The emergence of wide-right coalitions in Punjab is explained in 3.2.6.

3.2.2 Punjab’s social structure: cross-cutting influences and history of entrepreneurship

Since 1966, when the current borders of the state came into existence, Punjab has been India’s only Sikh majority state. Sikhs account for nearly 60 per cent of the state’s population while Hindus are the next largest religious group, constituting almost 37 per cent of the population.\(^6\) The egalitarian challenge posed to Hinduism from other religions in Punjab meant that the social system was historically less rigid than the one seen in the Hindi-heartland or parts of the south (Frankel 1989c).

Unlike other Indian states where one dimension of identity has often dominated, Punjab’s social structure has been subject to multifold influences. Wallace suggests: “piazz, the ever-present onion in Indian cooking, provides an apt metaphor in an examination of class, caste, status, ethnicity and dominance patterns in Punjab. Peel away the layer of economic position within a class and uncover the stratum of izzat, honor or status, which binds particular groups, often irrespective of economic position. Further layers reveal admixtures of social and political characteristics such as tribe-like values, caste and kinship considerations, language, region and

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6 Data from the 2001 Census of India; available at indiastat.com.
Among these multiple influences, religion, caste and class have all interacted to create a social structure that exhibits a considerable degree of complexity. I term this cleavage pattern as “cross-cutting” as these multiple identity dimensions have had a cross-cutting effect and have resulted in a structure that is characterized by social groups of a small size.

Since the reign of the Mughals, religion has historically acted as one of the main lines of conflict in Punjab and this divide has often manifested itself in violent terms (Nayar 1968). Prior to independence, Muslims, Sikhs and Hindus all had a sizeable presence in Punjab but partition and the transfer of Muslim-majority districts to Pakistan left the state with a negligible Muslim population. Since then, the Hindu-Sikh cleavage has constituted a major axis of the social structure in Punjab. Historically, a mapping between the religious and rural-urban dimensions existed in Punjab. Sikhs were largely rural while Hindus were primarily involved in trade and commerce and identified as an urban group (e.g., Kumar 2006; Wallace 1989). Urbanization, however, has blurred these boundaries considerably over time. Between 1947 and 1966, the Hindu-Sikh divide also manifested itself in the form of a linguistic conflict over the creation of a Punjabi-speaking state, which the former opposed and latter supported.

Both Sikhs and Hindus are divided internally by caste and sects. In terms of social practices, the caste structure in Punjab has tended to be less rigid than in many other states. Unlike patterns in many other Indian states, caste has not been the sole axis of political mobilization in Punjab. Nevertheless, it has been a major factor that has operated politically in conjunction with other cleavages, primarily religion (e.g., Kumar 2009a; Nayar 1966; Wallace 1989). Castes and sects have created internal divisions and have been particularly crucial in preventing the Sikhs “from acting in politics as a single entity on a sustained basis and have made for competing groups
within Sikhism” (Nayar 1968: 437). Nayar also suggests that internecine conflict between Sikh sub-groups has occurred from time to time in the state.

Among the Sikh castes, the Jat Sikhs have been a key political player in the state, particularly since the 1960s. The Jats, a predominantly landowning agricultural caste, comprised around 16 per cent and 35 per cent of the state’s pre-partition Hindu and Sikh populations respectively (Wallace 1989). In general, the cross-cutting nature of Punjab’s cleavage structure has meant that few groups enjoy numerical strength but the Jat Sikhs carry relatively more numerical weight than other social groups in Punjab. Historically, Jat Sikhs were a peasant caste who enjoyed the control of land and they were the prime beneficiaries of the Green Revolution. As late as the 1980s, Singh (1984) suggests that Jat Sikhs controlled more than 60 per cent of land in rural areas in Punjab.

A sharp social and political divide exists between Jat Sikhs and lower caste Sikhs, particularly Dalit Sikhs, who are often landless and employed as agricultural labor (e.g., Kumar 2006; Wallace 1986, 1989). Dalits in Punjab comprise a sizeable 28.9 per cent of the state’s population, the highest proportion in all Indian states.67 Dalits are present among both Hindus and Sikhs in Punjab and constitute approximately 20 per cent of the latter (Wallace 1986). In addition to Dalit Sikhs, a variety of artisanal castes exist among the Sikhs, most notably Lohars and Tarkhans. Punjab is also home to several economically-powerful merchant and trading castes such as Khatris, Aroras and Agarwals, who have had a significant entrepreneurial presence in the state and are also present among both Hindus and Sikhs. These entrepreneurial groups, however, enjoy little numerical weight. Like the conflict between Jat and Dalit Sikhs, a

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67 Data from Census of India 2001 (censusindia.gov.in)
division between the high caste urban Khatri and Aroras on one side and the rural land-owning Jats on the other has also existed (Nayar 1968).

These internal divisions have affected political dynamics considerably, acting in particular to segment the Sikhs in the electoral arena. The SAD has historically been a party that has represented the Sikhs but has not been able to gain support from all Sikh sub-groups in the electoral arena, except on a rare occasion at the height of militancy in the mid-1980s. Though Jat Sikhs are closely tied to the Akali Dal (SAD), the party has not been able to rely solely on this group to construct electoral majorities. Prior to the 1960s, the SAD was controlled by merchant and trading Khatri and Aroras. These upper caste groups lost out to the Jat Sikhs, who have dominated the SAD since. This dominance has driven Dalit Sikhs and the artisanal Sikh castes, who have historically opposed the Jats, to support the rival Congress in large measure.

Similar caste divisions exist among Hindus in Punjab. Among the twice-born Hindu castes, Brahmans tended to have a small presence in Punjab (3.7 per cent) while Rajputs are more sizeable (8.3 per cent). Other notable upper caste groups, found both among Hindus and Sikhs, include the Khatri and Aroras. The merchant and trading Banias are also present in the state. Like many other parts of India, certain social groups are tied to particular economic activities. The historical pattern in Punjab has been that Sikhs, especially Jat Sikhs, have controlled land while upper caste Hindu groups such as the Khatri, Aroras, Agarwals and Banias have dominated trade, commerce, money lending and the service sector. These trading and financial groups have also been urban compared to the more rural Sikh groups. In the past, conflict within Punjab’s Hindus, between adherents of the reformist Arya Samaj and the orthodox Sanatan Dharm sects, has existed on occasion (Nayar 1968).
As in Gujarat, entrepreneurship has been closely linked to the social structure. From the 1920s onwards, a number of trading and merchant groups formed the core of Punjab’s entrepreneurial base. Like most parts of the country, merchant and trading groups such as the Banias, with their access to financial resources and networks, became the earliest entrepreneurs in Punjab. In the pre-independence era, other upper caste Hindu groups with access to financial resources, primarily Khatris and Aroras, also had a strong association with business, particularly in cities such as Amritsar, Lahore, Rawalpindi and Multan in undivided Punjab (Pandit 1978). Their entrepreneurial presence, however, was mainly in small-scale industry and there were few large-scale Khatri entrepreneurs prior to independence (Damodaran 2008). In general, entrepreneurial presence was smaller in both scale and spread when compared with western and eastern India.

Partition in 1947 changed the entrepreneurial dynamics in Punjab and the influx of Hindu refugees from Pakistan catalyzed the development of small-scale industrial entrepreneurship in the state. Punjab’s industrial growth in the 1970s and 1980s was rapid. The state produced the lion’s share of the country’s output in sectors such as hosiery, woolen textiles, metal goods, rubber goods and sporting equipment. A considerable portion of this industrial growth was driven by Khatri businessmen as well as from other Hindu groups such as Aroras and Agarwals who had migrated from Pakistan (Damodaran 2008; Pandit 1978). Apart from the Khatris and Aroras, some artisanal Sikh castes such as Tarkhans and Lohars have also moved into industry, particularly bicycle and automobile components.

One aspect of Punjab’s entrepreneurial history stands in contrast to Gujarat as well as Andhra Pradesh and is of vital consequence. Unlike the Patidars and Kammas in AP, who used surpluses from commercial agriculture to enter industry, Punjab’s primary class of capitalist farmers – the
Jat Sikhs – failed to make a similar transition (Damodaran 2008). This failure to transition, despite considerable commercial success in agriculture, is surprising. Damodaran points out that the paradox of the incomplete transition to industry is characteristic of both Jat Sikhs in Punjab and Jat Hindus in neighboring Haryana. He speculates that the likely reason for the failure to transition to industry is a result of the social structure in various parts of India. Unlike south India and parts of western India, entry into industry was more difficult in the north due to the existing influence of traditional merchant communities. The social structure in the south included few Vaishya (merchant and trading) groups. This afforded opportunities for agrarian capitalists and others to move into industry. In contrast, Damodaran suggests: “in the north conditions have been altogether different. The Banias, Marwaris and Khatris [traditional merchant and trading groups] have been ubiquitous in commodity and money markets; this has made the entry point for affluent capitalist farmers not terribly inviting even in areas such as agro-processing” (2008: 275).

Whatever the reasons for the failure of Jats to transition to industry in a large-scale manner, the dynamic is of considerable importance. Notably, the failure of the Jat Sikhs to transition to industry has meant that business groups in Punjab carry little numerical weight in general to be politically significant. As such, this has limited the potential for an overlap between political and economic power in Punjab of the type that has been seen in Gujarat and, to a lesser extent, AP.

To sum up this discussion of Punjab’s social structure, two key points are worth reiterating. First, multiple cleavage dimensions have interacted in a cross-cutting manner to create a complex social structure in which few social groups are numerically significant. In particular, caste has internally divided both Sikhs and Hindus into numerous segments. The Jat Sikhs are relatively sizeable when compared with other social groups but do not possess sufficient numerical
strength to dominate the electoral arena. Second, entrepreneurial groups exist in Punjab but, like other social groups in the state, tend to be small. Even though the state possesses a history of industrial entrepreneurship dating to the pre-independence period, the lack of numerical strength has circumscribed the political impact of business. Punjab’s cleavage structure does not demonstrate the overlap between group size and entrepreneurial identity that Gujarat’s does. As a result, this limits the possibility of a confluence of political and economic power. Instead, the cleavage structure has been more amenable to wide-right coalitions, which have been the norm in Punjab.

3.2.3 An overview of politics in Punjab before 1991

Punjab’s complex social structure has had a major role in shaping the trajectories of the state’s politics over time. These political trajectories can be divided into four major periods – the early post-independence period from 1947 to 1966, the period from 1966 to 1980, the height of Sikh extremism during the 1980s, and finally the post-militancy period after the early 1990s.

While specific issues have varied in these periods, some commonalities in all four eras are emphasized in the overview of Punjab’s political history below. First, Punjab’s party system has remained bipolar over time. Since independence, the Congress and the Shiromani Akali Dal (SAD) have been the two main poles in the state. Other parties such as the BJP (as well as its predecessor, the Jan Sangh), the CPI and CPI (M) have been alliance partners at various times with both the Congress and SAD. As was the case with the communist parties in previous decades, the BJP currently enjoys support from certain sections of Punjabi voters but lacks the capacity to win elections independently. Second, as mentioned earlier, a variety of different cleavage dimensions – religion, class, caste and, to a lesser extent, language and region – have all
mattered in Punjab’s politics since 1947 (e.g., Kumar 2006, 2009b; Wallace 1989). No single cleavage dimension has completely dominated politics for any lengthy period of time.

Third, this interaction of cleavage dimensions has meant that parties have had to target a broad range of social groups to construct electoral majorities. Since independence, the Congress has chosen to adopt the middle ground and has attracted support from a wide range of social groups. In contrast, the cleavage structure and its own history as a Sikh nationalist party, has led to a degree of ambivalence in the type of politics that the SAD has chosen to pursue. On one hand, the SAD has attempted to focus on Sikh-specific demands in line with its own history as the main representative vehicle of Sikh political interests. Its primary base also relies strongly on the Jat Sikhs. On the other hand, electoral imperatives have forced the SAD at various times after 1947 to enter into coalitions with Hindu-nationalist parties, first the Jan Sangh and, more recently, the BJP. The Jat Sikhs are loyal SAD supporters but the Congress attracts sizeable support from other Sikh castes. As a result, the SAD’s ability to win elections on its own is limited and it has had to enter into alliances with the Hindu nationalists to come to power. These coalitions have combined the complementary rural and Sikh base of the SAD with the urban and Hindu base of the BJP.

3.2.3.1 Politics in the aftermath of independence – 1947 to 1966

Prior to independence, the Congress never enjoyed unified social support in Punjab as it did in many other parts of India. Political support was divided along religious lines with the Congress, SAD and Muslim League enjoying the support of Hindus, Sikhs and Muslims respectively. Since independence, the SAD and Congress have been the two major political
parties in Punjab with other parties such as the BJP, the Jan Sangh and the two communist parties, enjoying a small degree of electoral success at different times.

The SAD was formed to represent Sikh interests and came into existence in the 1920 as an outgrowth of a broader Sikh nationalist movement. Since the 1870s, Sikhs began to politically organize themselves through various Singh Sabhas (e.g., Puri 1983; Telford 1992). A major step in the institutionalization of Sikh politics occurred in 1920, first with the formation of the Shiromani Gurudwara Parbandhak Committee (SGPC), an elected committee of Sikhs responsible for the operation of gurudwaras (Sikh temples) and other religious assets. This was followed by the establishment of the SAD itself, which would replace the Singh Sabhas as an organized vehicle of Sikh interests (Wallace 1988). Throughout the history of Sikh political representation, there has been a close link between political organizations and key religious institutions. In the case of the SAD, it has had direct links with the SGPC since its inception.

Committed to protecting Sikh interests, the SAD threw in its lot behind the Congress and India at the time of independence, rejecting Jinnah’s overtures aimed at drawing Sikh support for Pakistan. In the immediate post-independence period, the Hindu-Sikh alliance that formed prior to partition continued to have an effect; the SAD supported the Congress government and its candidates even ran on Congress tickets in the first elections (Wallace 1989).

The Congress-SAD collaboration, however, began to fray by the mid-1950s. Despite this, communal conciliation and accommodation essentially characterized politics in the state until the mid-1960s due to a leader of considerable strength within the Congress – Pratap Singh Kairon, who was Chief Minister of Punjab from 1956 to 1964. As a Jat Sikh with a strong Nehruvian nationalist bent, Kairon was able to bridge Hindu and Sikh concerns. Kairon also reformulated
the Congress’ electoral base to create a coalition that was more fully representative of religious, class, caste, rural-urban and regional dimensions of Punjab’s polity. By including a variety of elector profiles within its fold, the Congress’s strategy in Punjab was to appropriate the political middle ground (Wallace 1989). Given the presence of a Sikh nationalist party (the SAD), a Hindu right-wing party (the Jan Sangh) and the Communists, the middle ground proved effective for the Congress. The Congress has continued to adopt the same strategy since.

By the early 1960s, the SAD’s strategy would see major changes that crucially affected the trajectory of the party as well as Punjab’s politics. As mentioned earlier, the SAD was formed to represent Sikh interests. In the 1950s, with the fraying of the Congress-SAD pre-independence alliance, the SAD began to voice greater demands for Sikh autonomy. These demands would take on a more secular mode from the early 1960s. In 1962, a split occurred in the SAD and this resulted in a major change in the social composition of its leadership. Until the early 1960s, the SAD was dominated by members of the urbanized, upper Khatri and Arora castes led by Master Tara Singh. In 1962, the party split and the leadership of the main wing would come under the control of Sant Fateh Singh and well-to-do rural Jat Sikhs (Telford 1992; Wallace 1988). Jat Sikhs control of the SAD, which began in 1962, continues till today.

Sant Fateh Singh shifted the party’s platform from focusing purely on Sikh-specific issues to a more secular one. This dialectic between a secular strategy and a Sikh-oriented one divided moderates and extremists within the party. It continued to be theme that characterized politics within the SAD until the 1990s. Realizing that the central government was not amendable to demands for autonomy made on the basis of religion, the SAD under Sant Fateh Singh resorted to linguistic appeals and called instead for a separate Punjabi-speaking state (“Punjabi Saba”). The States Reorganization Commission, formed to examine linguistic claims
and oversee the redrawing of state boundaries on a linguistic basis, initially rejected the SAD’s claim for a separate Punjabi Saba. Nevertheless, the SAD’s agitation for a separate Punjabi-speaking state continued and the central government eventually changed its stance in 1965. With mounting pressure for a separate state on the eve of the Indo-Pakistan war in 1965, the Congress high command in New Delhi, keen to avoid diversions, agreed to the creation of a separate Punjabi-speaking state. This resulted in the borders of Punjab being redrawn and three different states emerged in the process in 1966 – a Sikh-majority Punjab, a Hindu Jat-dominated Haryana and Himachal Pradesh.

3.2.3.2 Reconfigured boundaries and a changed political environment – 1966 to 1980

Though it was successful in achieving its demand for a separate state, the post-1966 political situation would pose a major political dilemma for the SAD; one that the party has continued to grapple with ever since (e.g., Telford 1992; Wallace 1986, 1989). As the main voice and party of Sikh nationalism, its demands until then had been primarily confined to Sikh-specific issues. With the changed borders in 1966, the Sikhs became a majority in Punjab. From constituting approximately 33 per cent of Punjab’s pre-1966 population, the Sikh share of the state’s population increased to 60 per cent of the state (Puri 1983). Given its identity as a Sikh party, this changed demography might have appeared to be seemingly advantageous to the SAD. However, it faced a difficult route to political power in the state. In particular, the Congress attracted a sizeable portion of the Sikh vote and Puri suggests that the SAD typically attracted only about half of the Sikh vote at that time. The SAD, thus, entered a political situation after 1966 where a Sikh-specific platform was insufficient to construct electoral majorities.
The SAD temporarily solved this dilemma after the Assembly elections in 1967 and 1969 by entering into an alliance with an unlikely bedfellow, the Jan Sangh, the predecessor of the Hindu-nationalist BJP. Interestingly, the Jan Sangh had strongly opposed the SAD’s demand for the creation of a separate Punjabi-speaking state. Ideological differences aside, the SAD-Jan Sangh alliance was electorally effective in combining the predominantly rural Jat Sikh vote base of the SAD with the urban Hindu base of the Jan Sangh (Kumar 2006). This alliance would also be the precursor for a similar collaboration between the SAD and BJP in the post-1990 period. The SAD-Jan Sangh alliance in the 1960s would however be short-lived; a series of defections in 1969 led the SAD to dispense with coalition politics. However, this would be a temporary phenomenon.

The SAD’s coalition with the Jan Sangh served to create a schism between more moderate members, who were amenable to the party’s secular strategy, and more extreme Sikh nationalist elements (Puri 1983). These divisions would be played out with substantial effect after 1971. Poor performance in the 1971 parliamentary elections and a significant loss at the hands of the Congress in the 1972 state assembly elections led the SAD to attempt to consolidate Sikh support. It reverted to a strategy of emphasizing Sikh-specific issues, as it had done prior to 1966. This reversion to a Sikh-specific orientation was most notably expressed through the party’s Anandpur Sahib resolution of 1973, which defined the Sikhs as a nation and demanded considerable devolution of power from the central government in New Delhi (Kumar 2006; Puri 1983; Telford 1992). Considerable controversy surrounds the interpretation of the Anandpur Sahib resolution. One view portrays it as a call for a separate Sikh homeland while others suggest it was a more benign political manifesto (Puri 1983).
Whatever the case, the period from the mid-1970s would see a rise in Sikh separatism. Rising extremism would be temporarily subsumed by India’s brief tryst with authoritarianism in the form of Indira Gandhi’s declaration of Emergency in 1975. During the Emergency, Indira Gandhi tried to make overtures to the SAD in Punjab but the party was highly critical of her methods and supported the opposition Janata coalition. On the back of popular discontent in light of the Emergency, the Janata unseated the Congress at the national level for the first time in India’s history in 1977. In the Punjab assembly elections that occurred at the same time, the SAD was successful but fell one seat short of an electoral majority of its own. It once again resorted to coalition politics, entering into an alliance with the Janata. This government however lasted only two years.

3.2.3.3 The 1980s – Sikh militancy and Punjab in crisis

The fall of the coalition government in Punjab in 1979 saw the extremist wing gain ground within the SAD. Concurrently, as the SAD moved to a more extremist position, policies of Indira Gandhi’s government ironically aided the foundations of a Sikh secessionist movement. Both these factors would pave the way for particularly violent period in the 1980s when Sikh militancy came to the fore.

Indira Gandhi and the Congress stormed back to power in the 1980 Lok Sabha elections in much of India and this was the case in Punjab as well. In a bid to undercut the SAD’s influence with Sikhs, the Congress propped up an extremist preacher, Jarnail Singh Bhindranwale, in the late 1970s (Wallace 1988). Over the next few years, in the face of central government’s intransigence and ineptness, Bhindranwale would lead a violent secessionist
movement that demanded the creation of a separate Sikh state, Khalistan, independent from India.

As militancy grew, backed by resources and support from the large overseas Sikh diaspora, there was a marked deterioration in the law and order situation after 1980. Bhindranwale’s group carried out assassinations of prominent Hindu and Sikh opponents and targeted security forces and government officials throughout the state. A series of failed negotiations between the national Congress government and the SAD and growing demands for Khalistan led the central government to impose President’s rule in the state in 1983. By 1984, Wallace (1989) suggests that there was a complete breakdown of social and political structures and neither President’s rule supported by a strong presence of paramilitary forces nor Sikh or Hindu institutions could contain the growing violence.

The situation would come to a head in the summer of 1984 when Operation Bluestar was mounted by the Indian army in an attempt to remove Bhindranwale and his group from the Golden Temple in Amritsar, Sikhism’s holiest place of worship where the militants had set up camp. Though successful in killing Bhindranwale and his followers, the heavy-handed approach of the Indian army, replete with the use of tanks and artillery in the most sacred areas of the shrine, served to exacerbate the situation and create sharp polarization between Hindus and Sikhs. Operation Bluestar would also end up claiming Indira Gandhi’s life – she was assassinated in October 1984 by her Sikh bodyguards in retaliation. In turn, her killing would spark major riots in New Delhi and surrounding areas and almost 3000 Sikhs killed in the five-
day period following her assassination (Wallace 1989). The prospects for a political solution looked distant in the aftermath of the events of 1984.

Surprisingly, Rajiv Gandhi, who succeeded his mother as Prime Minister, attempted a different approach to the secessionist crisis in Punjab. With the Congress winning a huge majority in the 1984 parliamentary elections, Rajiv Gandhi adopted a more conciliatory approach to the Punjab problem that stood in sharp contrast to his mother’s. Several steps were taken towards a solution, including a peace accord in 1985 with the moderate leader of the SAD, Sant Longowal. However, extremist elements within the SAD and other Sikh organizations opposed the accord and, in August 1985, Longowal was assassinated by militants. The assassination, however, would lead to the beginning of a decline in public sympathy for Sikh extremism.

Despite the victory of Surjit Singh Barnala and the moderate faction of the SAD in the 1985 elections, violence continued over the next few years. In 1987, the central government chose the military option once again to clear the Golden Temple of Sikh militants. A successful surgical strike under full public scrutiny, however, enhanced the government’s credibility on this occasion (Wallace 1989). At the same time, Sikh militancy turned excessively violent in the late 1980s, which led to rapidly declining popularity for the Khalistan movement (Jodhka 2005; Van Dyke 2009).

Through considerable military force and some carrots over the next few years, the Indian government managed to regain its hold on the state. Punjab saw a return to peace and the Khalistan movement virtually ended by the early 1990s (Kumar 2006; Kumar 2003; Singh 1998). As Jodhka (2005) points out, Sikhs had been well integrated into India before the period of militancy and the call for an independent Sikh state of Khalistan had never been a major part
of the popular imagination of Sikhs in Punjab. He suggests that the appeal that Bhindranwale’s religious revival and the SAD’s autonomy demands had in the 1980s were rapidly lost due to the excessively violent character of the Sikh separatist movement.

3.2.4 The post-1991 scenario – alternation of power and interaction of cleavage dimensions

With a return to peace, a clear bipolar configuration emerged in the early 1990s with the SAD and Congress as the main parties. In addition, the BJP has proven to be a third party with considerable clout among certain social groups. Reminiscent of ties that it had with the Jan Sangh in the late 1960s, the SAD has allied with the BJP since 1997. High levels of anti-incumbency prevailed in Punjab; the Congress won state assembly elections in 1992 and 2002 while the SAD-BJP combine came to power in 1997, 2007 and 2012. Despite coming to power regularly since 1997, the SAD has been plagued by factionalism. It was also only in the mid-1990s that the moderate wing of the party triumphed over the extremist wing (e.g., Kumar 2006; Singh 1998).

With the end of separatism in Punjab, political articulation along religious lines also began to subside. Jodhka (2005) suggests that the return to “normal politics” has meant that state, caste, class and regional interests have come back to the forefront. Moreover, he suggests that each of the two parties had to establish credibility with two different sets of audiences in the 1990s. The SAD had to prove that it was a mainstream political party, which believed in the sanctity of the Indian constitution and democracy. The Congress, on the other hand, had to gain ground with Sikh sections that held it responsible for Operation Bluestar.
This return to “normal” politics has meant that parties have once again been forced to balance a variety of different pressures. This is particularly evident in the approaches of the two main parties to political mobilization and coalition-building. Outflanked on one side by the predominantly Sikh SAD and on the other, by the Hindu-nationalist BJP, the Congress since the mid-1950s has sought to capture the middle ground and build a diverse social base that cuts across religion, caste, class and region. This approach continues until today and the Congress in Punjab is a catch-all party. Its base consists of a range of socio-economic profiles including agricultural, industrial, upper caste and scheduled caste groups. The Congress is also marginally less rural than the SAD. Most Punjab governments have, first and foremost, to cater to the state’s powerful agricultural sector.

The SAD’s strategy has been somewhat distinct from the Congress. To a large extent, the end of militancy meant that the moderate wing of the SAD gained the upper hand and the party no longer had to accommodate extremist demands. However, as in the earlier periods, the SAD’s ability to win electoral majorities on its own is circumscribed by its history and core base. As a largely Sikh party, and even more specifically as one dominated by the agricultural Jat Sikhs, electoral alliances are a necessity for the SAD (Kumar 2006). Moreover, the Congress has managed to attract more votes among certain Sikh sections, such as Dalit Sikhs, than the SAD. The SAD by itself typically receives around 30 to 35 per cent of the vote share in Punjab. Since the mid-1990s, the SAD has worked to enlarge its predominantly Sikh vote base through a formal coalition with the Hindu-nationalist BJP. The alliance won state assembly elections in 1997, 2007 and 2012.

The SAD-BJP alliance has succeeded electorally because of the complementary nature of the core social bases of the SAD and the BJP – the former’s core support is predominantly
agricultural and Sikh while the latter’s mainly urban and Hindu. As in the case of the Congress, the coalition backing SAD-BJP governments includes a diverse range of socio-economic profiles as well as representation of business interests. Since the late 1990s, the BSP, whose main base has been among scheduled castes in Uttar Pradesh, has attempted to mobilize the state’s large Dalit population. However, the BSP been largely unsuccessful.

3.2.5 Tracing the mechanism – wide-right coalitions and competitive populism

Given the interaction between various cleavage dimensions, support from a broad range of voters has been vital to electoral success in Punjab. Both Congress and SAD-BJP have relied on support from voters with a diverse range of social profiles – rural and urban, Hindu and Sikh, upper and lower caste. The wide-ranging support of both parties can be seen in table 3.5. Unlike the Congress, the SAD does rely heavily on one group – the Jat Sikhs. But Jat Sikh support alone is insufficient to ensure electoral majorities. The Congress does receive a sizeable share of support from other Sikh castes. As a party formed to represent Sikh interests, the SAD faces a problem in appealing to voters across the religious divide. It has solved this problem by allying with the Hindu nationalists. The SAD relies on combining its predominantly rural and Sikh vote base with the BJP’s urban Hindu base to come to power. The Congress, unlike the SAD, is capable of constructing electoral majorities on its own due to its ability to appeal to a wide range of voters.

I classify the electoral coalitions of both the Congress and SAD-BJP as wide-right for two reasons. First, both sets of electoral coalitions include a range of voter profiles that span the entire socio-economic spectrum. Both coalitions include rich and poor, rural and urban, agricultural and business, and Hindu and Sikh voters. As such, this base of voters is not confined
in class terms as in the case of Gujarat. Second, both sets of coalitions include business interests and incorporate key social groups such as Khatris and Aroras who have a strong entrepreneurial presence. Business groups are not numerically sizeable as in Gujarat and are significantly weaker than agricultural interests.

These wide-right coalitions, in turn, have crucially affected Punjab’s responses in the competition for investment. In particular, the incorporation of groups with a diversity of socio-economic profiles has pulled various Punjab governments in different directions. Both sets of governments receive support from rural, urban, agricultural, business, Hindu and Sikh voters. Importantly, the interests of these voters are often conflicting. This has meant that both Congress and SAD-BJP governments have had to walk a fine line in balancing these varied interests. Both sets of governments have responded to conflicting demands by pursuing a strategy of populism (for e.g., Kumar 2006; Kumar 2003; Singh 1998). Punjab has a long tradition, dating back to the Green Revolution in the 1960s, of placating groups through subsidies of various kinds such as fertilizer concessions and free electricity. Such populism has taken a more intense form since the 1990s.

In many ways, competitive populism has been the dominant pattern of politics in Punjab since the mid-1990s. The question of who receives free electricity is one such issue that has been contested vigorously and provides insight into the type of politics prevailing in the state. “The politics of populism introduced new competition among various sections of the population. It was alleged that Mr. Badal’s [the chief minister of the SAD-BJP government] populism is pro-Jat peasantry and it discriminates against other sections of society. For instance, the Bahujan Samaj Morcha, an ally of the Akali Dal (Badal), asserted that the Punjab Chief Minister’s decision to give free electricity to farmers created a wide gap between the farming community, those living
in urban areas and Dalits…In response to these assertions, the state government decided to give free domestic power up to 30 units each per month to those Scheduled Caste consumers who had a sanctioned load of not more than 300 watts. The effort of the state government to appease the Scheduled Castes and Backward Castes did not succeed. The Badal government was accused of betraying the weaker sections by fixing the 300 watt limit, whereas no limit was fixed in case of farmers” (Kumar 2003: 386).

Such complex balancing through populism has detracted from investment promotion in several ways. Populist schemes have meant that there is little money left for industrial infrastructure. Punjab has the highest per capita consumption of electricity in the country and free electricity to certain groups has automatically strained the state’s weak generation capacity. Since agriculture represents a particularly powerful vote base, the solution of various governments to the electricity problem has been to enforce several mandatory cuts every week for industry.

One retired senior IAS officer explained the situation: “The most short-sighted decision of the government has been to give free power and water. Since political leaders were from the rural sector, they advocated a better deal for farmers. This should not be through free power [electricity] and water but politicians did that and made the farmers dependent on government…this has brought the state down. Instead of demanding that free power be discontinued rurally, BJP is now arguing for free urban power. The government kitty is going to be empty. The state is heavily indebted. Punjab is economically progressive but financially backward…Irrespective of whether it is the Congress or the Akali Dal, government has failed
citizens. Despite being displaced every five years, public finances have been badly handled."69 As with electricity, land is another major constraint in attracting new investment to the state. Unlike, other states, the Punjab government has chosen not to get involved in land acquisition for industrial purposes because of the fear of loss of agricultural support.

Populism and the financial strain it places have meant that the state is also unable to deliver on concessions promised in industrial policy statements. As a result, it enjoys low credibility among business. This was made amply clear in interviews with investors in the state. According to an investor in the state: “The Punjab government’s interest in industrialization is zero. All the government is interested in is working on its vote bank. The vote bank is agriculture... The main interest of the government is in buying these votes.”70 These views were reiterated by many others. One senior executive of a large-scale firm that had moved many of its operations out of the state suggested: “With electoral benefits mainly from agriculture, the incentive [to give free electricity] will be there. There is no revenue at the state level and it is difficult to be industry-friendly with that… Politically, no party can neglect or not favor agriculture in Punjab.”71

Low credibility of the state with capital is compounded by the fact that agricultural income in India is not taxed. In Punjab, this has meant that the industrial and trading section, which are mostly urban, are disproportionately taxed but see very little benefit as most revenue ends up as subsidies to rural groups. Industry in Punjab has considerably different demands from the rural sections. It is opposed to subsidies and measures such as free electricity to farmers, which they see as adversely affecting industrial infrastructure and delivery of public goods because of the

69 Interview, January 18, 2010; Chandigarh.
70 Interview, April 20, 2010; Ludhiana.
71 Interview, April 21, 2010; Ludhiana.
drain it places on the state’s finances. Further, Punjab has been forced to use local taxes such as octroi and entry taxes on inputs, which are paid by industry, to raise revenue. These taxes have been virtually abolished in most other states due to their adverse effect on industrial growth. Unable to tax agriculture in any form because of its political clout, the state has chosen to impose levies on industry instead.

3.2.6 Explaining the emergence of wide-right coalitions in Punjab

As the previous section argued, wide-right coalitions have placed conflicting pressures on Punjab governments and governments have chosen to use populism to manage the varied interests of groups in their electoral coalitions. Why did these wide-right coalitions emerge over the last two decades in Punjab in the first place? In this section, I suggest that Punjab’s cross-cutting cleavage structure has affected party strategies of coalition-building significantly. In addition, voter attachments tend to be more dispersed. In contrast, the link between vote choice and social identity is weaker. Both party strategies and voter attachments are detailed below.

3.2.6.1 Identity politics, cleavage structures and party strategies

Punjab’s cleavage structure has involved the interaction of multiple dimensions. Religion, caste and class have all had cross-cutting effects and have interacted to create a complex social structure characterized by small group size. Among the main cleavages in the state, religion has, at times, been particularly significant. Punjab is India’s only Sikh majority state. However, caste, class, rural–urban divisions and region have divided Sikhs and Hindus internally. Such segmentation has found political expression.

Relative to Punjab’s other groups, Jat Sikhs constitute a sizeable group. The SAD’s leadership has been predominantly from this group and Jat Sikhs also constitute the core of the
party’s vote base. However, the support of Jat Sikhs alone cannot ensure electoral majorities. In addition, the SAD has not been able to mobilize the Sikhs as a single group due to internal caste and other differences. For example, Dalit Sikhs, who are largely landless agricultural laborers, do not identify with the landowning Jat Sikhs. As a result, they vote largely for the Congress rather than the SAD.

In addition to this general cross-cutting effect of social cleavages, certain social groups with ties to entrepreneurship exist in Punjab, particularly merchant and trading castes such as the Banias and Khatris with historical access to financial capital and networks. These groups have been part of electoral coalitions of both Congress and SAD-BJP. However, as with other social groups, these entrepreneurial groups are small in size. Unlike dominant caste states, the lack of numerical strength does not allow entrepreneurial groups to command electoral leverage. This is dissimilar to the case of the Patidars in Gujarat and the Kammas in Andhra Pradesh. As such, there is no overlap between group size and entrepreneurial identity as was the case in Gujarat.

The cross-cutting nature of Punjab’s cleavages has structured the types of strategies available to political parties. In particular, the cleavage structure in Punjab is such that parties cannot depend on a few social groups disproportionately to win electoral majorities. Wallace points out that accommodation of multiple identity and issue dimensions remains essential to political success in Punjab as “no one group is sufficiently large, no issue is so encompassing, no sub-region so significant to provide the necessary support base” (1989: 464). Thus, parties have to depend on a range of social groups and wide coalitions have been an electoral necessity in Punjab.
The two main parties have, however, arrived at wide-right coalitions through different routes. The Congress, since Pratap Singh Kairon’s time in the 1950s, recognized that it was likely to be outflanked by the largely rural and Sikh SAD as well as Hindu-nationalist parties such as the Jan Sangh and the BJP. As a result, the Congress has appealed to a cross-religious, cross-regional, cross-caste and cross-class base. It has essentially been a catch-all party in Punjab.

Inasmuch as parties can rely disproportionately on one social group, the SAD depends on the Jat Sikhs as part of its core base. Knowing, however, that Jat Sikhs are not large enough to ensure an electoral majority and recognizing that its ability to expand its base is limited, the SAD has instead relied on electoral alliances with the BJP since 1997. The complementary nature of the SAD’s and BJP’s core support – the largely rural Sikh base of the former and the urban Hindu base of the latter – has proved electorally effective; resulting in victories for the SAD-BJP coalition in 1997, 2007 and 2012. In addition, the alliance with the BJP was also symbolic and added to the SAD’s legitimacy in the 1990s. In the aftermath of Sikh militancy, the SAD was keen to throw off its “anti-national” tag (Jodhka 2005).

Unlike the Congress, one aspect of the SAD’s political strategy should be noted. Over the last two decades, the SAD has consistently relied on coalition politics and formed alliances with the BJP. However, the timing of this strategy requires additional explanation. Prior to the last two decades, the SAD’s political strategy was not stable and fluctuated between Sikh-specific demands and adopting a more secular approach. As the main vehicle of Sikh political representation, it emphasized demands specific to the Sikhs before the reconfiguration of Punjab’s boundaries in 1966.
The reconfiguration of boundaries in 1966, however, led to a strategic dilemma for the SAD; one which was not resolved until the end of militancy in the 1990s. Given its history, the SAD’s raison d’être was to represent Sikh interests. Sikhs formed 60 per cent of Punjab’s population after 1966 but political support of the community was split between the Congress and SAD. The SAD, thus, could not win elections after 1966 by relying on a platform that exclusively emphasized Sikh interests.

Subsequently, the SAD struggled in establishing a clear strategy. It first experimented with coalition politics in the late 1960s, forming alliances with the BJP’s predecessor, the Jan Sangh. However, ideological divisions within the party and the need to accommodate more extremist elements within the party, who favored a Sikh nationalist plank, made it difficult for the party to consistently adopt the coalition strategy. With the rise of Sikh militancy in the 1980s and the strength of the extremist wing, the coalition strategy was jettisoned. The end of Sikh militancy in the early 1990s would see the SAD return to a strategy of electoral alliances with the BJP. Since 1997, it has consistently allied with the BJP in both national and state elections.

3.2.6.2 The nature of voter attachments in Punjab

The cross-cutting influence of various cleavage dimensions in Punjab has required parties to build electoral coalitions that include a wide range of social groups. In the case of Gujarat, we saw that social identity had a strong influence in determining voter attachments of certain social groups to particular political parties. In particular, certain social groups voted en masse for either the BJP or the Congress in Gujarat. While identity is a factor in electoral politics in Punjab, its influence is not as strong. Voter support within social groups is split more evenly between the
Congress and SAD-BJP. Table 3.5 shows that the Congress and the SAD-BJP alliance received support from a range of social groups in the 2009 Lok Sabha elections.

Closer analysis of survey data from the 2002 Punjab Assembly elections also points to this. While certain social groups show strong inclinations over time towards particular parties, the link between identity and vote choice tends to be weaker in Punjab than in Gujarat. In a similar approach to the Gujarat case, a multinomial logit regression of vote choice as the dependent variable and social group, locality, gender, age and class (education level is used as proxy for class) as explanatory variables was run. Vote choice for the Congress was used as the reference category. In the case of Punjab, the variable social group was constructed using caste and religion of the respondent. It consists of 10 categories – Adivasi, Dalit Sikh, Dalit Hindu, OBC Sikh, OBC Hindu, Jat Sikh, Jat Hindu, Upper caste Sikh, Upper caste Hindu and Others.

The regression results in table 3.6 suggest that social identity is not a significant predictor of vote choice for the SAD-BJP coalition compared to the Congress controlling for age, gender, locality and class (measured by education level). Social group is a significant predictor of vote choice of other parties when compared with the Congress. Punjab, however, is a bipolar state and parties other the Congress, SAD and BJP are more marginal players. The lack of a durable link between voter attachments and social identity reinforces the need for parties to construct wide coalitions.
Table 3.5: Vote Choice by Social Group in Punjab (2009 Lok Sabha Elections)  
(Percentage of respondents by social group)

<table>
<thead>
<tr>
<th>Social Group</th>
<th>Congress</th>
<th>BJP-SAD</th>
<th>BSP</th>
<th>Others</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hindu Upper Caste</td>
<td>58</td>
<td>36</td>
<td>2</td>
<td>3</td>
<td>97</td>
</tr>
<tr>
<td>Hindu OBC</td>
<td>62</td>
<td>32</td>
<td>6</td>
<td>0</td>
<td>34</td>
</tr>
<tr>
<td>Dalits</td>
<td>60</td>
<td>16</td>
<td>21</td>
<td>3</td>
<td>107</td>
</tr>
<tr>
<td>Jat Sikhs</td>
<td>37</td>
<td>54</td>
<td>0</td>
<td>9</td>
<td>296</td>
</tr>
<tr>
<td>Other Sikhs</td>
<td>32</td>
<td>60</td>
<td>0</td>
<td>8</td>
<td>76</td>
</tr>
<tr>
<td>Others</td>
<td>45</td>
<td>44</td>
<td>10</td>
<td>1</td>
<td>237</td>
</tr>
</tbody>
</table>

Source: Kumar and Sekhon (2009)

Table 3.6: Social identity and vote choice in Punjab (2002 Assembly elections)  
Vote choice for Congress is reference category

<table>
<thead>
<tr>
<th></th>
<th>SAD-BJP</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-1.541</td>
<td>-0.634</td>
</tr>
<tr>
<td>(0.42)**</td>
<td>(0.458)</td>
<td></td>
</tr>
<tr>
<td>Social Group</td>
<td>0.036</td>
<td>-0.149</td>
</tr>
<tr>
<td>(0.034)</td>
<td>(0.038)**</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>0.198</td>
<td>0.219</td>
</tr>
<tr>
<td>(0.066)**</td>
<td>(0.072)**</td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>0.018</td>
<td>0.017</td>
</tr>
<tr>
<td>(0.005)**</td>
<td>(0.006)**</td>
<td></td>
</tr>
<tr>
<td>Gender</td>
<td>0.105</td>
<td>0.041</td>
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<tr>
<td>(0.159)</td>
<td>(0.174)</td>
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<tr>
<td>Locality</td>
<td>-0.397</td>
<td>-0.445</td>
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<tr>
<td>(0.112)**</td>
<td>(0.127)**</td>
<td></td>
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<tr>
<td>Pseudo R-squared</td>
<td>0.0282</td>
<td></td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-1031.92</td>
<td></td>
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<tr>
<td>Observations</td>
<td>1012</td>
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</tbody>
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Multinomial logit estimates with standard errors in parentheses  
** p<0.05, *** p<0.01(two-tailed)
3.3 Conclusion

In this chapter, I argued that the different policy outcomes in Gujarat and Punjab can be traced to the nature of their electoral coalitions over the last two decades. Since 1991, Gujarat governments have been consistently backed by narrow-right coalitions. The economically-advanced profile and strong business connections of the core groups in these narrow-right coalitions have allowed various governments in Gujarat to formulate and implement an investor-friendly policy agenda. Redistributive pressures have also been more muted than in many other states and the government has been able to implement a consistent and coherent pro-business strategy.

In contrast, wide-right coalitions in Punjab consisting of core groups with diverse economic profiles have backed successive governments since the mid-1990s. The diverse interests of these varied groups have meant that governments have had to balance demands that are often conflicting. The solution of various Punjab governments has been to resort to competitive populism, which has placed major pressures on the state’s finances. Poor fiscal health has acted as a major constraint on the ability of Punjab to create an industry-friendly climate in the state.

I also emphasized the role of identity politics in explaining why narrow-right coalitions emerged in Gujarat and wide-right ones in Punjab. Dominant caste patterns in Gujarat, which involve an overlap between group size and entrepreneurial identity, have structured party strategies and allowed the emergence of narrow-right coalitions. Unlike Gujarat, the nature of Punjab’s cleavage structure has not favored the confluence of political and economic power. Various cleavage dimensions have interacted to create a cross-cutting effect in Punjab. As a result, no single dimension of identity has structured party strategies or dominated politics for
long periods. Policy outcomes have remained consistent since 1991 in these two states since the type of electoral coalitions that have backed governments has remained constant.

In the next chapter, I offer evidence from two states – Andhra Pradesh and Bihar – where policies exhibit temporal variation over the last two decades. I argue that such variation can be explained by the changing nature of electoral coalitions within these states over time.
4. Chapter 4: Fluctuating coalitions and commitments – Andhra Pradesh and Bihar

“When I became chief minister and set out to revive the state’s economy, I ran quite quickly into two major hurdles. The first was that the national economy was heading for a recession. Nobody was investing. The second was that even if they were, Andhra Pradesh was simply not a state they would have thought of investing in. As I have said before, in the year 1995 our ranking in terms of investor perception was 22...the only course at that point was to go out and market the state. This is what I set out to do. By going to every investor’s forum, domestic and foreign, and making Power Point presentations on what Andhra Pradesh had to offer. By being open to the media. By inviting ambassadors to visit Hyderabad. Everywhere I emphasized our commitment to transforming the infrastructure in the state....By 1998, with the changes in the investment climate that had taken place in the state, we had climbed to third position in terms of investor perceptions”

– Chandrababu Naidu, Former Chief Minister of AP (Naidu 2000: 134-135)

“Bihar, the third most populous state in the country with 83m people, has become a byword for the worst of India: of widespread and inescapable poverty; of corrupt politicians indistinguishable from the mafia dons they patronize; of a caste-ridden social order that has retained the worst feudal cruelties; of terrorist attacks by groups of ‘Naxalite’ Maoists; of chronic misrule that has allowed infrastructure to crumble, the education and health systems to collapse, and law and order to evaporate.”

– The Economist (2004: 18)

“India’s most notorious state [Bihar] is failing to live up to its reputation...for rarely has a failed state escaped political bankruptcy so fast.”

– The Economist (2010: 12)

The previous chapter traced the divergent performances of two of India’s richer states – Gujarat and Punjab – in the competition for investment since 1991. In this chapter, I focus on two states – Andhra Pradesh (AP) and Bihar – that have exhibited variation in their policy commitments to investment promotion over time. As a middling performer in terms of industrialization as well as human development in the pre-1991 period, AP’s performance is surprising. Overall, it has been one of the more successful performers in the competition for investment since 1991. But its policies have been considerably more investor-friendly in some periods than others. In particular, its staunch neoliberal commitment between 1994 and 2004
was accompanied by investor-friendly policies. Though its policy framework has not been altered dramatically, its pro-business commitment has waned since 2004.

On the other hand, Bihar was mired in caste and class conflicts since the 1970s. For most of the post-liberalization period, the state abrogated its development responsibilities and Bihar’s failure in the competition for investment followed this broader trend. However, a change in government in 2005 resulted in a marked shift in the state’s developmental focus and Bihar has been considerably more proactive in attempting to attract investment to its jurisdiction. While it remains unclear whether this recent transformation can reverse decades of economic decline, the policy shift itself is a major change in light of the state’s own history.

This chapter will argue that the temporal shifts in the investment promotion policies of AP and Bihar can be linked to the different types of electoral coalitions that have emerged in these states over time. In the case of AP, I argue that the state’s waning pro-business policy focus can be explained by a shift from narrow-right to wide-right coalitions. Backed by a narrow-right coalition, based primarily on the support of the entrepreneurial Kammas, the Telugu Desam (TDP) government under chief minister Chandrababu Naidu put in place a strongly neoliberal framework between 1994 and 2004. In that period, AP was one of the most proactive states in terms of investment policies, attracting considerable attention from international financial institutions and the press for its policy outlook. This focus on business-friendly initiatives was accompanied by a clear neglect of AP’s large rural sector, a trade-off that would cost the TDP at the polls.

The Congress, backed by a wide-right coalition consisting of core groups at opposite ends of the socioeconomic spectrum, most notably the Reddys and Dalits, replaced the TDP in 2004 and
has been in power since. Though the Congress has not disturbed the general framework for investment promotion, the strength of AP’s pro-business commitments has weakened. Having come to power on the back of rural discontent, the Congress shifted the development focus to the rural sector and several populist schemes were put in place. Along with the shift in development priorities, the upsurge in the Telangana movement, a major leadership crisis, and internal dissension in the Congress have led to high levels of political instability in recent times and have put a brake on the state’s ability to attract investment.72

In contrast to the other cases in this dissertation, Bihar entered the post-1991 environment with few economic advantages to speak of. It was India’s second poorest state and had exhibited a rapid economic decline accompanied by major governance failures since the 1970s. These trends accelerated in the 1990s. For almost 15 years after economic liberalization, Bihar was characterized by a breakdown in law and order. Not surprisingly, the state completely neglected its developmental responsibilities. The era was, however, politically significant in that it marked the culmination of the rise of the other backward castes and the end of upper caste domination in a state characterized by a long history of oppression. Bihar’s lower caste upsurge was led by the charismatic and controversial Lalu Yadav, who essentially controlled the reins of the state for fifteen years. Rashtriya Janata Dal (RJD) governments focused solely on the politics of dignity with few substantive development measures undertaken. A change in government in 2005 led to a major shift in Bihar’s policy framework. Under the JD(U)-BJP coalition led by Nitish Kumar, Bihar has demonstrated an increased commitment to investment promotion and economic development, more generally.

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72 Telangana is an area within Andhra Pradesh, which was formerly part of the princely state of Hyderabad. Telangana was merged with Andhra state in 1956 to create the current boundaries of Andhra Pradesh. A long-standing movement for the creation of a separate Telangana state from the existing boundaries of AP has existed since the 1960s but gained considerable momentum in 2009.
This chapter will argue that the outcomes prior to 2005 and the shift in the Bihar’s policy focus after can be explained by the fact that the underlying electoral coalition changed from a narrow-left to wide-left one. Narrow-left coalitions are primarily characterized by the presence of largely poor groups with little representation of business interests. These coalitions are likely to focus primarily on redistributive initiatives rather than growth-related measures.

In the case of Bihar, politics between 1990 and 2005 took on a modified form in that substantive redistributive efforts were absent. Instead, a politics of dignity emerged in the 1990s where the focus was overwhelmingly on symbolic aspects rather than substantive measures. In fact, as the chapter will outline in more detail, Yadav’s modus operandi weakened the state considerably. His sole focus was on undoing upper caste control and he viewed state institutions and the very process of development itself as a vehicle for upper caste power. As a result, he actively weakened the state framework in Bihar and put a brake on economic development. Despite this, Lalu Yadav’s rhetoric of social justice as well as his personal charisma ensured victories at the polls.

In contrast, JD(U)-BJP governments headed by Nitish Kumar since 2005 have been backed by wide-left coalitions. The change in government has been accompanied by a decisive change in policy focus; economic development and governance have occupied center stage in the state’s plans. I suggest that Bihar’s marked shift in its policy framework after 2005 can be explained by the fact that wide-left coalitions support a more diverse set of economic goals than the narrow-left coalitions that preceded them. The broader range of economic interests represented in wide-left coalitions are likely to lead to a more mixed set of policy outcomes. Specifically, wide-left coalitions are likely to be more relatively more inclined towards business-friendly policies than narrow-left coalitions.
Having linked policy outcomes to the nature of coalitions, this chapter, as in the previous ones, also traces the influence on caste politics to the type of coalitions that emerged. The dominant caste structure in AP and the Hindi-heartland pattern in Bihar have conditioned party strategies of mobilization and coalition construction. As in Gujarat, the overlap between numerical strength and entrepreneurial interests of dominant castes in AP has allowed narrow-right coalitions to arise at certain points in time. Certain aspects of AP’s social demography and politics, however, make narrow-right coalitions less stable than those in Gujarat. As a result, wide-right coalitions have been a feature more recently. Social identity also acts a crucial factor in vote choice. In particular, certain dominant castes in AP are tied very closely to one of the two main parties – the Congress and the TDP.

Bihar has seen both narrow-left and wide-left coalitions in the post-liberalization period. The state’s pattern of social cleavages, which I term as the Hindi-heartland pattern, comprises of certain sizeable castes but these large castes tend to be the economically-marginalized. The numerical strength of the upper castes under Hindi-heartland patterns are also relatively greater than in most other parts of India, allowing these groups to control the levers of power longer than elsewhere (Jaffrelot 2009a). However, it is the large base of socially-marginalized groups that stands out as a decisive factor in political patterns in the Hindi-heartland. The entrepreneurial base of the state itself is very small for a variety of historical reasons. As such, the Hindi-heartland pattern is at the opposite end of the spectrum from dominant caste patterns; large social groups exist but they tend to be socially and economically-weak. The size of groups has influenced party strategies in Bihar over time. Since the 1990s, the state has seen high levels of party fragmentation. Three and four-cornered contests have been the norm. High party fragmentation itself has been supported by the fact that parties can rely on specific vote banks;
there is a high degree of similarity in the vote choice of individual members of several social
groups. The rest of the chapter lays out the cases of AP and Bihar in turn.

4.1 Andhra Pradesh – shifting coalitions and variable success

4.1.1 Background: AP’s economic structure and its unexpected performance after 1991

The largest south Indian state, both in terms of population and area, Andhra Pradesh has been
among the more proactive states in the competition for investment after 1991. The state’s
policies have, however, not been as business-friendly as Gujarat’s. AP’s pro-business policy
commitments have fluctuated over time. Nevertheless, AP’s rise in the first fifteen years after
liberalization is surprising. In 1991, AP did not possess a tradition of a business-friendly state
apparatus. Nor was it not as well-endowed in terms of industrial infrastructure as more
developed counterparts such as Gujarat or Maharashtra. For most of the pre-1991 period, AP also
remained firmly in the middle of the pack in terms of income, human development and levels of
industrialization.

The state’s per capita income at the start of the reforms process in 1991 (Rs.2134 in 1980-81
prices) was lower than both Gujarat’s (Rs. 2381) and Punjab’s (Rs. 3825) but considerably
higher than Bihar’s (Rs. 1105).\textsuperscript{73} AP also had a higher poverty headcount (44.6 per cent in 1993-94)
than both Punjab (22.4 per cent) and Gujarat (37.8 per cent) but well-below that of Bihar
(60.5 per cent).\textsuperscript{74} AP’s literacy rate (44.08 per cent) similarly lagged behind those of Punjab
(61.3 per cent) and Gujarat (58.5 per cent), but remained ahead of Bihar’s (37.5 per cent) in

\textsuperscript{73} Data from the Central Statistics Office, Ministry of Statistics and Program Implementation, Government of India (mospi.nic.in).

\textsuperscript{74} Data from the Planning Commission of India (planningcommission.nic.in).
In addition to its economic endowment, trends in AP politics in the 1980s did not offer much hope for the creation of a business-friendly environment after liberalization; a strident subnational rhetoric was complemented by cycles of competitive populism. Despite the fact that initial conditions in 1991 might not have predicted success in the competition for investment, AP has been one of the more proactive states. It ranks fifth among all states in terms of investment attracted between 1991-92 and 2009-10 (9.1 per cent of total investment in the country in this period).\textsuperscript{75}

Like many other Indian states, AP’s economic structure has, however, been characterized by considerable dualism in the post-liberalization period. Driven by growth in the service sector, AP was successful in reinventing itself as a pro-business state in the mid-1990s. AP’s capital Hyderabad is one of the main hubs of the informational technology (IT) sector in India. While the high-tech sector in AP has received attention, the state’s pro-business policies in the mid-1990s and early 2000s were accompanied by considerable neglect of the rural sector. A significant portion of AP’s population lives in rural areas (almost 73 per cent) and employed in the agricultural sector (62.1 per cent of total workers in the state are either agricultural laborers or cultivators).\textsuperscript{76}

Despite the employment patterns, agriculture accounts for only 22 per cent of AP’s gross state domestic product while industry and services make up 25 per cent and 53 per cent respectively. From the mid-1990s, AP witnessed an agrarian crisis characterized by farmers’ suicides, declining crop prices, marked slowdown in agricultural growth, and a widening gap between agricultural and non-agricultural sectors; a crisis that has also characterized several parts

\textsuperscript{75} Data from SIA Statistics (January 2011), Department of Industrial Policy and Promotion, Ministry of Commerce and Industry (dipp.nic.in).

\textsuperscript{76} Data from the Census of India (2001).
of rural India. A bleak indicator of this crisis is the phenomenon of farmer suicides and AP has been one of the five states in the country with high rates of farmer suicides (Vaidyanathan 2006).

This sharp dualism has meant that the benefits of post-reforms growth have not widely dispersed. In turn, this has had political repercussions and these repercussions have taken different forms. Rural discontent led to the defeat of the TDP at the polls in 2004 after a 10 year spell in power. AP has also witnessed periodic Maoist violence in rural areas but the problem has largely been under control since the late 1990s. Subnationalism has been a running theme in AP’s politics for the last six decades. Demands for the creation of a separate Telugu-speaking province from the erstwhile Madras state led to the formation of the state of Andhra in 1953. Subsequently, nine Telangana districts, the Telugu-speaking areas of the erstwhile princely state of Hyderabad, were merged with Andhra in 1956, giving shape to the present boundaries of AP. Though it was created through a demand for a Telugu-speaking state, AP has been witness to periodic demands over the last six decades for a separate state of Telangana. The agitation gained considerable momentum in 2009 and, since then, the state has witnessed frequent riots and considerable polarization on the issue.

This section will attempt to analyze AP’s performance in the post-1991 era in light of three broader issues. First, it will examine the state’s role in transforming AP from a middling performer to one of the more attractive investment destinations in the country in the post-1991 period. Second, it will link AP’s fluctuating pro-business commitments over to the changing nature of electoral coalitions that have supported governments in the state over the last two decades. Finally, the section will discuss the impact of the state’s economic dualism, which places limits on the extent to which AP can prioritize pro-business policies. This dualism has
resulted in uneven distribution of growth benefits, sharply highlighting the trade-offs between investor-friendly policies and other goals.

4.1.2 AP’s social structure and entrepreneurial history

Like Gujarat, AP conforms to dominant caste patterns. As Elliott (1970) suggests, two castes in the state, the Reddys and Kammas, are excellent examples of Srinivas’ classification of dominant castes in that these groups are numerically sizeable and have historically enjoyed high levels of economic and political power. As detailed in the next section, competition between the Kammas and Reddys has been a constant and overarching theme in AP’s political history. The Reddys form approximately 8 to 10 per cent of AP’s population while the Kammas constitute 4.8 per cent (Reddy 1989; Suri 2002). Though they are not as large as the Reddys, the Kammas are heavily concentrated in AP’s coastal belt and this geographical clustering has given them disproportionate political clout under the first-past-the-post system. Reddys, on the other hand, are spread throughout the state (Reddy 1976). Since independence, Reddys have enjoyed considerable political power, dominating the leadership of the Congress as well as forming the core of its support base in the state. As explained later in this section, the Kammas and, to a lesser extent, the Reddys also constitute the two main entrepreneurial groups in the state.

Among the twice-born castes, Brahmins constitute about 3 per cent of the state’s population and have largely been marginal players in AP’s political scene since independence. Like other states in south India, Brahminical hegemony was displaced early in AP. Even prior to independence, growing economic power saw the Reddys and Kammas challenge Brahminical hegemony in the erstwhile Madras Presidency. After independence, the apex of power has been

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77 An exact figure for the share of Reddys in AP’s population is not available. The 1931 Census counted Reddys and Kapus under a single category.
controlled by the two dominant castes, particularly the Reddys. Other twice-born castes include the Kapus, Komatis, Rajus and Velamas and these groups have a notable presence in industry (Reddy 1989; Suri 2002). Apart from the Kapus, who are approximately 5 per cent of the population, these groups are, however, are very small in size.

Other backward castes (OBCs) and Dalits comprise a sizeable proportion of AP’s population but have never controlled the apex of power in the state. The OBCs constitute 44 to 46 per cent of the state’s population but are divided into as many as fifty sub-castes. Their internal heterogeneity has meant that they have rarely been mobilized politically as a single entity (e.g., Kohli 1988; Reddy 1989). This group is also extremely diverse in economic terms; some sub-castes such as Yadavas and Gowdas have relatively high education levels and enjoy a degree of economic power while others are considerably marginal (Suri 2002). Though they have never controlled the helm of power in AP, the mobilization of the OBCs has been a key sub-text in political changes in AP since the 1980s.

In addition to the OBCs, AP has a sizeable Dalit and Adivasi population (16.2 per cent and 6.6 per cent). Like the OBCs, the Dalits too are internally fragmented. Two main sub-castes, the Malas and Madigas, account for almost 90 per cent of the Dalit population in the state and rivalry between these groups over time has resulted in fragmentation and competition. Muslims have a sizeable presence in AP, constituting a little more than 9 per cent of the state’s population.

The presence of dominant castes in AP offers several parallels with the Gujarat case. Apart from the presence of castes that enjoy numerical weight, there are some broad similarities

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78 Data from the 2001 census (available at censusindia.gov.in).
79 Data from the 2001 census (available at indiastat.com).
in the entrepreneurial history of both states. Like the Patidars in Gujarat, the economic and political power of the Reddys and Kammas arose due to their historical control of land (e.g., Elliott 1970; Harrison 1960; Kohli 1990). As major landholders, Reddys and Kammas enjoyed control of village political life; they employed farm servants, had ready capital to loan and possessed resources to represent cases to the administration (Elliott 1970). The political leverage of these local landholders was significantly enhanced in the colonial period with the introduction of revenue collection powers, improvements in irrigation and the development of markets (Frankel 1989b).

In the case of Madras Presidency, under which most areas of AP fell, British investments in irrigation in the mid-1800s led to a marked economic transformation of the region. Most notably, the construction of anicuts [type of dam used to divert water] on the Krishna and Godavari rivers dramatically increased agricultural productivity between the 1850s and 1870s (Damodaran 2008). This, in turn, translated into a major rise in the standards of living for the main landholding groups in the region.

In particular, the Kammas, who owned most of the land in the fertile delta region and took to growing high-value cash crops in large numbers, were the biggest beneficiaries of these improvements in irrigation. 80 Damodaran suggests: “Cotton’s anicuts had, simply put, produced an agrarian revolution embracing a large section of coastal Andhra’s Kamma middle peasantry” (2008: 95). 81 The effects of the irrigation projects would be felt well into the 20th century.

80 Harrison (1960) suggests that Kammas owned 80 per cent of land in the delta region at the time.
81 The reference is to Arthur Cotton, a captain in the Madras Engineers Corps, who was instrumental in the irrigation projects undertaken on the Godavari and Krishna rivers between 1847 and 1855. It was Cotton’s recommendation that led to anicuts on these rivers and these projects would dramatically transform agricultural productivity in Andhra’s delta regions. Cotton’s status in AP is legendary; busts of the engineer exist in numerous delta villages in AP. A Cotton museum was opened in 1988 and Cotton finds a place among the statues of AP’s historical luminaries along the Hussain Sagar lake in the state’s capital, Hyderabad (Damodaran 2008).
Harrison (1960) suggests that World War II and the immediate postwar years proved to be an even bigger boom period as high prices for food and cash crops added greatly to the wealth of the landowning groups.

The agrarian transformation in the latter half of the 19th century had two long-term consequences of note. First, an agrarian middle class emerged among the landowning Kammas and Reddys by the turn of the 20th century. With their increasing wealth, Kammas and Reddys subsequently began investing in education and, by the end of the 19th century, the Brahmin monopoly on education and government jobs in Madras Presidency was challenged (Frankel 1989b).

A second consequence is even more significant in the context of this dissertation. Growing agricultural surpluses allowed the Kammas, and to a lesser extent the Reddys, to enter industry. The shift of agricultural surpluses to industry would occur in two waves. By the early twentieth century, a section of Kamma agriculturalists in AP’s delta region were looking for new avenues to invest surpluses acquired through the production of high-value cash crops such as rice, tobacco, cotton and oilseeds. An immediate impetus to enter industry was provided by falling commodity prices that occurred as a result of the Great Depression (Damodaran 2008). Large Kamma landholders, who formed the first wave of entrepreneurs, came to invest in industry at the time of the Great Depression; primarily in agro-processing industries but also in construction, transport, and textiles. In addition, investments would occur in the film industry, a sector for which Kamma capital has had special affinity since the 1940s.

A second major wave of Kamma industrial entrepreneurship would occur almost five decades later in the 1980s, catalyzed by the rise of the TDP. The effects of the Green Revolution
in the 1970s would once again lead to economic improvements for the Kammas. In the 1980s, the presence of agricultural surpluses coupled with the TDP’s ascent to power would provide an avenue for further Kamma investments in industry (Damodaran 2008; Kohli 1990).

As explained later in the chapter, the TDP itself was formed largely as an outgrowth of Kamma dissatisfaction with the Congress and as the group’s means of translating economic leverage into political power. Subsequently, the TDP’s stint in power in the 1980s would see a marked rise in the entry of new Kamma entrepreneurs into industry. In particular, the TDP undertook numerous large-scale public sector infrastructure projects in the early 1980s and this provided considerable opportunities in the construction sector. AP companies account for a large share of India’s infrastructure and construction sector today and many of the prominent players had their start through public sector projects in the early 1980s. Apart from construction, another major area of investment since the 1980s has been the pharmaceutical industry; a sector in which AP is also responsible for a large share of the national production.

AP’s social structure and history of industrial entrepreneurship suggests parallels with the Gujarat case. Both states have dominant caste patterns, characterized by the presence of large, entrepreneurial groups. The Kammas occupy a relatively similar position to the Patidars. Though they form a smaller proportion of AP’s population than the Patidars do in Gujarat, the Kammas embody a similar combination of numerical and economic strength. As the next section will show, this overlap has enabled the emergence of narrow-right coalitions in AP in certain periods. However, there are some key differences between the two groups. Most notably, the Kammas are not large enough to control the electoral space and this leads to greater instability of narrow-right coalitions in AP. As a result, the type of coalition backing AP governments has shifted over time.
The details of this shift are discussed in the rest of the section. For now, the key point to take away is that AP’s social structure offers the enabling conditions for narrow-right coalitions to emerge. The next two sections offer a brief background to the history of electoral competition in AP and trace the nature of electoral coalitions backing governments in the state over time.

4.1.3 A brief overview of AP’s political history

Three distinct periods characterize AP’s electoral history since the formation of the state. Congress domination and factional politics characterized the electoral scene until the 1970s. Though Congress’ control of the electoral space continued through the 1970s, a variety of socioeconomic changes set the stage for two-party competition, which would emerge in the 1980s in the form of the TDP. Two-party competition and shifting policy alignments have characterized the last two decades. Each of these phases has contributed to the nature of electoral coalitions that have emerged in the post-economic reforms period. I discuss each period below.

4.1.3.1 Politics in the 1950s and 1960s

For some scholars, one of Nehru’s most successful political achievements was the linguistic reorganization of Indian states (e.g., Brass 1990). Andhra Pradesh’s link to linguistic reorganization is particularly significant. It was the demand for the creation of a separate Telugu-speaking province of Andhra from the erstwhile Madras state that catalyzed the process of linguistic reorganization in the first place. Andhra state was formed in 1953. The current boundaries of Andhra Pradesh came into existence three years later when nine districts of Telangana were merged with Andhra state.

Since its inception, the stereotypical view of AP politics has been that it is essentially a conflict between two dominant castes – the Kammas and the Reddys. While this is too simplistic,
there is a grain of truth in the characterization. Though other social groups matter, as the rest of this section will outline, these two dominant castes have largely controlled the trajectory of AP politics since the 1950s. Their social rivalry has spilled into the political arena throughout AP’s history and has found expression through support for rival political parties in the state.

Along with the Kamma-Reddy rivalry, three other broad trends characterized AP politics from the 1950s to the mid-1960s. First, the Congress dominated the electoral space but was wracked by factional rivalry. One-party Congress dominance and factional rivalries were trends that characterized politics in many Indian states until the mid-1960s. However, the shift from a dominant party system to two-party competition occurred much later in AP than most other Indian states; the Congress lost power in the state for the first time only in 1983. Factional politics within the AP Congress led to considerable internal competition as rival groups jockeyed for power and resources that arose from control of the party.

The effects of factional politics in AP were pronounced. For example, Reddy (1976) points out that two rival groups within the Congress both fielded candidates in the 1967 elections; each group fielded their own supporters as independents to defeat official candidates belonging to the other group. Reddy suggests that through the 1960s and 1970s, the Congress oscillated between accommodative and confrontational politics that reflected factional struggles. Interestingly, factional rivalry, however, did not destabilize the Congress in AP. Through the intervention of the central leadership in Delhi and the party’s control of resources, different groups were kept within the Congress fold (Reddy 1989; Suri 2002).

A second overall trend in AP politics until the 1980s is related to Congress hegemony described above. Until the 1980s, AP electoral politics was characterized by the general absence
of a coherent opposition party that could challenge the Congress. One caveat should be added to this claim. During the 1950s and early 1960s, the Communist Party of India (CPI) posed a notable challenge to the Congress. The Communists were particularly strong prior in the mid-1950s in the Telangana area. Telangana was one of the few areas in south India where the landlord-based zamindari system was in place during the colonial period. In turn, the zamindari system bequeathed a feudal agrarian structure that attracted Communist political activity.

But even more than the feudal structure, it was interestingly the support of the powerful Kammas that accounted in large measure for the success of the Communists (Harrison 1960). From the time of the state’s formation, the leadership of the Congress was dominated by the Reddys while the economically-powerful Kammas were largely excluded from the top echelons of the party. In the 1950s and early 1960s, Kamma disenchantment was expressed as support for the Communist Party. This alliance would end a decade later. By the mid-1960s, the Communist Party weakened significantly. The Congress’ pursuit of a reformist agenda that included the abolition of the zamindari and jagirdari land tenure systems weakened the appeal of the Communists (Srinivasulu 2002). Further weakening occurred due to a split of the Communist party at the national level into two different outfits, the CPI and CPI(M). Finally, the inherent contradiction of a Communist party being backed primarily by a wealthy landowning group, the Kammas, both played a role in the party’s rapid decline in AP.

A third important feature of AP politics prior to the 1970s is related the nature of the Congress’ social base and its modes of political mobilization. The Congress’s tight grip on AP politics was supported by a “politics of accommodation.” Dominant caste control of the Reddys was essentially consolidated while pressures from below were kept at bay through the distribution of patronage and rewards (Reddy 1989). Though the Congress did exhibit some
characteristics of a catch-all party, its social base relied primarily on the powerful Reddys at one end and, the socially and economically-marginalized, Dalits at the other. These two groups continue to be strong supporters of the Congress’ even today.

Political participation of Dalits and OBCs was not autonomous. Instead dominant castes, who were typically landowners, mobilized support from marginalized groups, who tended to work as agricultural labor, through vertical chains of patronage. The early mobilization of marginalized groups into the Congress’ support base, albeit through a clientelistic structure, was in part a result of factional politics in the Congress. Kohli (1990) suggests that factional politics led rival leaders within the AP Congress to incorporate excluded social groups in order to broaden their power base.

4.1.3.2 Politics in the 1970s and 1980s: from one-party dominance to two-party competition

These general patterns of AP electoral politics would start to shift by the 1970s. With the Communists out of the picture, there was no viable opposition to the Congress by the early 1970s and the party maintained clear control of electoral politics over the next decade. Even when the Janata coalition won a resounding victory in most parts of India in the 1977 elections following the Emergency, AP was one of the few states where the Congress managed to retain power.

But the Congress’ electoral strength masked deeper changes beneath that would eventually set the stage for the emergence of the Telugu Desam Party (TDP) and two-party competition in the 1980s. One major change that occurred was an increasing sense of alienation of the Kammas from the Congress. For long, the Kammas had perceived the Congress to be controlled by the Reddys and acting in their interests. Though the Kammas commanded considerable economic power, they had also been underrepresented at the highest levels of the
Congress. Vaugier-Chatterjee (2009) shows that in AP legislative assemblies between 1955 and 1983, the proportion of Reddys among Congress legislators ranged from 58 per cent to 84.2 per cent. Pingle (2010) similarly points out that in the 11 cabinets between 1956 and 1980, Reddy representation (26 per cent) far outstripped that of the Kammas (8 per cent). Of the nine chief ministers in AP between 1956 and 1983, six had been Reddys and none had been Kamma (Kohli 1990).

In the 1970s, Kamma disenchantment with the Congress would increase further. In particular, the Kammas saw further increases in their economic standing as a result of the Green Revolution. This catalyzed a second wave of Kamma industrial entrepreneurship. Growing economic power of the Kammas, however, was not matched by a commensurate increase in political power within the Congress, amplifying their sense of perceived neglect (Baru 2000; Kohli 1990; Srinivasulu 2003; Suri 2002). The economic prosperity of the Kammas was also increasingly at odds with the populist direction the Congress was taking in the 1970s (Reddy 1989). As part of a larger strategy, Indira Gandhi focused on mobilizing poor and socially-marginalized sections in many parts of India and the effects of her broader agenda would reverberate strongly in AP. She initiated a number of socioeconomic programs in AP with the aim of destabilizing the dominant castes, who she viewed as a challenge to the Center’s control, and increasing support from marginalized groups such as Dalits, Adivasis, women and marginal farmers. Increasingly, the business classes, of which the Kammas formed a large component, was looking for a government that could protect their interests (Reddy 1989).

Aside from increasing Kamma disenchantment, Indira Gandhi’s strategy also weakened the clientelistic chains that the party relied on to draw electoral support. Her populist policies served to weaken the hold of rich landholders over the vote banks of those below them in the
social and economic hierarchy (e.g., Kohli 1988). As the Congress’ focus shifted towards the more marginalized Dalits and Adivasis in the state, another key group – the other backward castes (OBCs) – began to move away from the party as a result. In short, the Congress’ brand of political accommodation, which had been in place in AP for two and a half decades, began to fray in the 1970s with the breakdown of vertical clientelistic chains (Kohli 1988, 1990; Reddy 1989; Srinivasulu and Sarangi 1999). As a result, Kohli suggests that a growing “authority vacuum” developed in AP by the late 1970s. Reddy points out that by 1977, it was clear that social polarization along caste and class lines was growing in AP.

Another consequential factor that catalyzed greater political competition was Indira Gandhi’s style of autocratic governance (e.g., Kohli 1990; Reddy 1989; Suri 2002). Until the early 1970s, regional Congress party leaders had considerable autonomy in state-level politics. Indira Gandhi changed this pattern. Through the 1970s and early 1980s, the Congress high command in Delhi would attempt to rule AP by remote control, installing and removing a series of chief ministers in an arbitrary fashion; the state four different chief ministers between 1978 and 1982.

The micromanagement of state affairs by the party high command was aided considerably by factional politics within the Congress in AP. Members of the party who did not occupy positions of power mobilized supporters to weaken those in charge and depended on New Delhi to sort out state-level affairs (e.g., Reddy 1976). Importantly, central interference soon became a major rallying cry for the Congress’ opponents in AP. As a state originally formed through linguistic demands, regional nationalism has always found a sympathetic ear in AP politics. With growing Kamma disenchantment, the presence of an “authority vacuum” and general disarray within the Congress, the theme of subnationalism reverberated even more
strongly and the stage was set for the emergence of a new political force in the in the early 1980s.

This new force would occur in the form of the Telugu Desam Party (TDP) led by a popular Telugu film star N.T. Rama Rao (NTR) in 1983. Emerging mainly as a political vehicle for the articulation of Kamma interests, NTR capitalized on the Congress high command’s interference in AP politics. Through a strong rhetoric of Telugu subnationalism, portraying the state as an aggrieved party subject to the machinations of the center, his support grew rapidly. As a former film star with a penchant for spectacle, famous for playing the role of Hindu gods helping the poor and weak in nearly 100 movies, NTR’s strategy was to rely on core support from the Kammas and then blend personal charisma with high levels of populism to attract some OBC sections (Kohli 1988; Rubinoff 1997). In the 1983 assembly elections, the TDP won a landslide victory and the defeat represented the Congress’ first ever electoral loss in the state. Since then AP has been a two-party states with the TDP opposing the Congress.

NTR’s first term as chief minister was short-lived. The Congress supported a splinter group within the TDP and brought down the government in 1984, when NTR was away for a heart surgery in the U.S. The Congress’ actions elicited major criticism within AP as well as from national opposition parties. The TDP along with other national opposition parties launched a “Save Democracy” movement, which led to a massive anti-Congress upsurge in AP (Suri 2002). To counter growing opposition support, the Congress central government reinstated NTR and his government; the first such instance in India’s political history.

The anti-Congress sentiment would prevail in both the Lok Sabha elections of 1984 and the state assembly elections in 1985. Despite a sympathy wave for the Congress across the
country in the aftermath of Indira Gandhi’s assassination in October 1984, the TDP retained power in the AP assembly elections in 1985 and NTR would return as chief minister. NTR’s populist policy promises such as rice at two rupees per kilo for the poor, a mid-day meal scheme for school children and the sale of saris and dhotis at half price received considerable support from the rural poor and drew them away from the ambit of the Congress (Reddy 1989; Srinivasulu and Sarangi 1999).

Despite coming to power through a campaign centered on the Congress’ style of governance, NTR’s decisions were arbitrary and his style of functioning was autocratic. The TDP was, for all practical purposes, a one-man party at the time and all decisions were made by NTR (Kohli 1990; Reddy 1989; Suri 2002). Despite announcing several populist policies, frequently in an impulsive and arbitrary fashion, NTR rescinded or did not implement several decisions. Kohli offers examples of NTR’s mode of functioning. For example, he points out, in 1985, NTR dismissed all village officials arguing that they represented a feudal culture but had to reinstate them a year later due to a high court decision. He similarly offered free mid-day meals at schools only to retract the decision a year later. His well-received subsidized rice scheme was started and terminated several times and a ban on tuition fees was announced and not implemented. Apart from being arbitrary, many of his decisions were autocratic. For instance, when the AP Legislative Council, where the Congress still had a majority, blocked NTR’s decision to reduce the retirement age of government employees from 58 to 55, the TDP reacted by abolishing the Legislative Council (Suri 2002).

NTR’s charisma and populist policies made him popular among certain sections but his style of functioning proved extremely damaging to the TDP. Taking advantage of NTR’s arbitrary and capricious style of governance, the Congress regrouped and whittled away at the
TDP’s electoral base in the late 1980s. As a result, the Congress recorded impressive victories in the both the state assembly and Lok Sabha elections of 1989. The Reddys, Dalits and Brahmins continued to be the core of the party’s base. In addition, the Congress managed to regain the support of several other groups, particularly among AP’s heterogeneous OBCs, who had moved away from the Congress but became disillusioned with NTR’s policies (Suri 2002).

4.1.3.3 The 1990s and beyond: shifting electoral coalitions and policy realignments

Even though it was NTR’s autocratic and arbitrary governance that saw the Congress return to power in 1989, the party’s time in office would prove tumultuous. High levels of factionalism affected the Chenna Reddy-led Congress government. The government’s popularity declined due to corruption and the curtailment of several welfare schemes, including the popular subsidized rice scheme (Suri 2002). At the same time, the law and order in the state deteriorated significantly due to a growing Maoist movement and riots over the Mandal Commission report.

The TDP came back to the helm with a resounding victory in 1994; its electoral alliance with the CPI and CPI (M) resulted in a three-fourths seat majority in the assembly. Despite the TDP’s victory, NTR’s reign would come to an end in 1995. This time the challenge did not come from the Congress but from a source much closer home. In a coup of sorts, NTR’s son in law, Chandrababu Naidu, who was then Finance Minister of the state and had largely been known as a backroom organizer for the TDP, took over the posts of party president and chief minister of AP. Naidu went on to enjoy an uninterrupted stint as CM from 1995 to 2004, a rarity given anti-incumbency levels in India in the 1990s.
On coming to power, Naidu ushered in an era which starkly differed from NTR’s populism. It was during his tenure that AP became one of the most proactive states in terms of attracting investment. Under Naidu, the TDP and the Congress witnessed realignment in policy positions. The TDP until then had portrayed itself as a party of the poor and deprived, despite the fact that its core support comprised of the dominant and economically-advanced Kammas. Moreover, NTR opposed the center’s economic liberalization policies during the 1994 elections, promising instead to reintroduce welfare programs (Suri 2004a).

Despite this background, Naidu changed the policy agenda of the party considerably and his commitment to a neoliberal, investor-friendly, technocratic and fiscally-prudent regime moved the TDP to the right. This position was more in line with the interests of the party’s Kamma core. Naidu’s style of governance was also markedly different – he was the rare Indian chief minister who openly embraced liberalization (Kennedy 2004). For his proactive stance on economic liberalization and his image as a technologically-savvy politician, Naidu came to represent a new breed of Indian chief ministers who were celebrated by international financial institutions; a phenomenon that Rudolph and Rudolph (2001) have referred to as the “iconisation of Chandrababu.”

In his early years in office, Naidu reversed some of the populist measures previously undertaken by his own party. This included increasing electricity tariffs to farmers and reducing subsidies on rice (Srinivasulu 2003; Srinivasulu and Sarangi 1999; Suri 2002). Naidu came to power at a time when the state was suffering from a major financial crisis, which he saw as arising due to his predecessor (and father-in-law) NTR’s inability to balance “welfare” and “development” (Naidu 2000; Suri 2002, 2004b). Backed by World Bank funding, he brought out an ambitious plan for the development of the state by 2020 (“Vision 2020”) and charted a course
of action that stressed the non-feasibility of government subsidies, the need for reduction of expenditure of welfare schemes, lifting of state controls, dismantling the public sector and opening the door for foreign private capital. Observers such as Srinivasulu (2003) view the TDP’s shift from populism as stemming from the pressure arising from the TDP’s core Kamma core support. As an entrepreneurial class, extreme populism that the TDP practiced under NTR began to impinge on their interests and they favored the shift to a more business-friendly and efficient regime.

Though he reversed many populist measures in his first few years in office, Naidu would not be completely immune to such tactics. This was particularly true before the 1999 assembly elections, which the TDP won by a much smaller margin than the previous one. Naidu’s new found tryst with populism surprised both his supporters and critics but he never strayed too far from his core commitment to economic liberalization. Naidu’s uncharacteristic focus on welfare schemes in his second term can be largely explained by electoral imperatives. Though he could count on strong Kamma support, the group is not numerically large enough to single-handedly guarantee electoral victories.

In the 1980s, OBC support was vital in ensuring TDP victories. In the mid to late-1990s, the TDP also reaped rewards in terms of upper caste votes through its coalition arrangement with the BJP. At the same time, Naidu tried to eat away at the opposite end of Congress’ support base, particularly the Dalits. The Dalits along with Reddys have historically been the Congress’ strongest supporters in AP. Naidu tried to break the Congress’ hold on Dalits by attempting to internally fragment the group. Over 90% of AP’s Dalits are part of two sub-castes – the Malas and Madigas. The former, however, have become more economically and socially-mobile through opportunities created by reservations (affirmative action) and fissures began to grow
between the two groups in the 1990s. Naidu capitalized on this divide and attempted to woo Madigas towards the TDP but with limited success. These attempts at expansion aside, the primary support of the TDP through the 1990s and 2000s came from the Kammas, as can be seen in tables 4.1 and 4.2.
Table 4.1: Vote Choice by Social Group in Andhra Pradesh (1999 Assembly Elections)

(Percentage of respondents by social group)

<table>
<thead>
<tr>
<th>Social Group</th>
<th>Congress</th>
<th>TDP</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Others</td>
<td>59.38</td>
<td>40.62</td>
<td>0.00</td>
</tr>
<tr>
<td>Muslims</td>
<td>54.29</td>
<td>29.52</td>
<td>16.19</td>
</tr>
<tr>
<td>Dalits</td>
<td>64.62</td>
<td>30.77</td>
<td>4.62</td>
</tr>
<tr>
<td>Adivasis</td>
<td>31.90</td>
<td>44.83</td>
<td>23.28</td>
</tr>
<tr>
<td>OBCs</td>
<td>39.68</td>
<td>53.35</td>
<td>6.97</td>
</tr>
<tr>
<td>Reddys</td>
<td>69.77</td>
<td>30.23</td>
<td>0.00</td>
</tr>
<tr>
<td>Kammans</td>
<td>6.9</td>
<td>89.66</td>
<td>3.45</td>
</tr>
<tr>
<td>Upper Castes</td>
<td>28.57</td>
<td>69.84</td>
<td>1.59</td>
</tr>
</tbody>
</table>

Source: Calculated using data from the Centre for the Study of Developing Societies (CSDS) post-poll survey of Andhra Pradesh Assembly elections, 1999.

Table 4.2: Social bases of Congress and TDP support in the 2009 Lok Sabha Elections

(Percentage vote of respondents for BJP and Congress by caste/community)

<table>
<thead>
<tr>
<th>Caste/Community</th>
<th>INC</th>
<th>TDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper caste</td>
<td>32</td>
<td>30</td>
</tr>
<tr>
<td>Reddy</td>
<td>59</td>
<td>19</td>
</tr>
<tr>
<td>Kamma</td>
<td>19</td>
<td>59</td>
</tr>
<tr>
<td>Kapus</td>
<td>25</td>
<td>14</td>
</tr>
<tr>
<td>Yadava (OBC)</td>
<td>30</td>
<td>41</td>
</tr>
<tr>
<td>Gowda (OBC)</td>
<td>31</td>
<td>37</td>
</tr>
<tr>
<td>Other OBCs</td>
<td>32</td>
<td>34</td>
</tr>
<tr>
<td>Madiga (Dalits)</td>
<td>41</td>
<td>42</td>
</tr>
<tr>
<td>Mala (Dalits)</td>
<td>44</td>
<td>26</td>
</tr>
<tr>
<td>Adivasis</td>
<td>51</td>
<td>34</td>
</tr>
<tr>
<td>Muslims</td>
<td>42</td>
<td>22</td>
</tr>
</tbody>
</table>

Source: Suri et al (2009). Vote shares for other parties is not included in Suri et al.
Naidu’s strong neoliberal commitments would be responsible in large part for his downfall in 2004. Though he had succeeded in moving AP from an industrial backwater to one of the more business-friendly states in the country, this came at a high cost of rural neglect. AP was one of the states to strongly affected by an agrarian crisis in the late 1990s. Among other consequences, the state witnessed high rates of farmer suicides. In addition, poverty and Income inequalities also grew during Naidu’s tenure (Suri 2004a). The stark contrast between the state’s efforts to improve its business environment, particularly around the capital city of Hyderabad, and rural neglect became increasingly visible.

For some, it was Naidu’s uncompromising neoliberal model, hailed by international financial institutions as well as the foreign and Indian media, which was at the very root of the rural crisis. One prominent journalist analyzing the agrarian crisis and farmers suicides in AP in 2004 suggested: “Why has this [agrarian distress] happened more in Andhra Pradesh than anywhere else? After all, the basic economic model [the Washington Consensus model] we see here did and does exist across the country. For one thing, Andhra Pradesh under Mr. Naidu was far more aggressive than any other State in pushing that model. With the national – and global – elite backing him, he acted without compunction. Most of the support systems the poor in the State had (some put in place by N.T. Rama Rao) were ruthlessly dismantled…Also, no other State and leader were so totally exempt from critical scrutiny. The media didn't just hail the Emperor's New Clothes. It was so busy weaving them, it failed to see Andhra Pradesh's fabric being torn apart” (Sainath 2004).

When asked whether he thought his model had been one-sided, Naidu suggested that it was a misconception that he had not delivered to rural sections but rather the problem was one of
publicity. Commenting on this, he suggested: “Comparatively at that time, we had some problems – we had a drought and they [the opposition] took advantage of that. Also, I had been promoting only one side and that gave a wrong impression to the public. The opposition exploited that. I should have balanced [the publicity] between the two. I have done everything on welfare and rural infrastructure…schools, literacy programs, mid-day meal scheme, residential schools, junior colleges in every mandal… primary health centers, referral hospitals…tell me even one building that they [the opposition] have constructed.”

On the ground, rural discontent would have major electoral consequences. After a decade of TDP rule, the Congress under Y.S. Rajasekhar Reddy (YSR) came back to power in the 2004 elections. Backed by strong populist rhetoric and an alliance with Left parties, YSR chose to run on a pro-poor platform highlighting the neglect of rural sections under TDP’s neoliberal agenda. His campaign included numerous populist promises, loans to farmers and subsidized rice. Ironically, these were measures introduced by the TDP when it came to power in the 1980s. These poll promises were complemented by YSR’s personal charisma and mobilization efforts. Among other efforts, his campaign included personally undertaking a 1500 kilometer ‘padayatra’ (march on foot) in the state to highlight rural neglect. The Congress’ support in the 2004 elections came from a variety of sources. Its core support came from the Reddys, Dalits, Adivasis and Muslims as in the past. Unlike the 1994 and 1999 elections, the Congress also managed to win over the Kapus, who have been key swing voters on occasion (Suri 2004a).

The Congress under YSR put in place an elaborate agrarian and welfare regime that included loan waivers, free electricity, input subsidies, high levels of public investment in irrigation, health, housing and pension schemes (Srinivasulu 2009). In addition, he also pushed through the

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82 Interview with Chandrababu Naidu, Hyderabad, March 20, 2010.
central government-run National Rural Employment Guarantee Scheme (NREGA). YSR consciously stayed away from publicizing initiatives relating to business, as Naidu had done. Though he did not actively disrupt AP’s industrial commitments, interviews with investors suggest a slowdown. The state was not as proactive in the competition for investment as it had been previously. Most importantly, YSR’s populism affected the state’s finances. Precarious finances, particularly at the end of his first term, meant that the state was not able to deliver on several concessions promised in its industrial policies.

YSR’s welfare regime and focus on agriculture helped him win a second term in 2009; opposition fragmentation allowed the Congress to retain power with a vote share of only 36.53 per cent. The PRP, which was launched in 2008 by film actor Chiranjeevi and backed primarily by the Kapus, emerged a key third player in the 2009 elections with over 16 per cent of the vote share. The PRP merged with the Congress after the 2009 elections. The Congress once again came to bank on its traditional support among the Reddys and Dalits along with Adivasis and Muslims (table 4.2). It also managed to attract as much OBC support as the TDP. AP politics took a major unexpected turn in 2009. A helicopter crash in September 2009 claimed YSR’s life, a few months after he won his second term in office.

Since YSR’s death, both AP and the Congress party in the state have seen considerable turmoil. In particular, the Telangana agitation and demands for the bifurcation of AP gained considerable momentum in 2009. The central government blinked first, announcing that it would start the process for the creation of a separate state, and then backtracked by setting up the Srikrishna Commission to study the issue. The Commission’s report submitted in December 2010 recommended keeping the state united but suggested various measures for the economic development of Telangana. Since 2009, AP has seen frequent disruptions on the issue and the
state has become considerably polarized along pro and anti-Telangana lines. The issue has even managed to divide the Congress and TDP internally.

The Congress in AP has also witnessed leadership problems since YSR’s death. YSR’s son, Jagan Reddy, has been in sharp conflict with the Congress state leadership and eventually broke away from the party, adding to the party’s problems. Though the long-term impact is unclear, the political turmoil that has characterized AP since 2009 appears to have had some impact on the business climate. Industry organizations, including the Confederation of Indian Industry (CII) and the IT sector associations, have repeatedly expressed concern over a potential slowdown of investment and growth on account of the state’s political problems (EconomicTimes 2009, 2011a; TheHindu 2010; Patnaik 2011; Rao 2009).

4.1.4 Tracing the mechanisms: from narrow-right to wide-right coalitions and policy shifts

In terms of alliances backing the government, AP in the post-1991 period has seen the alternation between narrow-right coalitions, which backed the TDP, and wide-right coalitions, which have supported the Congress. Even during the latter half of the TDP’s time in power between 1994 and 2004, there were pressures to expand the electoral base of support. While the two dominant castes (the Reddys and Kammas) form the core of the Congress and TDP’s support respectively, these groups are not as large as the Patidars in Gujarat. As a result, AP’s electoral politics has been more fluid in nature. In contrast to Gujarat, the necessity of parties to build broader coalitions is also marginally greater. While the two dominant castes have always played a predominant role in AP’s politics, swing votes of groups such as the OBCs have often
mattered. AP’s aggressiveness in investment promotion has fluctuated with the shift between narrow-right and wide-right coalitions.

For most of the TDP’s tenure between 1995 and 2004, the electoral coalition that backed the government was narrow-right. The TDP was formed as a vehicle to articulate Kamma interests and its core support has always come from the entrepreneurial Kammas. As tables 4.1 and 4.2 show, the TDP continues to receive overwhelming support from the Kammas. Kammas also internally dominate the TDP organization – 40.4 per cent of the TDP’s legislators in the 1994 assembly and 55.3 per cent in the 1999 assembly were Kamma (Vaugier-Chatterjee 2009). Through its alliance with the BJP in the late 1990s, the TDP also enjoyed the support of upper castes. The composition of the TDP’s electoral coalitions is confined in terms of the economic profile of core groups. In addition, Kamma and upper caste support led to significant representation of business interests.

As in the case of Gujarat, TDP’s narrow-right coalitions include an overlap of political and economic power. As a group comprising a major component of entrepreneurship in AP, Kamma interests are clearly aligned with a pro-business agenda. This allowed the TDP government to prioritize an investor-friendly agenda, particularly in the first term (1994-1999). However, the commitment to a pro-business agenda was more tenuous in AP than Gujarat, even during the TDP’s regime. In large part, this was due to the fact that the numerical size of the Kammas does not afford as much political leverage as the Patidar-Brahmin-Bania combination in Gujarat.

As a result, the TDP has to look to other groups and the OBCs have been important swing voters in the state. The disillusionment of OBCs with the Congress was crucial in propelling
NTR to power in the 1980s and the TDP attracted sizeable support of the OBCs in the 1990s (Srinivasulu 2003). OBC support has been divided since the 1990s between the TDP and Congress. In the late 1990s, the TDP also attempted to widen its base by reducing the Congress’ hold on the Dalits by politicizing an economic divide between the Malas and Madigas. These attempts at expansion by the TDP were only marginally successful – the traditional party of choice for economically weaker sections such as the Dalits remains the Congress. The TDP’s necessity to widen its base points to a difference with narrow-right BJP coalitions in Gujarat.

Since 2004, the Congress has been in power in AP. In contrast to the more contained nature of the TDP’s social base, the Congress in AP has historically been more of a catch-all party and attracted a diverse range of groups. I classify the electoral coalitions that have backed the Congress since 2004 as wide-right coalitions. Historically, the party’s most consistent supporters have been the Reddys and the Dalits – groups at the opposite ends of the socioeconomic spectrum. During the 1980s, when the TDP ate into the Congress’ OBC base, the party could still rely on Reddys and Dalits as well as Brahmins, Adivasis and Muslims. With the entry of the BJP in the 1990s and its subsequent alliance with the TDP, upper caste support also shifted to the TDP-BJP alliance. The Congress was essentially reduced to a coalition of extremes of the Reddys and Dalits between the mid-1990s and 2004. In both the 2004 and 2009, the Congress appears to have regained its catch-all nature in the state and received support from a range of groups including upper castes, Reddys, some OBC groups, Dalits, Adivasis and Muslims (table 4.2). It was also particularly strong in rural areas.

The Congress’ social base has been considerably more diverse in terms of socioeconomic profiles than the TDP’s. While it does have some representation of business classes through its Reddy and upper caste support, it also depended heavily on deprived sections such as the Dalits
and Adivasis. These wide-right coalitions include a considerably more diverse range of economic interests than the TDP’s social base. Moreover, rural agricultural interests are strongly represented. In fact, the Congress regained power in 2004 emphasizing rural neglect. This meant that rural and poorer sections had to be satisfied first and YSR’s policy agenda primarily comprised of welfare schemes for poorer sections, particularly in rural areas.

The Congress since 2004 has also been conspicuously less pro-business in rhetoric. While the basic policy framework of AP was not altered completely, the Congress has been less aggressive than the TDP in creating an investor-friendly environment. This is not surprisingly given the range of economic interests in its electoral coalitions and the strength of rural demands arising from groups within this coalition. The contradictory economic interests of Congress’ wide coalition were most evident in the effect on state finances. The large rural and lower class base was rewarded with numerous welfare schemes including free power to farmers, subsidized rice and health programs. The stress on redistributive policies, in turn, strained the exchequer leading to the state to slow its thrust on areas such as infrastructure creation and creating a backlog in terms of incentives and concessions promised in the state’s industrial policy. In addition, free electricity to farmers has strained the ability of the state to provide electricity to industry and interviews with businesspersons suggested that many firms now rely on their own generation capacity to meet their needs.

The account in this section argues that the AP’s aggressiveness in attracting investment has fluctuated with the changing nature of electoral coalitions backing the TDP and the Congress. Two other general points need to be emphasized in tracing the link between coalitions and policies. First, the strong rural presence in the state is always likely to act as a check on the extent to which the state can be investor-friendly in AP. In this aspect, AP differs from Gujarat.
Second, the nature of the business-state relationship in AP has veered strongly towards cronyism at times. Rival groups of businessmen, often divided on caste lines, have benefitted alternately from the patronage of TDP and Congress regimes. One notable recent example that illustrates this trend was the case of illegal mining of iron ore by the Obulapuram Mining Company, which received considerable media attention in India in 2010 and 2011. The mining company, owned by brothers Janardhana and Karunakara Reddy (better known as the Bellary brothers), benefitted significantly from a variety of covert benefits granted by both the governments of Karnataka and AP. The Bellary brothers enjoyed close relations with the governments of Karnataka and AP; one of the brothers even became a minister in Karnataka’s BJP government in 2008. By late 2010, leadership changes saw a decline in the political patronage of the Bellary brothers. This led to greater scrutiny into the activities of the company and court cases being filed. In 2011, the Supreme Court ruled that the Obulapuram Mining Company benefitted significantly from illegally mining in a reserve forest area of AP. This infraction had occurred at a time of high world demand for iron ore due to the 2008 Beijing Olympics (IndianExpress 2008b). The Court suggested that the company’s violation of mining leases “could not have taken place without the active connivance of the officers concerned of the Andhra Pradesh government” (EconomicTimes 2011b).

4.1.5 Explaining the origins of AP’s electoral coalitions

AP’s electoral coalitions are a product of both party strategies and voter attachments. Identity politics, in turn, has influenced both these aspects. This has meant that dominant caste cleavages have shaped party strategies in AP. At the same time, certain social groups have complemented some of these strategies by demonstrating considerable electoral loyalty to one of the two main parties, the Congress and the TDP. Each of these mechanisms is explained below.
4.1.5.1 Social cleavages and party strategies

Like Gujarat, dominant caste patterns exist in the state with the Reddys and Kammas being the major groups. Moreover, these groups also have a considerable presence in the entrepreneurial base of the state. Numerical strength in combination with social and economic dominance allowed the Reddys and Kammas to become the main political players in AP. The long-standing Kamma-Reddy conflict has been a master narrative in AP politics. These groups have jockeyed for position since the formation of the state in 1953. The Kamma-Reddy rivalry since the 1980s has been expressed through support and control for the TDP and the Congress.

The two parties have adopted different strategies of coalition construction. As explained earlier, the formation of the TDP was an outgrowth of Kamma disenchantment and the party relies disproportionately on this group. The TDP has been backed by narrow-right coalitions comprising primarily of the Kammas. This high reliance on Kamma support is enabled by the leverage that this group enjoys in AP’s electoral space. The Kammas are numerically sizeable and, more importantly, are geographically concentrated in AP’s coastal belt. Geographic concentration allows the group to electorally punch well above its demographic weight in India’s FPTP system. As a result, the TDP has been able to build its electoral coalition around this group.

The TDP’s strategy has been to focus on its Kamma base and add support of other groups to this core. Though the dominant caste patterns in AP are similar to those in Gujarat, the Kammas enjoy marginally less leverage than the Patidars since they are numerically smaller. In the 1990s, the TDP expanded its social base to include upper castes through coalition
arrangements with the BJP. In addition, the TDP has also enjoyed support from the section of OBCs and, more recently, a section of Dalits.

The numerical size and geographical concentration of the Kammas allowed the TDP to win elections in 1994 and 1999 while relying a narrow set of social groups. In addition, the substantial representation of business in TDP’s narrow-right coalitions is enabled by the fact that the Kammas constitute a major portion of the entrepreneurial base in AP. As such, the coincidence of size and entrepreneurial identity inherent in AP’s dominant caste cleavages has contributed to the emergence of narrow-right coalitions backing the TDP.

In contrast to the TDP, the Congress’ base is more diverse. This coalition includes a range of economic interests, with the powerful Reddys on one end and more marginalized Dalits on the other. The Reddys, in particular, have dominated the leadership of the Congress since the formation of the state as explained earlier. Like the Kammas, the Reddys are numerically sizeable. They are also economically-powerful and form a notable proportion of entrepreneurship in AP. However, unlike the Kammas, the Reddys are not geographically concentrated. To some extent, this requires the Congress to attract support from a wide range of social groups. As described earlier, the Congress’ mode of factional politics in the 1950s and 1960s meant that socially-marginalized groups such as Dalits were mobilized by rival party leaders through vertical chains of patronage. Dalits, along with Muslims, have remained strong Congress supporters since the 1950s. Until the 1980s, the Congress also received OBC support. In many ways, Congress has historically exhibited trends of a catch-all party in AP for most of its history. At times, particularly in the 1980s, it was reduced to a coalition of extremes with Reddy and Dalit support. Whatever the case, there is little doubt that the Congress’ base has depended on a broader set of social groups than the TDP. Importantly, AP’s politics saw one-party dominance
until the 1980s. There was no other game in town barring the Congress until the 1980s and it was not surprising it received support from a broad range of social groups.

The timing of the emergence of narrow-right coalitions in the 1990s can be traced to changes in the patterns of AP politics in the 1970s. Congress dominance and its catch-all bases of support ensured that wide coalitions were the norm in AP until the 1980s. AP’s long history of one-party dominance meant that a viable opposition party did not emerge until the 1980s. In part, as explained in section 4.1.3.2 in more detail, changes in the 1970s triggered the emergence of two-party competition. Rising economic power of the Kammas, a weakening of Congress’ patronage chains and central interference in AP’s affairs drove the formation of the TDP in the 1980s. As such, the combination of these three changes in the 1970s triggered the emergence of the TDP. In turn, the party became the primary vehicle representing Kamma interests. Interestingly, despite the heavy reliance on the Kammas, the TDP, under NTR, adopted populist policies in the 1980s. Subsequently, under Chandrababu Naidu in the 1990s, the TDP’s policy focus was realigned towards a pro-business agenda. In contrast, to NTR’s populism, this policy framework was much more in line with the economic interests of the party’s core Kamma supporters.

In sum, AP’s cleavage structure has influenced the emergence of wide-right and narrow-right coalitions in AP. One comment in relation to the cleavage structure and nature of electoral coalitions is in order here. The underlying cleavage structure in AP is different from Gujarat in one important regard. Though the existence of dominant caste patterns clearly makes narrow coalitions a possibility in AP, as seen through the coalitions backing the TDP, the two main castes are not large enough to ensure the stability of these types of coalitions. The fact that neither the Kammas nor Reddys account for more than 10 per cent of the population has
endowed AP politics with relatively more fluidity than other states such as Gujarat where dominant caste patterns are also present. As such, it is not surprising that policy orientations towards business tend to fluctuate more in AP than in Gujarat.

4.1.5.2 Voter attachments in AP

The party strategies of the TDP and Congress have been complemented from below by the nature of voter attachments in AP. As in the case of Gujarat, social identity is correlated with vote choice. This is particularly true in the case of the two dominant castes – the Kammas and Reddys. Each of these groups shows clear allegiances to the TDP and Congress respectively. Overwhelming Kamma support for the TDP has allowed the party to disproportionately rely on this group. In addition to the Reddys, Dalits and Muslims are also loyal Congress supporters and have formed the core of the party’s base. In contrast to these groups, political loyalties of the OBCs tend to be more fluid and divided between both parties.

Tables 4.1 and 4.2 hint at distinct electoral attachments in AP. In this section, I examine voter attachments to compare the influence of social identity relative to other factors such as class, age, gender and locality. Table 4.3 includes results of a basic multinomial logit analysis of the determinants of vote choice in the 1999 Andhra Pradesh assembly elections. A regression of vote choice as the dependent variable and social group, locality, gender and class (education level is used as proxy for class) was run. Vote choice for the Congress was used as the reference category. Social group is a categorical variable that was constructed based on caste and religion of the individual respondent and consists of 8 categories – Muslims, Adivasis, Dalits, OBCs, Reddys, Kammas, upper castes and a residual category of others. Broadly, the variable of social group was constructed in such a way that higher values correspond to a higher position on the
traditional social hierarchy (The residual group “others” is coded as 1, Muslims as 2, Dalits as 3, Adivasis as 4, OBCs as 5, Reddys as 6, Kammas as 7 and upper castes as 8).

Table 4.3: Social Identity and Vote Choice in AP (Assembly Elections 1999) (Vote Choice for Congress is reference category)

<table>
<thead>
<tr>
<th></th>
<th>TDP</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>-0.0066</td>
<td>0.0009</td>
</tr>
<tr>
<td></td>
<td>(0.0052)</td>
<td>(0.0090)</td>
</tr>
<tr>
<td>Gender</td>
<td>-0.0319</td>
<td>0.5521</td>
</tr>
<tr>
<td></td>
<td>(0.1565)</td>
<td>(0.2770)**</td>
</tr>
<tr>
<td>Locality</td>
<td>0.2712</td>
<td>-0.2932</td>
</tr>
<tr>
<td></td>
<td>(0.1913)</td>
<td>(0.3578)</td>
</tr>
<tr>
<td>Education</td>
<td>-0.1549</td>
<td>-0.0799</td>
</tr>
<tr>
<td></td>
<td>(0.0698)**</td>
<td>(0.1293)</td>
</tr>
<tr>
<td>Social Group</td>
<td>0.2891</td>
<td>-0.0994</td>
</tr>
<tr>
<td></td>
<td>(0.0490)**</td>
<td>(0.0831)</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.9111</td>
<td>-1.5379</td>
</tr>
<tr>
<td></td>
<td>(0.4555)**</td>
<td>(0.8144)*</td>
</tr>
<tr>
<td>Observations</td>
<td>826</td>
<td></td>
</tr>
<tr>
<td>Log-likelihood</td>
<td>-742.88</td>
<td></td>
</tr>
<tr>
<td>Pseudo R-squared</td>
<td>0.036</td>
<td></td>
</tr>
</tbody>
</table>

Multinomial logit with standard errors in parentheses.
* p<0.1; ** p<0.05; *** p<0.01

Source: Calculated using data from the Centre for the Study of Developing Societies (CSDS) post-poll survey of Andhra Pradesh Assembly elections, 1999.

The results in table 4.3 support the link between social identity and vote choice. Relative to the Congress, support for the TDP is associated with groups higher in the traditional social hierarchy. In addition to social identity, the coefficient on education, which is used to proxy for class, is negative and significant. This is surprising but table 4.1 suggests some possible hypotheses. In 1999, the TDP combined support from its Kamma core with substantial support from OBCs and to a lesser extent Adivasis. These three groups tend to be economically-weak and are likely to have lower educational attainments than other social groups. The OBCs, however, tend to act as swing voters, dividing their loyalties between the two main parties.
4.2 Bihar – prolonged failure and a surprising shift

Like the case of Andhra Pradesh, Bihar too exhibits temporal variation in its policy framework. For most of the post-1991 period, Bihar was characterized by a breakdown of state authority. In fact, by some accounts, it typified a failed state. Not surprisingly, the state achieved little in terms of economic development. Investment promotion and industrial development were not even on the state’s policy radar. The 1990s, however, were of immense social and political significance in Bihar, marking the culmination of the rise of the other backward castes (OBCs) to power after decades of marginalization. A strong rhetoric of social justice on the part of RJD governments that governed the state was, however, accompanied by few substantive development initiatives of note. Indeed, there was an overall failure of governance.

Bihar’s downward economic slide has taken a surprising turn for the better since 2005. A change in government has led to a complete reorientation of its development policy framework. The sections below explore these changes and attempt to offer an explanation for both Bihar’s initial failure and its subsequent policy transformation.

4.2.1 The context: Bihar’s economic background

With 103.8 million people, Bihar accounts for 8.6 per cent of India’s population and is the country’s third most populous state. With 41.4 per cent of its population below the poverty line, it is also India’s second poorest state. The state is overwhelmingly rural (almost 90 per cent). It is also one of India’s least industrialized states, accounting for 0.9 per cent of the total

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83 Census of India 2011 (provisional tables, Table 1; censusindia.gov.in; accessed May 30, 2011).
84 Poverty headcount ratio is percentage below the poverty line in 2004-05 based on the uniform recall period (official estimates) from RBI (2010b), table 162.
output of the factory sector in 2008-09. Reflective of high levels of deprivation, 48 per cent of its workforce is employed as agricultural labor compared to a national average of 26.5 per cent. Despite heavy dependence on agriculture, the sector contributes only about 22 per cent of the state’s domestic product.

Some of the roots of Bihar’s economic problems can be traced to the colonial period. The Permanent Settlement of 1793 resulted in a feudal economic structure, with rent-seeking zamindars on top and a highly-marginalized peasantry below, which inhibited both agricultural investment as well as diversification into industry (e.g., Das 1992; Dasgupta 2007; Ghosh 2007). As Dasgupta points out, Bihar developed more along the lines of a classic enclave economy – the state became a major producer of raw materials such as indigo but also was also the main supplier of Indian indentured labor to British plantations in Maldives, Fiji, Guyana, Trinidad, Surinam and elsewhere.

A sole focus on historical factors, however, does not provide a complete explanation for Bihar’s underdevelopment. Though poorer than several other regions at the time of independence, Bihar did not appear to be strikingly different from many other states in terms of other indicators such as literacy or infrastructure. Some of its historical handicaps were compounded by poorly-conceived central policies in the licensing era such as the freight equalization scheme, which negated Bihar’s advantage in terms of sizeable mineral endowments. This scheme led to the development of heavy industry in areas at a considerable distance from raw material sources. A bifurcation of the state in 2000 further weakened its economic base; a

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85 Annual Survey of Industries 2008-09, CSO, Government of India, Table 3 (mospi.nic.in).
86 Census of India (2001).
large portion of united Bihar’s industrial base fell within the borders of the newly-created Jharkhand state.

While Bihar’s problems are complex and long-term factors clearly matter, there is little doubt that the trajectories of the state’s politics form a critical part of the explanation for its underdevelopment; an explosive mix of caste and class struggles had particularly debilitating economic consequences. Economic and political stagnation began in the 1970s but the decline that followed in the 1990s was precipitous. For most of the post-1991 period, the state essentially abrogated its developmental functions and, instead, remained mired in caste conflict. Indeed, given virtual lawlessness pervading Bihar since the early 1980s, it was not even clear that the state could out carry out its most basic writ of a monopoly on violence.

Though the state went into economic free fall in the 1990s, the decade was significant from a social and political viewpoint. The period marked the ‘silent revolution’ in north India, which involved a dramatic increase in lower caste mobilization by parties and leaders of a similar social background (e.g., Jaffrelot 2003). In Bihar, the new politics was led by Lalu Prasad Yadav who became chief minister in 1990 and would come to essentially control the reins of power in the state until 2005. The sole focus of the Bihar government under Lalu Prasad Yadav was on the politics of social justice but this emphasis was merely rhetorical with little being translated into substantial improvements. Growth firmly took a back seat in Bihar for the first fifteen years after liberalization as Yadav’s main focus was displacing upper caste control of the state. Viewing development itself as a process controlled by upper castes, he sought to put a brake on gains to these groups and actively deinstitutionalized the state apparatus (for e.g., Mathew and Moore 2011; Tripathy 2007; Witsoe 2006).
Bihar’s story might have been a simple one of persistent decline but the state has seen a surprising shift in its policy framework and economic trajectory since 2005. Under the JD(U)-BJP government led by Nitish Kumar, which came to power in 2005 and 2010, the state has prioritized economic development. This has included a greater focus on growth-related policies, including investment promotion. Between 2004-05 and 2008-09, Bihar grew at 11.03 per cent, the second fastest rate in the country after Gujarat, albeit from an extremely low base.

These impressive growth rates have rested on certain policy initiatives. One of Nitish Kumar’s first initiatives was to tackle the law and order situation. Kumar’s government also prioritized infrastructure development, attempted to ease the regulatory environment for starting and operating businesses, undertook a variety of measures to rebuild the institutional framework for industrialization and also began offering a variety of incentives and subsidies to investors. While it is still too early to suggest that these changes reflect a more permanent shift, the policy initiatives over the last six years are, nevertheless, a conspicuous, if not striking, break with the previous three decades.

This section will attempt to address two broad questions about Bihar in the post-1991 period. What explains its failure in relation to investment promotion for most of the post-1991 period? How can we explain the noticeable policy shift after 2005? It will suggest that narrow-left coalitions explain much of Bihar’s post-1991 story. In addition, the more recent changes since 2005 reflect a shift in the nature of the electoral coalition. The JD(U)-BJP governments have been backed by a wide-left coalition since 2005. While wide-left coalitions are not as conducive to a pro-business agenda as narrow-right coalitions, they nevertheless afford states more ability to undertake some investor-friendly measures than narrow-left ones.
4.2.2 Bihar’s social structure

For long, Bihar has had one of the most volatile political landscapes in India and much of its post-independence history has been marked by a series of political and economic battles between various social groups, particularly along caste lines. Bihar not only inherited a rigid social structure but historically strong links between caste, land and political power have made the state particularly ripe for both caste and class confrontations (Frankel 1989a; Kohli 1990).

The underlying social cleavage pattern in Bihar conforms to what I classify as the “Hindi-heartland” pattern. For the purposes of this dissertation, two points in relation to the Hindi-heartland pattern will be emphasized in the brief description of the social structure that follows. First, large castes exist under the Hindi-heartland pattern. Second, these large castes have historically been the most socially and economically-marginalized sections. In Bihar, lower castes constitute the vast majority of the population but upper castes dominated social and political spheres until the 1990s. As such, the Hindi-heartland pattern tends to reflect a converse phenomenon than dominant caste patterns. Under dominant caste patterns, it was the overlap between group size and economic resource control that acted as enabling conditions for narrow-right coalitions. Under the Hindi-heartland pattern, certain groups enjoy numerical leverage but they tend to be among the poorest and most socially-marginalized sections of society. This, in turn, is conducive for the emergence of narrow-left coalitions, as described later in this section.

The cleavage patterns in Hindi-heartland states such as Bihar and Uttar Pradesh exemplify the textbook four-fold varna hierarchy. Castes (jatis) from all four macro groupings (varnas) tend to be represented in Bihar’s social structure. Though outnumbered by lower castes, upper castes form a greater proportion of the population under the Hindi-heartland pattern.
compared with states under other cleavage patterns (Jaffrelot 2003). The “twice-born” castes in Bihar – the Brahmins, Bhumihars, Kayasthas, Rajputs and Banias – account for approximately 14 per cent of the population and constitute a notable minority (Frankel 1989a; Kohli 1990). Below the upper castes lies a heterogeneous group of other backward castes (OBCs), who constitute nearly 39 per cent of Bihar’s population (Frankel 1989a; Jaffrelot 2009b). The OBCs are internally diverse, and can further be divided into upper OBCs (approximately 20 per cent of the state’s population) and lower OBCs (about 18 per cent) based on economic distinctions.

Among the upper OBCs, the Yadavs (12 per cent of the Bihar’s total population) have been the most politically influential and, to a lesser extent, the Kurmis (3.5 per cent) and the Koeris (4.1 per cent). In large part, the numerical size of the Yadavs has ensured their political rise in the post-Mandal environment. One of the main parties in the state, the RJD, is built around a Yadav base and the JD(U), which is currently in power as part of a coalition with the BJP, enjoys the loyalty of the Kurmis and Koeris. Bihar also has a sizeable but fragmented Dalit population (15.7 per cent) as well as considerable Muslim presence (16.5 per cent).87 Prior to the bifurcation of Bihar in 2000, the state’s Adivasi population was also notable.

Unlike dominant caste states, large castes such as the Yadavs in the Hindi heartland pattern have never enjoyed control of economic resources and have historically endured high levels of social marginalization. The Yadavs tend to be marginal landholders and did see some socioeconomic improvements as a result of the Green Revolution. On the whole, they tend to be a poor, agricultural group. For a variety of reasons, including adverse colonial heritage in the form of the zamindari system, industrial entrepreneurship never really developed in Bihar. The

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87 Census of India (2001).
local entrepreneurial base is extremely thin. As a result of this structural factor, business representation in electoral coalitions in Bihar tends to be minimal.

Social, economic and political power has been highly correlated in Bihar and this allowed the upper castes to monopolize control of the state for more than four decades; this dominance has also formed the background to much of the political contestation in the state. While forward vs. backward castes has been one master narrative in Bihar’s political history, internal cleavages within these groups as well as class issues have provided the sub-text for other consequential struggles.

4.2.3 A brief overview of Bihar’s politics until 1990

Politics in Bihar can be divided into three major phases – a period of upper caste dominance between 1947 and 1967, the beginnings of the rise of the other backward castes (OBCs) and a forward vs. backward caste struggle between 1967 and 1990 and finally, the culmination of the rise of the OBCs after 1990. In addition, the latter half of the 1990s saw increasing internal fragmentation within OBC politics.

By Bihar’s tumultuous standards, the 1947-1967 period was relatively stable. The twice-born castes dominated politically and were also significantly overrepresented in various government institutions such as the bureaucracy, police and judiciary in Bihar. As in most other parts of the country, the Congress was dominant in Bihar for the first two decades after independence. It was backed by a social coalition that included sizeable support from the upper castes at one end but the socially and economically-marginalized Dalits and Muslims on the other; the weaker groups mobilized primarily through vertical chains of patronage controlled by upper castes (e.g., Jaffrelot 2000). The main political competition during this time was intra-elite
conflict between various upper castes and this was largely played out as factional politics within the Congress (Frankel 1989a; Kohli 1990; Roy 1967). Though there were significant rivalries among upper caste elites, they, nevertheless, effectively closed ranks when there was any semblance of increasing lower caste power.

The next two decades after 1967 saw the emergence of the OBCs as a political force and these castes also moved away from the Congress. The rise of the OBCs, particularly upper OBCs such as Yadavs, Kurmis and Koeris, occurred for a variety of reasons. Socioeconomic improvements brought about by the Green Revolution, factional politics within the Congress and the influence of the socialists under Rammanohar Lohia, who recognized that this group could act as a potential source of support to unseat the Congress, all played a role in greater OBC mobilization. The growth of backward caste political power in this period was manifested by the increased representation of OBCs in various Bihar ministries after 1967.

The period from 1967 to 1971, however, saw considerable political instability in Bihar with nine chief ministers and three stints of President’s rule over four years. This period also marked the beginning of growing criminalization in Bihar’s politics and the state was to witness considerable political violence over the next three and a half decades. The 1967 election is considered a key date in Indian politics as it marked the first time that Congress lost power in several states. Bihar was one of the states where the Congress lost power. Opposition disunity, however, allowed the Congress to return to power in 1969.

General uncertainty and instability would reach a critical point in the mid-1970s. Growing disenchantment with Indira Gandhi’s autocratic rule led to a unified opposition movement throughout India led by Jayprakash Narayan. The greatest impact of the “JP
movement” was in Bihar, the home state of Narayan, and Gujarat. In response to growing opposition, Indira Gandhi would impose a state of emergency in the country in 1975, India’s only authoritarian stint since independence. On revoking the Emergency in 1977, the Congress would lose power at the center for the first time but the Janata government, a motley coalition of right and left parties, lasted only two years in office.

The Janata experiment would have a lasting impact on backward caste politics. In Bihar, Karpoori Thakur would be a key figure representing the rise of the OBCs. Unlike lower caste representatives before him, he was the first chief minister from an OBC background who enjoyed considerable political clout. Though controversial, Thakur’s time in office would act as a precursor for several transformations in Bihar’s politics that would follow in the next three decades. He constituted a cabinet where OBCs enjoyed a preeminent position and forward caste representation was considerably reduced. He also attempted to institute reservations in government service for backward classes, the move provoking violent protests from upper castes. Though Thakur would not be able to carry out his policy proposals in their entirety, his time in office served to create an irrevocable polarization between forward and backward castes in Bihar.

Less than three years after she lost power, Indira Gandhi enjoyed a resounding win in the 1980 elections. Bucking the trend of the OBC rise in Bihar that started in the 1970s, Indira Gandhi chose to institute a Brahmin chief minister, Jagannath Mishra, who in turn cut back on backward caste representation considerably (Frankel 1989a). Bihar increasingly became the site of caste wars and considerable political instability. The political instability of the late 1970s would descend into something even worse in the next two decades. In the 1980s, Bihar would witness a breakdown in political order and sharp increases in violence (Kohli 1990). Kohli
attributes the turmoil in the state to two related struggles – a political struggle for control of the state pitting forward against backward castes and a socioeconomic struggle of landless lower castes against landowning forward and backward castes. All this occurred in a backdrop of economic stagnation, high levels of corruption and deinstitutionalization of the bureaucracy, police and other government arms. By the late 1980s, Bihar would rapidly descend into turmoil. In certain parts of the state, the state did not even enjoy a monopoly on violence and private caste militia had a run of the land (Kohli 1990).

4.2.4 Politics after 1990: OBC dominance and fragmentation in the post-Mandal era

The 1990s would see even more social and political churning in Bihar. Politics in north India in the 1990s was dominated by two master narratives – “Mandal” and “Masjid”. The former, which resulted in major shifts in the trajectory of caste politics in north India, refers to the implementation by the V.P. Singh-led Janata Dal (JD) government in 1990 of a report calling for reservations for OBCs in central government jobs. The latter refers to the 1992 episode when the BJP and its allies demolished the Babri Masjid (a mosque in Uttar Pradesh); the event signifying the extent of the rise of Hindu-nationalists in the north.

Mandal, in particular, changed the face of politics in Bihar. The implementation of the report had two immediate but significant consequences. First, it allowed for the consolidation of OBC political power in the immediate aftermath of the implementation of the report. The announcement of reservations for OBCs led to a violent backlash from upper castes throughout north India in 1990 and created a sharp polarization between upper and backward castes. This, in turn, unified the OBCs as a group (e.g., Jaffrelot 2000, 2003; Kumar 2004; Robin 2009). The second major change was that politics surrounding the Mandal report spurred a dramatic increase
in the political participation of various socially and economically-marginalized sections of society, a phenomenon that has been referred to as India’s “second democratic upsurge” (Yadav 1999, 2002). The “plebian” politics that dominated north India after Mandal stood in stark contrast to the patterns of forward caste dominance observed in earlier periods (Jaffrelot 2009b; Varshney 2000). Since the Mandal Commission report, lower castes have controlled electoral politics in both Bihar and neighboring UP.

In Bihar, post-Mandal politics resulted in a variety of realignments in social bases of political parties. This in turn led to greater party system fragmentation and Bihar has essentially seen extremely high levels of party fragmentation since the 1990s. The OBCs, who had been moving away from the Congress since the 1960s, first mobilized in favor of the Janata Dal (JD) in 1990 following the implementation of the Mandal report. Their representation in the Bihar assembly had been rising over time and the 1990 elections in Bihar marked the first time that proportion of OBC legislators surpassed that of the upper castes (Robin 2009). At the same time, the upper castes began moving away from the Congress towards the BJP.

The consolidation of the OBCs would not, however, last for long. Perceiving the JD to be dominated by one particular sub-caste, the Yadavs, other upper OBC groups such as the Kurmis and Koeris moved away from the JD by the mid-1990s. This fragmentation within the OBCs led to the JD in Bihar splintering into various new parties. Lalu Yadav’s RJD was one of the key parties that emerged from the split. Other notable forces that came out of the break-up were the JD(U) and the Samata. The Samata merged with the JD(U) in 2003 to give the JD(U) its current form.
The OBC fragmentation saw each of these parties representing different social bases; Yadavs and Muslims form the core support of Lalu Prasad Yadav’s RJD while the JD (U) depends on Kurmis, other upper OBCs and a section of Dalits (Robin 2009; Witsoe 2006). These realignments in party bases in the 1990s hurt the Congress significantly in Bihar. Historically, the Congress relied primarily on a coalition of extremes comprising the upper castes and the scheduled castes. In the post-Mandal era, the Congress saw both ends of this support base being undercut by other parties and this reduced the party to a marginal player in the state.

Post-Mandal politics also brought a new set of backward caste leaders the fore in the state. In particular, Lalu Prasad Yadav would come to dominate Bihar politics for almost 15 years. Lalu Yadav himself headed the Bihar government from 1990 to 1997. Following his conviction in the ‘fodder scam’ in 1997, he passed the position of chief minister on to his wife, Rabri Devi, a housewife who until her elevation to the post had exhibited no political inclinations of any sort. Excluding two brief spells of President’s Rule, Rabri Devi would continue at the helm for eight years until 2005 with Lalu acting as de facto chief minister from behind the scenes.

A charismatic and controversial figure, Lalu Yadav came from a poor family of cow-herders and faced considerable discrimination as a boy from upper castes in his village (Thakur 2006; Witsoe 2006). He worked his way up as a student leader who shot to prominence during the JP movement in the mid-1970s. Though Bihar was already on a downward slope when Lalu Yadav came to power, it went into complete free fall during his tenure. The criminalization of Bihari politics, which began in the 1970s, reached its peak in the 1990s and the state descended into virtual lawlessness with private militias controlling many areas. Not surprisingly, considerable outmigration also occurred during this time.
The government abdicated most of its development responsibilities. Instead, Yadav’s focus was on social justice and the politics of izzat [empowerment]; one of the Janata Dal’s early campaign slogan being “vikas nahin, samaan chahiye” or “we need dignity, not development” (Witsoe 2006). His agenda would not result in any substantial improvements for marginalized castes. As Witsoe points out, Lalu sought to mobilize lower castes not through policy initiatives but by appealing to a politics of dignity and identifying himself as one of the marginalized. His main preoccupation was to undo upper caste control, an agenda that he was explicit about both rhetorically as well in terms of actions. This was aptly demonstrated by a slogan regularly used by the JD – “bhurabal hatao”, which can be translated as “get rid of the upper castes.”88 It was a play on Indira Gandhi’s 1971 famous election campaign theme, “garibi hatao” (get rid of poverty).

Yadav came to view all development initiatives and institutions of the state as synonymous with upper caste dominance and sought to curtail their functioning (Thakur 2007; Tripathy 2007; Witsoe 2006). He centralized the entire decision-making system of the state and virtually no policies were formulated or implemented, particularly after his conviction in the fodder scam in 1997. As one Bihar bureaucrat suggested: “The previous government [Lalu Prasad Yadav’s] spent 15 years in power but it was not really following a democratic system. There were hardly any assembly sessions. The cabinet did not meet regularly. Ministers did not meet. At one point, the assembly had 3 sessions of 5 days. The CM took all the decisions and ministers were not free to take any decisions.”89

88 Bhurabal is an acronym for the four twice-born castes in the state
89 Interview with an IAS officer belonging to the Bihar cadre, May 21st, 2010; New Delhi.
In addition, bureaucrats were virtually not allowed to make any independent decisions and even government projects of small monetary value required Yadav’s approval. Mathew and Moore (2011) point out that in several instances government jobs were left vacant as Lalu Yadav preferred not to fill them rather than appoint upper caste applicants. Moreover, Bihar did not even spend amounts allocated to the state through centrally-sponsored development schemes (CSS). Mathew and Moore claim that this was partly by political design and related to Yadav’s agenda of restricting upper caste dominance. In essence, policymaking came to a virtual standstill. As another state bureaucrat explained, “The 1991-2005 period under the RJD was like a lost period. It was really a lost 15 years. This was more so after 1995 when the fodder scam broke out and the political system was under great pressure… One generation of officers [bureaucrats] rotted for 15 years.”90 To some extent, the only section that benefitted in very small measure from Lalu’s regime was his own Yadav sub-caste, who received certain targeted state benefits.

Lalu Yadav’s social message was, however, as significant as his development failures. While backward caste political representation began rising in Bihar since the late 1960s, Lalu Yadav represented the pinnacle of their ascent in Bihar’s politics. As Robin (2009) shows, the percentage of OBC members of parliament from Bihar rose from 5.5 per cent in 1952 to 37.5 per cent in 2004. The process accelerated sharply during Yadav’s tenure. The broader social message he represented drew large support from various marginalized sections. And this occurred despite the fact that he failed to make any substantial improvements in the lives of these groups. By some accounts, he even actively contributed in large measure to Bihar’s political and economic descent.

90 Interview with a Bihar IAS officer, May 25th, 2010; Patna.
Lalu Yadav would, however, come to lose power in the assembly elections of 2005. The OBC unity that existed in the aftermath of Mandal began to crumble by the mid-1990s. Other upper OBC groups, particularly the Kurmis and Koeris, viewed Lalu Yadav’s tenure as disproportionately benefiting the Yadavs. In the 1990 and 1995 Bihar assemblies, the proportion of Yadavs among the RJD’s MLAs was 29.8 per cent and 36.4 per cent while Kurmis representation was 5 and 3.5 per cent respectively (Robin 2009). In addition, Lalu’s social message appeared to run out of steam; he no longer was able to mask his major development failures. Standing on a platform of good governance, a coalition consisting of the JD (U) and the BJP, led by Nitish Kumar, would come to unseat Laloo Yadav’s fifteen year hold on Bihar’s politics.

Nitish Kumar’s tenure since 2005 has resulted in major changes in Bihar. Cracking down on the politician-criminal nexus, his government restored law and order in the state. The JD(U)-BJP government has also successfully prioritized various welfare schemes in health and education. The state has seen major rise in public investment in infrastructure. The state’s industrial policy has also attempted to attract investment by easing the regulatory structure to start and operate a business and through some incentives and concessions. It has highlighted infrastructure improvements in its bid to attract investors.

Bihar’s growth rates, though from an extremely low base, were over 11 per cent between 2004-05 and 2009-10. The JD (U)-BJP combine are currently in their second term, managing to win the 2010 assembly elections in Bihar. While it is too early to judge whether the state has permanently shifted to a new growth path, it nevertheless points to the fact that Bihar has prioritized developmental goals after several decades. As the next section will argue, both the
failures of Laloo Yadav’s regime as well as the recent shifts under Nitish Kumar can be traced to the nature of the electoral coalition backing the government.

4.2.5 From narrow-left to wide-left coalitions and subsequent outcomes

I suggest that the nature of social coalitions has played a major role in influencing Bihar’s developmental trajectory. I argue that narrow-left coalitions, which backed Bihar governments for most of the post-1991 period, led the state to prioritize goals other than growth. The change in government in 2005 resulted in a shift in the underlying type of electoral coalition backing the government. Unlike RJD governments between 1990 and 2005, which were backed by narrow-left coalitions, JD(U)-BJP governments have been backed by wide-left ones. I argue that this shift, in turn, can explain the policy transformation that Bihar has seen since 2005.

Though Bihar’s economic decline predates the liberalization period, the state hit its nadir in the 1990s under RJD governments, first led by Lalu Prasad Yadav and then his wife, Rabri Devi. Yadav came to power in the immediate aftermath of the implementation of Mandal Commission recommendations and he represented the culmination of the OBC rise to political power, which had begun three decades earlier. The RJD built electoral coalitions primarily around two core groups – Yadavs and Muslims. Yadavs and Muslims account for more than 28 per cent of Bihar’s population. In addition, sizeable Dalit support added to this core strength through the 1990s. While the RJD continues to retain an overwhelming proportion of the Yadav vote, the Muslim vote for the party has been declining since 2004 (Kumar and Ranjan 2009).

One aspect should be emphasized. The ability of parties such as the RJD to rely on a small set of social groups to construct electoral majorities has been aided by high levels of party fragmentation. As can be seen in table 4.4, three-cornered contests have prevailed in Bihar since
1990 and this has meant that the thresholds for victory have been fairly low. In fact, the average vote share of the party forming the government in 1990, 1995 and 2000 (JD in 1990 and the RJD subsequently) was only 27.31 per cent. High levels of party fragmentation and low thresholds for victory, in turn, have allowed parties to depend on narrow vote banks.

Table 4.4: Vote shares of parties in Bihar Assembly elections after 1990

<table>
<thead>
<tr>
<th>Election</th>
<th>RJD/JD*</th>
<th>BJP</th>
<th>JD(U)/Samata*</th>
<th>INC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>25.61</td>
<td>11.61</td>
<td></td>
<td>24.78</td>
</tr>
<tr>
<td>1995</td>
<td>27.98</td>
<td>12.96</td>
<td>7.06</td>
<td>16.27</td>
</tr>
<tr>
<td>2000</td>
<td>28.34</td>
<td>14.64</td>
<td>15.12</td>
<td>11.06</td>
</tr>
<tr>
<td>2005 (October)</td>
<td>23.45</td>
<td>15.65</td>
<td>20.46</td>
<td>6.09</td>
</tr>
<tr>
<td>2010</td>
<td>18.84</td>
<td>16.49</td>
<td>22.58</td>
<td>8.37</td>
</tr>
</tbody>
</table>

Source: 1990 to 2005 data from the Election Commission of India (eci.nic.in).

*Splits in the JD in 1994 led to the formation of the RJD, JD(U) and Samata. The Samata party merged with the JD(U) in 2003 to form the current JD(U). Votes in the last column are as follows: 1995 – vote share of the Samata; 2000 - combined vote share of the JD(U) and Samata; 2005 and 2010 – vote share of the JD(U).

Table 4.5: Vote Choice By Social Group (Bihar Assembly Elections 2000)

<table>
<thead>
<tr>
<th>Social Group</th>
<th>INC</th>
<th>BJP</th>
<th>RJD</th>
<th>JD(U)-Samata</th>
<th>Others</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Others</td>
<td>16.67</td>
<td>33.33</td>
<td>33.33</td>
<td>0.00</td>
<td>16.67</td>
<td>6</td>
</tr>
<tr>
<td>Muslims</td>
<td>7.01</td>
<td>6.54</td>
<td>57.48</td>
<td>1.87</td>
<td>27.10</td>
<td>214</td>
</tr>
<tr>
<td>Dalits</td>
<td>9.48</td>
<td>31.50</td>
<td>32.42</td>
<td>7.34</td>
<td>19.27</td>
<td>327</td>
</tr>
<tr>
<td>Adivasis</td>
<td>37.84</td>
<td>12.61</td>
<td>6.31</td>
<td>0.00</td>
<td>43.24</td>
<td>111</td>
</tr>
<tr>
<td>Other OBCs</td>
<td>6.13</td>
<td>27.47</td>
<td>27.47</td>
<td>16.53</td>
<td>22.40</td>
<td>375</td>
</tr>
<tr>
<td>Yadavs</td>
<td>1.94</td>
<td>3.88</td>
<td>79.61</td>
<td>5.34</td>
<td>9.22</td>
<td>206</td>
</tr>
<tr>
<td>Kurmis-Koeris</td>
<td>5.88</td>
<td>28.43</td>
<td>24.02</td>
<td>29.90</td>
<td>11.76</td>
<td>204</td>
</tr>
<tr>
<td>Upper castes</td>
<td>15.14</td>
<td>38.29</td>
<td>10.29</td>
<td>22.86</td>
<td>13.43</td>
<td>350</td>
</tr>
</tbody>
</table>

The dependence of parties on specific social groups is evident in tables 4.5 and 4.6. The upper castes vote in large numbers for the BJP while the RJD depended on Yadavs and Muslims. In the 1990s, the RJD’s core Muslim-Yadav support was supplemented by Dalit support. These three groups constitute the most marginalized sections of society. I classify this coalition as narrow-left since it consists of similarly placed poor groups and business representation is minimal. The lack of business representation can be traced to the fact that a strong indigenous capitalist class never developed in Bihar and the only business groups that operated came from outside the state (Gupta 1981).

Table 4.6: Social identity and voter attachments in Bihar in Lok Sabha elections (Percentage of vote by social group)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper castes</td>
<td>32</td>
<td>10</td>
<td>9</td>
<td>25</td>
<td>60</td>
<td>78</td>
<td>14</td>
<td>29</td>
<td>12</td>
</tr>
<tr>
<td>Yadavs</td>
<td>8</td>
<td>2</td>
<td>8</td>
<td>4</td>
<td>16</td>
<td>18</td>
<td>88</td>
<td>81</td>
<td>86</td>
</tr>
<tr>
<td>Kurmis and Koeris</td>
<td>28</td>
<td>5</td>
<td>24</td>
<td>40</td>
<td>74</td>
<td>56</td>
<td>28</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Kurmis</td>
<td>28</td>
<td>5</td>
<td>24</td>
<td>40</td>
<td>74</td>
<td>56</td>
<td>28</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Koeris</td>
<td>28</td>
<td>5</td>
<td>24</td>
<td>40</td>
<td>74</td>
<td>56</td>
<td>28</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>OBCs</td>
<td>32</td>
<td>3</td>
<td>-</td>
<td>26</td>
<td>41</td>
<td>23</td>
<td>32</td>
<td>50</td>
<td>23</td>
</tr>
<tr>
<td>Lower OBCs</td>
<td>29</td>
<td>11</td>
<td>8</td>
<td>57</td>
<td>63</td>
<td>45</td>
<td>37</td>
<td>36</td>
<td>12</td>
</tr>
<tr>
<td>Dalits</td>
<td>19</td>
<td>19</td>
<td>14</td>
<td>2</td>
<td>25</td>
<td>25</td>
<td>32</td>
<td>31</td>
<td>24</td>
</tr>
<tr>
<td>Adivasis</td>
<td>27</td>
<td>24</td>
<td>70</td>
<td>-</td>
<td>34</td>
<td>8</td>
<td>8</td>
<td>28</td>
<td>-</td>
</tr>
<tr>
<td>Muslims</td>
<td>29</td>
<td>23</td>
<td>15</td>
<td>-</td>
<td>6</td>
<td>4</td>
<td>40</td>
<td>69</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Kumar (2004), table 7
In general, narrow-left coalitions are likely to favor a redistributive policy agenda over other priorities. In the case of Bihar, centuries of extreme caste discrimination meant that the politics of social justice took precedence over redistributive measures. A strong rhetoric of social justice was utilized by RJD governments between 1990 and 2005 but there were virtually no substantive development efforts, including redistributive ones. As Thakur (2007) suggests, Laloo Yadav gave “social and political consciousness to a huge section that remained arrested on the fringes… Laloo Yadav’s stunted backward revolution acted as a release valve on pent-up pressures that for hundreds of years had been building up in Bihar’s iniquitous and exploitative social structure.”

The long history of upper caste dominance meant that message of empowerment played strongly to the marginalized sections that comprised the narrow-left coalition. Moreover, Lalu Yadav’s personal charisma and strategy of portraying himself as one of the marginalized against a larger upper caste enemy was electorally effective (Mathew and Moore 2011; Witsoe 2006). To a large extent, this overshadowed the lack of governance and rapid economic decline that Lalu Yadav presided over. In general, growth is unlikely to be prioritized by governments backed by narrow-left coalitions, which are more likely to be oriented towards redistributive concerns. In the presence of extreme social exclusion that Bihar had historically witnessed, the politics of dignity overtook all other concerns, even tangible redistributive policies.

If narrow-left coalition in Bihar between 1990 and 2005 can explain the low priority accorded to growth in that period, the policy shifts after 2005 under JD(U)-BJP governments can be traced to a change in the underlying electoral alliance. The alliance between Nitish Kumar’s JD (U) and the BJP has been termed a “rainbow” coalition. Two important upper OBCs, the Kurmis and Koeris, form the core social base of the JD (U). In addition, Nitish Kumar managed to cut into the Dalit and Muslim base of Laloo Yadav’s RJD (Kumar and Ranjan 2009). By
targeting the poorest sections of the Dalits, the “Mahadalits”, through welfare schemes, Nitish Kumar has successfully attempted to create a new cleavage and fragment the Dalit vote. The JD (U)-BJP alliance also receives overwhelming support from the upper castes, who have been consistent supporters of the BJP since the early 1990s.

The electoral base coalitions backing the JD (U)-BJP government exemplify wide-left coalitions. A variety of groups with diverse socioeconomic interests are represented in this coalition, including the poorest sections of Dalits on one end and the upper castes on the other. The size of the local capitalist class is very small and Bihar never saw a robust development of indigenous capital as other Indian states. Inasmuch as local business and trading interests exist, these groups largely support the BJP. Nitish Kumar campaigned on a platform of good governance and development. Unlike his predecessor, his government has prioritized a variety of developmental goals reflective of the range of economic interests encompassed within his coalition. These policy initiatives include considerable public investment in infrastructure, a focus on health and education and easing the regulatory structure for business.

4.2.6 Explaining the emergence of electoral coalitions in Bihar

While identity has been a central feature of electoral politics in many Indian states, few states can match Bihar in the extent of caste polarization. The centrality of caste has been a constant feature in Bihar’s politics. As in the other case studies, caste has affected both party strategies and voter attachments in Bihar. I first highlight the effect of social cleavages on party strategies and then the link between caste and voter decisions.
4.2.6.1 Social cleavages and party strategies

Hindi-heartland patterns characterize Bihar’s social structure. As explained earlier, this pattern is characterized by the presence of large yet economically-weak groups. The presence of large caste groups has allowed politicians to construct coalitions around these sections. In particular, increasing political fragmentation since the 1990s has resulted in parties depending on specific vote banks. Till 2005, the RJD relied primarily on the Yadavs and Muslims. The JD(U)-BJP coalition has combined the complementary Kurmi-Koeri base of the former with upper caste support of the latter. In addition, this core support of the JD(U)-BJP has been supplemented by Dalit and Muslim support.

In general, Bihar’s underlying caste structure makes it possible for parties to rely on fewer social groups in constructing electoral coalitions. High levels of party fragmentation in the 1990s have intensified this trend. The RJD has targeted Yadavs and Muslims, both sizeable groups. Despite the disproportionate reliance on these two groups, the RJD managed to win elections through the 1990s, aided by high levels of party system fragmentation. The JD(U) and the BJP individually depend on specific social groups. However, neither the Kurmi-Koeri base of the JD(U) nor the upper caste base of the BJP alone is sufficient to ensure electoral majorities. This has led to a coalition arrangement. The combination of the complementary bases of the two parties has proved to be electorally successful. In addition, one structural feature explains low levels of business representation in Bihar’s electoral coalitions. Bihar’s entrepreneurial base is extremely thin. As a result, minimal business representation has been the norm.

The timing of narrow-left coalitions in the 1990s was a product of a longer history of electoral realignments. Until 1967, Congress dominance was characterized by upper caste
control of politics and the main lines of competition were between factions of upper caste elites. Lower castes were mobilized through vertical patronage chains. The initial challenge to upper caste dominance would come from the backward castes in the 1960s. Prior to the 1960s, OBCs had been part of vertical patronage chains within the Congress.

The numerical strength of OBCs made them an attractive target for parties. In the 1960s, the socialists under Rammanohar Lohia would recognize that consolidated OBC support could be effective in challenging the Congress. The socialists mobilized the group through calls for reservations in employment, education and offering tickets to OBC and Dalit candidates (Jaffrelot 2000). In addition, improvements in the economic status of certain upper OBC sections due to the Green Revolution meant that these groups were ripe for independent mobilization in the 1960s. Lohia’s message played out strongly in Bihar and a coalition of Lohia’s SSP and other backward caste groups defeated the Congress for the first time in the 1967 elections. After 1967, the Congress would have considerable trouble holding on to the OBCs throughout the Hindi heartland.

Polarization between the backward and forward castes would set the stage for the next series of major political changes. This would occur in the mid-1970s in the form of growing opposition to Indira Gandhi’s dictatorial tendencies. The opposition would be spearheaded by veteran Gandhian Jayaprakash Narayan, who returned to active politics to lead the movement. The movement eventually led to the victory of the Janata in 1977, both in Bihar and at the center. In Bihar, OBCs played a prominent role in the Janata’s victory. For the first time, in Karpoori Thakur, Bihar would have a backward caste chief minister who enjoyed considerable political strength. OBC representation in government increased significantly under Thakur. Though the
Congress managed to retain power in Bihar through the 1980s, it was clear that its hold was weakening in the face of growing OBC political power.

The decisive moment in the upward rise of the OBCs in Bihar came in the aftermath of the Janata Dal’s decision to implement the Mandal Commission report in 1989. Violent anti-Mandal protests led to a sharp polarization between upper castes and OBCs in north India. This had the effect of mobilizing OBCs as a single cohesive group under the Janata Dal. Lalu Yadav would emerge as the leader of the “silent revolution” of subaltern groups in Bihar. For over 15 years, he was effectively at the political helm of Bihar backed by a narrow-left coalition, comprising primarily of Yadavs and Muslims. Though this coalition would emerge in Bihar only in the 1990s, its origins had its roots in broader political shifts that began in the 1960s.

The RJD would be defeated in 2005 and 2010 by the JD(U)-BJP coalition. JD(U)-BJP governments have been backed by wide-left coalitions. Two political trends in the 1990s have been central to the emergence of wide-left coalitions since 2005 – OBC fragmentation and the consolidation of the upper castes. OBC consolidation behind the JD in the early 1990s proved temporary. Alienated by the Yadav caste’s domination of the JD, other backward castes such as the Kurmis and Koeris moved away from the party. At the same time that changes in OBC politics were taking place in the aftermath of Mandal, upper castes moved away from the Congress to the BJP.

Both OBC fragmentation and upper caste consolidation behind the BJP would play a part in the emergence of wide-right coalitions since 2005. OBC fragmentation would lead to the break-up of the JD into several parties in the mid-1990s, notably the RJD and the Samata Party. The Samata would then be joined by a few other factions, leading the creation of the JD (U) in
2003. The JD(U) would build its base around the Kurmis and Koeris. A sole dependence on the Kurmis and Koeris is not sufficient to construct winning majorities. As a result, the JD(U) has entered into a coalition arrangement with the BJP. The complementary bases of the JD(U) and BJP has, in turn, proved electorally effective.

4.2.6.2 Voter attachments in Bihar

As described in the previous section, the ability of parties to rely on specific vote banks in Bihar has been supported from below by voter behavior. Caste has been a critical driver of voter attachments in Bihar. As tables 4.5 and 4.6 show, there is a high degree of correlation in the voting decisions of individuals belonging to particular social groups. Yadavs and Muslims have supported the RJD while upper castes have been loyal to the BJP. In addition, the Kurmis and Koeris form the core base of the JD(U).

In this section, I examine voter attachments relative to other factors using survey data from the 2000 Bihar Assembly elections. A multinomial logit regression of vote choice on age, gender, class (proxied by education), locality and social group was run. As in the cases of the other three states, social group was a categorical variable that was constructed based on caste and religion. Smaller values on this variable represent positions lower on the traditional social hierarchy.

Table 4.7 presents the results of this regression. Vote for the BJP is used as the reference category. As the results suggest, social identity is a significant factor in explaining vote choice for all parties relative to the BJP. In 2000, the RJD and the Congress attracted support from more socially-marginalized groups than the BJP. The Samata-JD(U) attracted groups that were higher on the social scale. Relative to the BJP, all other parties also tended to attract support from rural
voters. Parties in Bihar since the 1990s have tended to depend on narrow vote banks. The regression results suggest a strong association between individual vote choice and social identity, which complements party decisions to target specific vote banks from below.

Table 4.7: Vote Choice and Social Identity (Bihar Assembly Elections 2000)

<table>
<thead>
<tr>
<th></th>
<th>INC</th>
<th>RJD</th>
<th>JD(U)-Samata</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>0.0083</td>
<td>-0.0122</td>
<td>-0.0099</td>
<td>-0.0141</td>
</tr>
<tr>
<td>(0.0063)</td>
<td>(0.0048)**</td>
<td>(0.0061)</td>
<td>(0.0055)**</td>
<td></td>
</tr>
<tr>
<td>Gender</td>
<td>0.3636</td>
<td>-0.1061</td>
<td>0.0832</td>
<td>-0.1773</td>
</tr>
<tr>
<td>(0.1951)*</td>
<td>(0.1425)</td>
<td>(0.1810)</td>
<td>(0.1641)</td>
<td></td>
</tr>
<tr>
<td>Locality</td>
<td>-0.8843</td>
<td>-0.6847</td>
<td>-1.5558</td>
<td>-1.4042</td>
</tr>
<tr>
<td>(0.3206)**</td>
<td>(0.2142)**</td>
<td>(0.3467)**</td>
<td>(0.3035)**</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>0.1389</td>
<td>-0.0590</td>
<td>0.2467</td>
<td>0.0434</td>
</tr>
<tr>
<td>(0.1156)</td>
<td>(0.0841)</td>
<td>(0.0999)**</td>
<td>(0.0954)</td>
<td></td>
</tr>
<tr>
<td>Social Group</td>
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<td>-0.2619</td>
</tr>
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<td>(0.0340)**</td>
<td>(0.0467)**</td>
<td>(0.0392)**</td>
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<tr>
<td>(0.6044)</td>
<td>(0.4251)**</td>
<td>(0.5916)</td>
<td>(0.5153)**</td>
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<tr>
<td>Log likelihood</td>
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<td>Pseudo R-squared</td>
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N 1,793

Source: Calculated using data from the Centre for the Study of Developing Societies (CSDS) post-poll survey of Andhra Pradesh Assembly elections, 1999.

4.2.7 Conclusion

In this chapter, I examined shifting policy commitments of AP and Bihar in the competition for investment. Importantly, these cases highlight that policies can change over time. Moreover, I argued that policy shifts in these states can be directly associated with the shifting nature of electoral coalitions backing governments. Between 1994 and 2004, AP was among the most aggressive states in attempting to attract investment. While this policy framework was
surprising given AP’s middling performance in the pre-1991 era, I suggested that the state’s pro-business orientation could be linked to narrow-right coalitions that backed TDP governments. In particular, the economic interests of the Kammas favor the prioritization of investor-friendly policies.

Rural neglect, however, proved to be the TDP’s electoral downfall in 2004. Congress governments that came to power in 2004 and 2009 have been backed by wide-right coalitions. These coalitions consist of groups with a wide range of economic profiles. Rural interests are also strongly represented. As a result of these diverse interests and greater pressure for redistributive measures, Congress governments since 2004 have adopted a more muted approach to investment promotion. AP’s case offers some parallels with Gujarat. Both states are characterized by dominant caste patterns that include large, entrepreneurial social groups. These patterns have driven the emergence of narrow-right coalitions in both states. However, I suggested there were key differences between the two states. In particular, AP’s social structure makes narrow-right coalitions less stable than those in Gujarat. Voter attachments also demonstrate more fluidity. Both these factors account for the shifting nature of electoral coalitions in AP.

Perhaps no other case in India demonstrates the possibilities of policy change better than Bihar. For most of the post-1991 period, Bihar witnessed the break-down of state authority. Predictably, economic development initiatives were firmly on the backburner. RJD governments backed by narrow-left coalitions relied on a strong rhetoric of social justice. But this rhetoric was accompanied by few substantive policy efforts of note. A change in government in 2005 has resulted in a marked change in Bihar’s commitment to economic development in general. The state has prioritized a variety of development goals. It has also been considerably more proactive.
in attempting to attract investment. I suggest that this surprising transformation can be linked to wide-right coalitions that have backed JD(U)-BJP governments since 2005. In contrast to narrow-left coalitions that backed RJD governments, wide-right coalitions represent a broader range of economic interests. The JD(U)-BJP’s economic agenda is representative of these diverse interests.

The emergence of these types of electoral coalitions in Bihar can be explained by two different factors. Hindi-heartland patterns have influenced party strategies; the presence of large caste groups provides strong incentives for parties to rely disproportionately on the support of a small set of social groups. This dependence on specific vote banks has been aided by high levels of party system fragmentation. High fragmentation has meant that thresholds for electoral victory are relatively low in Bihar. As a result, parties can come to power despite relying on narrow coalitions. The critical influence that caste has on voter attachments in Bihar has complemented party strategies.
5. Chapter 5: Expanding the scope of analysis

In an attempt to gain analytical leverage from multiple research strategies, this dissertation follows Lieberman (2005) in employing a nested research design that combines both qualitative and quantitative techniques. The “model-building” cases of Gujarat, Punjab, Andhra Pradesh and Bihar in chapters 3 and 4 formed the meat of the dissertation. In-depth analyses of those four states allowed me to inductively develop the key causal mechanisms of the main argument. The four cases illuminated the role played by electoral coalitions in influencing policy responses. In turn, I suggested that origins of electoral coalitions can be traced to varied social cleavage patterns across these four states.

In this chapter, I build on the insights developed in the model-building cases and test the main hypothesis on a broader group of Indian states using a quantitative framework. Specifically, I assess the generalizability of the first stage of the argument – the link between electoral coalitions and policies – using a time-series cross-section (TSCS) analysis on a broader sample of 14 major Indian states between 1992 and 2010.91 Apart from forming the “model-testing” portion of my analysis, the quantitative framework in this chapter allows me to juxtapose and evaluate my argument against several alternative and additional theories in a succinct fashion.

Before outlining the details of the empirical strategy and results, it is worth reiterating the gist of the central argument and the conclusions of the case studies in chapters 3 and 4. This dissertation advances a two-stage argument. First, I suggest that different configurations of electoral coalitions explain varied policy outcomes in the competition for investment across

91 The dataset used comprises 14 states. In most regressions, only 13 states are included in the analysis due to the lack of availability of the colonial heritage variable (proportion of each state under a non-zamindari tenure system) for Kerala. The data for this variable is obtained from Banerjee and Iyer (2005) and data for Kerala is not available in their dataset.
Based on two dimensions – the socio-economic profile of core groups and extent of business incorporation – I classified electoral coalitions into narrow-right, narrow-left, wide-right and wide-left types. I argued that narrow-right coalitions, comprising social groups with a confined, economically-advanced profile and substantial business representation, were most conducive to business-friendly policies. Having drawn a link between electoral coalitions and policy outcomes, the second stage of my argument offered a social origins explanation for the emergence of different types of coalitions. Specifically, I suggested that certain types of electoral coalitions in India were more likely to emerge under particular social cleavage patterns.

The case studies of Gujarat, Punjab, Andhra Pradesh and Bihar highlighted the specific mechanisms of this two-stage argument. While narrow-right coalitions backing governments in Gujarat allowed the state to prioritize and advance an investor-friendly agenda since 1991, wide-right coalitions in Punjab can be associated with its sluggish policy response. In chapter 4, I argued that temporal changes in the policy commitments of AP and Bihar could be linked to a shift in the type of electoral coalitions backing state governments. The move from narrow-left to wide-left coalitions led to improved policy outcomes in Bihar while the change from narrow-right to wide-right coalitions resulted in AP’s declining commitment to a pro-business agenda. In chapters 3 and 4, I also traced the origins of electoral coalitions to the distinct nature of social cleavages in the four states.

The main testable prediction arising from the first-stage of my argument is that governments backed by narrow-right coalitions are likely to be most conducive to pro-business policies. In addition, I expect a rank-order in the likelihood of different types of coalitions adopting investor-friendly policies. I expect that narrow-left coalitions to be least likely to adopt an investor-friendly agenda followed by wide-left and then wide-right coalitions. The quantitative analysis in
this chapter provides overall support for these predictions. In particular, there is strong support to suggest that narrow-left coalitions are not conducive to an investor-friendly agenda. This finding holds across different empirical specifications, even when a variety of other factors are controlled for. The next section provides details of the data used, section 5.2 outlines the empirical strategy and 5.3 describes the results.

5.1. Data

I constructed a dataset of economic and political variables for fourteen Indian states between 1992 and 2010. These states are the most populous in India. They are also classified as “general category” states under India’s system of fiscal federalism and are subject to an identical set of rules with regard to financial transfers from the central government. The states included in the sample are AP, Bihar, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal. According to the 2011 Census, almost 88 per cent of the Indian population (approximately 1.05 billion people) lived in these states.

5.1.1. Dependent variable

In chapter 2, I undertook an extensive comparison of investment promotion policies across the four case study states along multiple dimensions. The detailed comparison in that chapter was based in large part on data derived from fieldwork, particularly from policy

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92 As mentioned later in the chapter, some regressions are run on 13 of the 14 states due to lack of data on the colonial heritage variable.

93 India’s system of fiscal federalism divides states into two categories – “general category” and “special category.” States included in the general category comprise almost 95 per cent of India’s population. Compared with general category states, special category states receive a greater proportion of fiscal transfers from the central government in the form of grants and a smaller portion in the form of loans due to reasons such as geographic location. Given the distinct nature of institutional arrangements in special category states, they are excluded on grounds of non-comparability. Typically, public finance studies in India analyze the two categories separately as incentives for policymakers are likely to differ given different fiscal arrangements.
documents and interviews. Though ideal, such fine-grained analysis of policy measures is not feasible for a broader sample of states. In light of this constraint, the dependent variable is operationalized through state expenditures on industry in the quantitative analysis presented in this chapter. In particular, two proxies – per capita expenditure on industry and expenditure on industry as a proportion of total expenditure – are alternately used as dependent variables in the regressions.\(^9^4\)

To be certain, expenditures on industry do not encompass all policy dimensions that matter to investors. However, they act as an effective proxy of policy performance across Indian states and I chose to rely on industrial expenditures as the dependent variable for several reasons. Most importantly, expenditures on industry are an objective, publicly-available measure of policy intentions towards business. Expenditures are comparable across states. A second advantage of using expenditures on industry is related to data availability and coverage. Unlike several other variables, expenditure data is available from the Reserve Bank of India for all states in the dataset through the entire post-liberalization period. In some cases, state investment promotion agendas have shifted over time and expenditures on industry offer the potential to analyze temporal changes. In using expenditures as a proxy for policy intentions, I follow several studies in the comparative political economy literature (e.g., Chhibber and Nooruddin 2004; Lieberman 2009).

One clarification should be mentioned here. Off-the-shelf composite indicators such as the World Bank’s Doing Business Indicators (WorldBank and InternationalFinanceCorporation 2009) or the Economic Freedom index of Indian states (Debroy et al. 2013) were not used for

\(^9^4\) Expenditure refers to revenue expenditure in this chapter. These relate to the revenue account of state governments. Nooruddin and Chhibber (2008) suggest that this is the portion of expenditures on which state governments in India enjoy discretion. They suggest that state governments do not have complete discretion over funds in the capital account. I use only revenue expenditures on industry for this reason.
several conceptual and practical reasons. For a start, most of these composite policy indices are
available only at a particular point in time and do not allow for analysis over time. More
importantly, these indices conflate state capacity with policy intentions, which is problematic in
the context of this dissertation. Reading policy intentions from these composite measures can
potentially lead to inaccurate inferences. Expenditures on industry, in contrast, are a closer
approximation of policy priorities towards business and are therefore used as the dependent
variable in the analysis that follows. Figures 5.1 and 5.2 show the variation across Indian states
in per capita expenditures on industry as well as the proportion of total expenditure spent on
industry.

95Composite indices such as the Economic Freedom index (Debroy et al. 2013) include numerous measures
intended to capture both state capacity and policy intentions. While this poses no theoretical difficulty for their
analysis, it is not suitable for use here since the dissertation aims to focus on policy intentions. For example, Debroy
et al. calculate an equally-weighted index consisting of a long list of policies including property rights, labor
environment and taxes. Conceptually, it is unclear whether the specific operationalization of these measures reflects
state capacity or policy inclinations. For example, in lieu of the availability of data on tax rates across Indian states,
Debroy et al. use the amount of taxes collected (as a proportion of total revenue) as a proxy for tax policies. Reading
tax policy intentions from the amount of taxes collected is problematic for the purposes here. In particular, several
states identified in some qualitative studies as having weak policy frameworks appear to be “pro-business” because
of low amount of taxes collected. This is misleading since low tax collection could potentially be an outcome of
either weak state capacity or low tax rates. Given broader trends, low tax collection in poorer Indian states is more
likely a symptom of low state capacity than pro-business policies.
Figure 5.1: Per Capita Expenditure on Industry Across States, 1992-2010
Figure 5.2: Expenditure on Industry as a Proportion of Total Expenditure, 1992-2010
5.1.2. The key independent variables: coalition types

The main independent variables of interest are the four types of electoral coalitions – narrow-left, narrow-right, wide-left and wide-right. In the analysis that follows, coalition types are operationalized as dummy variables. The coding of coalition types was primarily based on the secondary literature. In particular, I relied substantially on electoral studies in each of the states to identify the social bases of support of political parties. The literature on business history in India was used to identify the nature of business groups in each state. The appendix to the chapter includes all sources used and a descriptions of political trends on which the coding was based.

I coded electoral coalitions in the following manner. For each of the states, I first identified various governments in office in the 1992-2010 period and ascertained the party/parties that constituted these governments. In most cases, a new government assumed office after assembly elections. It should be noted that there are several cases of mid-term elections in the period under study. While most new governments came to power after elections, there are rare instances where legislative arrangements resulted in a change in government without elections.\footnote{For example, the Congress – JD(S) coalition formed the government in Karnataka after the 2004 assembly elections. In 2006, the JD(S) ended its coalition arrangement with the Congress and instead formed a coalition with the BJP. The JD(S)-BJP coalition then governed Karnataka until assembly elections in 2008. I account for both changes in government and code coalition type separately for the Congress-JD(S) government and the subsequent JD(S)-BJP one.} I take into account each change in government whether this occurred due to elections or otherwise.

Having identified the party/parties that headed governments in each of the fourteen states in the 1992-2010 period, I then proceeded to evaluate the social base of electoral support for the ruling party/parties. For each state, core social groups are operationalized on the basis of support
for a particular ruling party/ruling coalition in each assembly election in that state between 1991 and 2010. Core groups are identified as sections that voted substantially for the winning party/parties in a given election. Based on two criteria – diversity of socioeconomic profile of core groups and extent of business incorporation – coalitions were then classified into the four types described in chapter 1. In particular, the following questions were used to code coalition types: 1) Is the socio-economic profile of social groups in the coalition confined or diverse? If confined, the coalition is coded as narrow. If diverse, then it is coded as wide; 2) Is there substantial business representation in the coalition? If yes, the coalition is classified as right. It is classified as left otherwise. The coalition types are operationalized as dummy variables in the regressions. The coding for electoral coalition type is constant through a particular government’s term. As mentioned earlier, government terms typically coincide with election cycles.97

A detailed explanation of the coding for each state as well as a list of sources used is presented in the appendix to this chapter. Table 5.10 in the appendix summarizes the classification of electoral coalitions across the fourteen states in the 1992-2010 period. Notes explaining the coding of each state accompany table 5.10.

5.1.3. Controls

To test the relevance of my argument against other theories, I include a variety of political, economic and institutional control variables in the regressions. Poorer regions may have to adopt a more pro-business agenda to overcome initial disadvantages. I control for any possible effects of initial economic development by including per capita income of each state in

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97 In cases where the state was under President’s Rule, the electoral coalition type immediately prior to the imposition of President’s Rule is used. Periods of President’s Rule are typically, however, brief.
1991, the start of the reforms process. In addition to initial economic development, I include a variety of other economic controls. Expenditure on industry is likely to be affected by the robustness of the state’s economy and its finances. States that spend more on industry may simply be richer or faster-growing areas. To control for these potential influences, I include annual per capita income and growth of gross state domestic product (GSDP). Following Nooruddin and Chhibber (2008), I also include a third variable related to a state’s economic condition – fiscal space. Nooruddin and Chhibber find that the availability of financial resources affects levels of electoral volatility across states in India. They argue that incumbent governments with sufficient budgetary resources are more likely to be able to enact policy initiatives and provide public services to citizens. In contrast, incumbents who face budgetary constraints are unlikely to enact policies or provide services to voters to the same extent. Adapting Nooruddin and Chhibber’s hypothesis, states with greater fiscal space can be expected to spend more on industry. Using data from the Reserve Bank of India, I calculate fiscal space based on Nooruddin and Chhibber’s formula and include it as a variable in the regressions. Nooruddin and Chhibber define fiscal space according to the following formula:

\[
Fiscal\ Space = \frac{[\text{Total Revenue} - (\text{Civilian Administration + Police + Debt Service}) + \text{Deficit}]}{\text{Total Revenue}}
\]

In addition to measures of a state’s economic and fiscal health, a control for inequality is also included. Starting with the classic models of Romer (1975) and Meltzer and Richard (1981), a long literature from advanced industrial economies confirms an inverse relationship between income and individual preferences for redistribution. Numerous studies have built on the core
Meltzer-Richards logic and tested whether higher inequality leads to greater redistribution. As such, we might expect states with higher inequality in India to focus more on a redistributive agenda and less on pro-business policies. To control for any potential effects of inequality, consumption GINI coefficients are included in the regressions.

A growing literature in the Indian context links colonial institutions to a variety of current development outcomes. Banerjee and Iyer (2005) find that areas previously under the zamindari land tenure system exhibit significantly lower levels of investment, agricultural productivity, and health and education outcomes when compared with non-zamindari regions. To control for colonial heritage, I use data from Banerjee and Iyer’s paper and include the proportion of non-zamindari regions in each state.

Several studies both within and outside the Indian context argue that political competition affects economic policies and public goods provision (e.g., Besley et al. 2010; Chhibber and Nooruddin 2004; Murillo and Martinez-Gallardo 2007). Besley et al. examine states in the US and find that higher political competition is associated with “pro-business and growth-promoting” policies. Murillo and Martinez-Gallardo find that legislative majorites and ideological polarization influenced the adoption of infrastructure policy reforms in Latin America. In the Indian context, Chhibber and Nooruddin argue that party system fragmentation can be linked to public goods provision across India; they find that states with two-party competition provide more public goods than those with multi-party competition. To account for the effects of political competition, I include two different measures. To control for the intensity of electoral competition, I include a variable, vote margin, which is the difference in vote share of the single

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98 For a review of this literature, see Lupu and Pontusson (2011)
99 Official poverty and inequality statistics in India are calculated on the basis of consumption. These are based on household surveys. The rural consumption GINI is used in the regressions.
largest party and the second largest party in a given state assembly election. I also control for party system fragmentation given Chhibber and Nooruddin’s (2004) finding. I calculated the effective number of parties (ENP) in each state election and include it in the set of independent variables. Finally, I also included a control for length of government term since this varies in the dataset and coalition type remains constant during a particular government term.\textsuperscript{100}

Table 5.7 in the appendix to this chapter provides a list of variables and data sources. The appendix also summary statistics (table 5.8) and a correlation matrix (table 5.9) for the variables used in the regressions.

5.2. Empirical strategy

I employ a time-series cross-section analysis (TSCS) where the unit of analysis is state-election/government cycle. The unit of time is each government term in a given state in the 1992-2010 period. As mentioned earlier, typically changes in government in the dataset have followed elections. In some cases, mid-term changes in government occurred without elections due to legislative arrangements. The dependent variable (expenditures on industry) along with relevant economic control variables are averaged over each government term cycle in that particular state and the averages are used in the regressions. The main independent variables – coalition types – are coded as dummies and coalition type remain unchanged through the course of a government term in a given state.

While the main portion of the analysis treats each state-election/government cycle as the unit of analysis, I also ran a set of regressions with state-year as the unit analysis. Since the effect of coalitions is likely to occur gradually through the course of a government’s term, the use of

\textsuperscript{100} As the next section describes, I use state-government term as the unit of analysis but also run the regressions for state-year. The length of government term is not relevant for the regressions using state-year as the unit of analysis.
state-election/government cycle as the unit of analysis is attractive for conceptual reasons.

Wilson and Butler (2007) point out that using multiple periods in TSCS analysis is legitimate only if there is enough change in the variables and relationships to treat multiple time periods as distinct observations. This is very relevant for the data here. In particular, the main independent variables – coalition type dummies – remain unchanged during a government term. Since I am concerned with the effect of coalition type on policies and coalition type remains unchanged within a government term, it makes conceptual sense to analyze the data on a state-government term basis rather than on a state-year basis. As a robustness check, however, I include results using state-year in table 5.4, 5.5 and 5.6. The use of state-government term is also likely smooth out any idiosyncratic fluctuations in expenditure that might be present in annual data.

There is debate within the literature on the appropriate method to use for TSCS analysis (e.g., Beck and Katz 1995, 1996, 2011; Wawro 2002). Back and Katz (2011) suggest that there is no cookbook method that should be followed and the empirical specification should take into account the specific properties of the data in question. I broadly followed the suggestions in this literature as well as some recent empirical studies of Indian states in deciding on the empirical approach. To overcome overreliance on any single method, I used three different empirical specifications in this chapter. For each of the three specifications, I alternately used per capita expenditures on industry and industrial expenditure as a proportion of total expenditure as the dependent variable. I regressed these two measures of expenditure on my main independent variables – coalition types – as well as the economic and political controls described earlier. Coalition types are divided into four types and three of the four dummies are included in the regressions. The lagged dependent variable is used in all regressions following Beck and Katz (1996, 1995).
One key point should be highlighted here. I could not include state fixed effects in the regressions due to the nature of my data. Unit fixed effects cannot be used in conjunction with time-invariant and slowly-moving independent variables. My key independent variables – coalition types – are slow-moving or time-invariant for some states. Due to the fact that coalition dummies were time-invariant in some cases and slowly-moving in others, they tended to be highly or perfectly collinear with state fixed effects. As such, it was not possible to run a regression with both coalition dummy types and state fixed effects.\textsuperscript{101} To account for unit heterogeneity in the absence of state dummy variables, I include a range of explanatory variables. It should be noted that some studies in the Indian political economy literature do not use fixed effects either (Chhibber and Nooruddin 2004; Nooruddin and Chhibber 2008). Chhibber and Nooruddin’s 2004 includes results from an OLS with panel corrected standard errors (PCSE) specification and a lagged dependent variable while their 2008 paper uses random effects. I similarly use both these specifications in my regressions.

Given these various considerations, I use three different empirical specifications in this chapter. Following Beck and Katz (1995, 1996), the first specification used OLS with PCSE and a lagged dependent variable. In addition to OLS with PCSE, I use two other specifications. A second set of regressions was run using random effects. I also ran a third specification using a fixed effects vector decomposition model (Plümper and Troeger 2007). Plumper and Troeger’s method develops a three step process that allows for the estimation of time-invariant and slowly-changing variables in panel data with unit effects. There is debate on the effectiveness of the

\textsuperscript{101} The problem of slowly-moving variables persisted whether I used state-government/election cycle as the unit of analysis or state-year. I also tried to run a fixed effects model using only those states which exhibited temporal variation in coalition type over time. Even among these states, coalition type is slow-moving and fixed effects could not be included due to collinearity problems.
fixed effects vector decomposition method (see Beck 2011; Greene 2011). Nevertheless, I include it here as an alternate specification.

5.3. Results

Each of the three specifications described above were run using both dependent variables - logged per capita expenditure and expenditure on industry as a total proportion of expenditure. Coalition types are coded as dummies and the omitted category in all regressions is narrow-right. The expectation is that the coefficients on the narrow-left, wide-left and wide-right dummies should be negative. In addition, narrow-left coalition should spend the least on industry followed by wide-left and wide-right coalitions. The results provide consistent support for the predictions. In particular, there is clear evidence that narrow-left coalitions are associated with lower spending on industry when compared with narrow-right coalitions. This result is robust to the inclusion of a variety of controls as well as to the various specifications used.

Table 5.1 and presents results from the first specification – OLS with PCSE and a lagged dependent variable – for each of the dependent variables. The base equation in column (1) uses per capita expenditures and includes only the economic controls and the dummies for narrow-left, wide-left and wide-right coalitions. Compared with narrow-right coalitions (the excluded category), both narrow-left and wide-left coalitions have lower per capita expenditures on industry. In addition, the base equation provides some support for the rank-order claim – while both narrow-left and wide-left coalitions exhibit lower spending relative to narrow-right coalitions, the coefficient on wide-left coalitions is larger. That is wide-left coalitions spend less on industry than narrow-right coalitions but more than narrow-left ones. This conforms to
expectations that narrow-left coalitions should have the weakest policy commitment to business followed by wide-left coalitions.

[Table 5.1 here]

The regression in column (1) of table 5.1 includes only a limited set of controls. In columns (2) and (3) of table 5.1, I include a full set of controls. In addition to economic variables, I include controls for colonial heritage, inequality and political competition. Two alternate measures of political competition are used. I use difference in vote margin between the largest and second largest party as the measure of political competition in column (3) and the effective number of parties in column (2). The results are robust to the full set of controls and the coefficient on narrow-left coalitions remains negative and significant at the 1 per cent level when vote margin is used and the 5 per cent level when ENP is included. The coefficient on wide-left coalitions is negative and significant at the 10 per cent level in both cases. In addition, the wide-left coefficient is larger than the one on the narrow-left dummy. This holds whether the vote margin difference or effective number of parties is used as the measure of competition, providing support to the expectation that narrow-left coalitions are less business-friendly than wide-left coalitions.

Columns (4), (5) and (6) follow the same procedure for the second dependent variable – expenditure on industry as a proportion of total state expenditure. The results on narrow-left coalitions remain highly robust and there is clear evidence that these coalitions spend a lower proportion of their expenditure on industry compared with narrow-right coalitions. This result remains significant at the 1 per cent level when the full set of controls is included in columns (5) and (6). In addition, the coefficients on both wide-left and wide-right coalitions are negative and
statistically significant. While both coefficients on wide-left and wide-right are larger than the one on narrow-left coalitions, as expected by my argument, one secondary result is somewhat surprising. The results suggest that wide-right coalitions spend a marginally smaller proportion of their expenditure on industry than wide-left coalitions. This was, however, not the case when per capita expenditure is used as the dependent variable. In columns (1) to (3), the coefficient of wide-right coalitions is larger than wide-left but is not statistically significant.

Table 5.2 contains results of the second specification – the random effects model. Table 5.2 provides results of the regressions that include the full set of controls for each of the two dependent variables. The results on narrow-left coalitions remain robust to the use of a random effects model. The coefficient on narrow-left coalitions is negative as expected and significant at the 5 per cent or 1 per cent level in all specifications with either dependent variable. The coefficient on wide-left coalitions is not significant in the random effects specification. When the proportion of expenditure is used as the dependent variable in the random effects model, the coefficient on wide-right coalitions is negative and significant at the 10 per cent level. It is also marginally larger than the coefficient on the narrow-left variable, providing some support to the rank-order claim on the types of coalitions and likelihood of industry-friendly policies. In the random effects models, the coefficients on vote margin and length of government term are also positive and significant. Larger electoral margins of victory and longer government terms result in greater expenditure on industry, possibly pointing to the positive effects of government stability and electoral autonomy on industrial expenditures.

[Table 5.2 here]
Table 5.3 includes results of the fixed effects vector decomposition model. The negative coefficient on narrow-left remains statistically significant when vote margin is used as the measure of political competition. The coefficient is not significant when ENP is included instead.

[Table 5.3 here]

As a robustness check, I ran all three specifications using state-year as a unit of analysis rather than state-government term/election cycle. Since the effect of coalitions as well as the other control variables is likely to occur with some delay, all independent variables are included with one year lags. The state-year regressions continue to suggest that narrow-left coalitions underperform relative to narrow-right ones. The random effects model (table 5.5) also provides weak evidence that wide-left coalitions can be associated with lower spending on industry than narrow-right ones.

[Tables 5.4, 5.5 and 5.6 here]

In sum, the results of the TSCS analysis provide consistent support for my argument. In particular, there is strong evidence that narrow-left coalitions are less conducive to an investor-friendly agenda than narrow-right coalitions. The results also suggested weak support for the rank-order claim.

5.4. Conclusion

This chapter constituted the “model-testing” portion of my analysis. It aimed to test the insights derived in the case studies in chapters 3 and 4 on a larger group of Indian states. Specifically, it examined the link between electoral coalitions and policies highlighted in the first stage of my argument through a time-series cross section analysis of fourteen Indian states.
between 1992 and 2010. My argument in chapter 1 suggested that narrow-right coalitions are most likely to adopt policies favorable to business. Moreover, I expected a rank order in the policy performance of electoral coalitions – narrow-right coalitions followed by wide-right, wide-left and narrow-left coalitions in that sequence.

Using expenditures on industry as a measure of policy performance, I assessed this hypothesis using three different specifications and included a variety of controls linked to initial conditions, economic factors and political competition in the regressions. The results support my argument. There is strong evidence that narrow-left coalitions spend less on industry than narrow-right ones across a range of specifications that include a variety of control variables. The evidence also partially shows that narrow-left coalitions exhibit a weaker commitment towards industry than wide-left coalitions. In sum, this chapter provides sufficient evidence to support the claim of an association between electoral coalitions and policy performance on a broader group of Indian states. The applicability of this argument to a larger sample as well as the use of a quantitative framework should increase confidence in the mechanisms and conclusions advanced in chapters 1, 3 and 4.
### APPENDIX TO CHAPTER 5

**Table 5.1: OLS with PCSE (state-election cycle as unit of analysis)**

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*t-statistics in parentheses

* $p<0.1$; ** $p<0.05$; *** $p<0.01$
Table 5.2: Random Effects Specification (state-election cycle as unit of analysis)

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<td>Logged Per Capita Ind. Expenditure</td>
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<td>Ind. Exp. Proportion</td>
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<td>0.5304 (5.34)*****</td>
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<td>-0.0000 (0.32)</td>
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<td>0.0075 (0.24)</td>
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<td>-0.9436 (0.78)</td>
<td>0.0054 (0.58)</td>
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<td>0.0007 (0.47)</td>
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<td>0.1481 (2.10)**</td>
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<td>0.0006 (1.52)</td>
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<td>0.0068 (1.91)*</td>
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<td>-0.4955 (2.63)*****</td>
<td>-0.0032 (2.16)****</td>
<td>-0.0031 (2.32)****</td>
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<td>-0.0020 (1.55)</td>
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<td>-0.0025 (1.87)*</td>
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_t-statistics in parentheses
* p<0.1; ** p<0.05; *** p<0.01
Table 5.3: Fixed Effects Vector Decomposition (state-election cycle as unit of analysis)

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t-statistics in parentheses
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Table 5.4: OLS with PCSE (state-year as unit of analysis)

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<tr>
<td>Narrow-Left Coalition</td>
<td>-0.4558</td>
<td>-0.3842</td>
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<td>-0.0017</td>
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<td>(1.99)**</td>
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<td>(1.65)*</td>
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All independent variables are lagged 1 year. t-statistics in parentheses.

* $p<0.1$; ** $p<0.05$; *** $p<0.01$
Table 5.5: Random Effects (state-year as unit of observation)

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<td>Logged Per Cap. Ind. Expenditure</td>
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<td>Ind. Exp. Proportion</td>
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<td>(8.27)***</td>
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<tr>
<td></td>
<td>(15.56)***</td>
<td>(18.95)***</td>
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<td>0.0000</td>
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<td>-0.0000</td>
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<tr>
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<td>(0.37)</td>
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<td>(4.38)***</td>
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<td>(0.02)</td>
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<td>(2.91)***</td>
<td>(1.93)*</td>
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<td>(1.02)</td>
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<td>0.0005</td>
<td>0.0004</td>
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<td>(0.33)</td>
<td>(0.29)</td>
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<td>Vote Margin</td>
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<td>Party Fragmentation (ENP)</td>
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<td>(1.08)</td>
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<td>Narrow-Left Coalition</td>
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<td>-0.3842</td>
<td>-0.0020</td>
<td>-0.0017</td>
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<td>(1.70)*</td>
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<td>Wide-Left Coalition</td>
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<td>-0.2481</td>
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<td>-0.0012</td>
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<td>(1.72)*</td>
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<td>(1.21)</td>
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<tr>
<td>Wide-Right Coalition</td>
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<td>-0.0589</td>
<td>-0.0003</td>
<td>-0.0000</td>
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<td>Constant</td>
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<td>-3.1355</td>
<td>0.0023</td>
<td>0.0031</td>
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<td>(3.02)***</td>
<td>(2.84)***</td>
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<td>R-squared (within)</td>
<td>0.246</td>
<td>0.2462</td>
<td>0.4673</td>
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<td>R-squared (between)</td>
<td>0.9367</td>
<td>0.9332</td>
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<td>R-squared (overall)</td>
<td>0.4876</td>
<td>0.4895</td>
<td>0.6298</td>
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<tr>
<td>Observations</td>
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<td>States</td>
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<tr>
<td>Random Effects</td>
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All independent variables are lagged 1 year. t-statistics in parentheses.

* p<0.1; ** p<0.05; *** p<0.01
Table 5.6: Fixed Effects Vector Decomposition (state-year as unit of analysis)

<table>
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<tr>
<th></th>
<th>Logged Per Capita Ind. Expenditure</th>
<th>Logged Per Capita Ind. Expenditure</th>
<th>Ind. Exp. Proportion</th>
</tr>
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<tbody>
<tr>
<td>Lagged Per Cap. Ind. Exp.</td>
<td>0.4376 (4.28)**</td>
<td>0.4617 (4.59)**</td>
<td>0.5498 (7.77)**</td>
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<td>Lagged Ind. Exp. Proportion</td>
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<td></td>
</tr>
<tr>
<td>Per Capita Income in 1991</td>
<td>-0.0000 (0.28)</td>
<td>0.0000 (0.04)</td>
<td>0.0000 (0.30)</td>
</tr>
<tr>
<td>Per Capita Income</td>
<td>-0.0000 (0.72)</td>
<td>-0.0000 (0.86)</td>
<td>-0.0000 (5.27)**</td>
</tr>
<tr>
<td>GSDP growth rate</td>
<td>-0.2988 (0.38)</td>
<td>-0.2561 (0.33)</td>
<td>-0.0022 (0.50)</td>
</tr>
<tr>
<td>Fiscal Space</td>
<td>-1.1680 (2.70)**</td>
<td>-1.2121 (2.92)**</td>
<td>-0.0032 (1.38)</td>
</tr>
<tr>
<td>Inequality (GINI)</td>
<td>3.1202 (1.40)</td>
<td>2.9787 (1.38)</td>
<td>0.0316 (2.54)**</td>
</tr>
<tr>
<td>Non-Zamindar Proportion</td>
<td>0.2075 (0.46)</td>
<td>0.1383 (0.36)</td>
<td>0.0011 (0.45)</td>
</tr>
<tr>
<td>Vote Margin</td>
<td></td>
<td>-0.3316 (0.57)</td>
<td></td>
</tr>
<tr>
<td>Party Fragmentation (ENP)</td>
<td>0.0920 (0.98)</td>
<td></td>
<td>0.0001 (0.19)</td>
</tr>
<tr>
<td>Narrow-Left Coalition</td>
<td>-0.7929 (2.07)**</td>
<td>-0.5925 (2.16)**</td>
<td>-0.0038 (1.89)*</td>
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<tr>
<td>Wide-Left Coalition</td>
<td>-0.4370 (1.34)</td>
<td>-0.3545 (1.31)</td>
<td>-0.0026 (1.47)</td>
</tr>
<tr>
<td>Wide-Right Coalition</td>
<td>-0.2587 (0.95)</td>
<td>-0.1088 (0.55)</td>
<td>-0.0008 (0.56)</td>
</tr>
<tr>
<td>Constant</td>
<td>-4.4397 (3.23)**</td>
<td>-3.8960 (3.12)**</td>
<td>0.0030 (0.66)</td>
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<td>( R^2 )</td>
<td>0.55</td>
<td>0.54</td>
<td>0.67</td>
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<tr>
<td>Observations</td>
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<td>220</td>
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<tr>
<td>States</td>
<td>13</td>
<td>13</td>
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</tbody>
</table>

All independent variables are lagged 1 year. t-statistics in parentheses.

* \( p<0.1; ** \( p<0.05; *** \( p<0.01
Table 5.7: Variables and sources

<table>
<thead>
<tr>
<th>Variable</th>
<th>Data Source</th>
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<td>Expenditures on industry</td>
<td>RBI (2010a, 2010c)</td>
</tr>
<tr>
<td>Fiscal space</td>
<td>RBI (2010a, 2010c)</td>
</tr>
<tr>
<td>Per Capita Income</td>
<td>Central Statistics Office, Govt. of India (mospi.nic.in)</td>
</tr>
<tr>
<td>GSDP growth</td>
<td>Central Statistics Office, Govt. of India (mospi.nic.in)</td>
</tr>
<tr>
<td>GINI</td>
<td>Planning Commission of India (planningcommission.nic.in)</td>
</tr>
<tr>
<td>Non-zamindari proportion of state</td>
<td>Banerjee and Iyer (2005), Table 1</td>
</tr>
<tr>
<td>Vote margin</td>
<td>Election Commission of India (eci.nic.in)</td>
</tr>
<tr>
<td>Effective number of parties</td>
<td>Election Commission of India (eci.nic.in)</td>
</tr>
<tr>
<td>Coalition dummies</td>
<td>Author coding based on the secondary literature (description in appendix for each state and sources used)</td>
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Table 5.8: Summary Statistics

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<th>Std. Dev</th>
<th>Min</th>
<th>Max</th>
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<td>Per Capita Industrial Expenditure (logged)</td>
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<td>-8.335</td>
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<td>Expenditure on Industry (% of Total Exp)</td>
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<td>0.010</td>
<td>0.006</td>
<td>0.001</td>
<td>0.032</td>
</tr>
<tr>
<td>Per Capita Income in 1991</td>
<td>67</td>
<td>1972</td>
<td>777</td>
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<td>3499</td>
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<td>Non Zamindar Proportion</td>
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</tr>
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<td>23886</td>
<td>11932</td>
<td>6438</td>
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<td>0.658</td>
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<tr>
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Table 5.9: Correlation Matrix

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<th>Per Capita Industrial Expenditure (logged)</th>
<th>Expenditure on Industry (% of Total Exp)</th>
<th>Per Capita Income in 1991</th>
<th>Non Zamindar Proportion</th>
<th>Per Capita Income</th>
<th>GSDP growth rate</th>
<th>Fiscal Space</th>
<th>Effective Number of Parties</th>
<th>Vote Margin</th>
<th>GINI (Rural)</th>
<th>GINI (Urban)</th>
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<tr>
<td>Expenditure on Industry (% of Total Exp)</td>
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Table 5.10: Coding of Coalition Types by State and Year

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<th>State</th>
<th>Year</th>
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<td>Wide-right</td>
<td>Guj</td>
<td>1991</td>
<td>Narrow-Right</td>
</tr>
<tr>
<td>AP</td>
<td>1992</td>
<td>Wide-right</td>
<td>Guj</td>
<td>1992</td>
<td>Narrow-Right</td>
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<td>AP</td>
<td>1993</td>
<td>Wide-right</td>
<td>Guj</td>
<td>1993</td>
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<td>Guj</td>
<td>1994</td>
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<tr>
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Background summary of political trends used to code electoral coalitions in individual states in table 5.10

Included below is a brief summary of the information used to code the composition of electoral coalitions in each state between 1992 and 2010. For the non-case study states included in the quantitative analysis, the identification of the social base was based on the secondary literature and supplemented by election-related articles in the media where relevant. In addition, chapters 3 and 4 provide a detailed description of politics in the case study states and information relevant to the coding of these four states.

Karnataka

In terms of its social demography, dominant caste patterns prevail in Karnataka. Gould (1997) offers the following numerical break-down of the size of some key caste groups in Karnataka: Lingayats (15.34% of the population), Vokkaligas (10.81%), Dalits (16.72%), Adivasis (6.73%), Brahmins (3.46%), Muslims (11.67%) and OBCs (approximate 13%). The Lingayats and Vokkaligas constitute the two main dominant castes in the state. Historically, their dominance can be linked to their numerical strength and control of material resources. Along with Brahmins and other smaller upper caste groups, they tend to be among the most economically-advanced. Karnataka also has a sizeable Dalit and Muslim population.
During the first three decades after independence, the Congress dominated electoral politics in Karnataka. Until the early 1970s, the dominant Lingayats and Vokkaligas were key players in both the state and the party. Like many other states, Karnataka too was affected by the split in the Congress in 1969. As part of Indira Gandhi’s leftward populism and shift in party strategy in this direction, Congress began to target more socially and economically-marginalized groups. In Karnataka, the Congress under Devraj Urs realigned the parties bases towards the non-dominant OBCs and Dalits (e.g.,Hebsur 2011; Shastri 1996, 1999). Since then, the Congress has relied on the Dalits and non-dominant OBCs for its core support, though it continued to attract a portion of Lingayat and Vokkaliga votes. The realignment of its base and the inclusion of OBCs and Dalits as key players in the 1970s alienated sections of the powerful dominant castes, most notably the Lingayats.

A large section of Lingayats as well as Vokkaligas began to seek alternatives to the Congress from the 1980s. In the early 1980s, they would throw their weight behind the Janata Party, which under Ramakrishna Hegde formed the first non-Congress government in Karnataka in 1983. Under Hegde, Janata capitalized on Lingayat disaffection with the Congress and relied significantly on their support along with that of other upper castes and Muslims to come to power in 1983. (Hebsur 2011). Hegde, in part, consolidated the Lingayat vote by promising to include the Lingayats under the state’s OBC list, a demand rejected by a government commission on account of the advanced economic status of the Lingayats. Nevertheless, the Janata consolidated the Lingayat vote and subsequently retained power in 1988 but the Bommai government was dismissed by the center. In addition to the Janata’s success, the 1980s saw the entry of the BJP into Karnataka politics and it would subsequently make notable inroads in state politics by the late 1990s.
Despite the Janata’s success in 1983 and 1988, the party was affected by high levels of factionalism. Janata Dal (JD) factionalism would provide the Congress the avenue to regain power and in 1989, it came back to power on the back of coalition strategy that Urs had first put in place in the early 1970s (Hebsur 2011). This strategy relied primarily on non-dominant OBC sub-groups as well as Dalits. It did complement this support with some dominant caste support but it was around the OBCs in particular that the Congress constructed its base. Due to the diverse nature of the social base of the Congress and the fact that the Congress did incorporate a fair degree of dominant caste support, I classify the electoral coalition in Karnataka during the 1989-1994 period as wide-right.

The 1994 election saw the JD come back to power and many observers attribute this to the decline in factionalism. In particular, the party’s three heavyweights – Hegde, Deve Gowda and S.R. Bommai – came together to form a united front against the Congress, which proved electorally successful. The JD’s base itself comprised of strong Lingayat, Vokkaliga and Brahmin support. Gould (1997) and Shastri (1996, 1999) both point out that this base was a result of Hegde’s strong following among Lingayats and Brahmins complemented by Deve Gowda and Bommai’s hold on Vokkaligas. The primacy of the two dominant castes and Brahmins in the social coalition meant an economically-advanced profile of the electoral coalition, which I classify as narrow. I further classify the electoral coalition during the 1994-99 period as narrow-right because of the fact that business interests in the state are substantially represented.

JD unity would prove to be temporary and Hegde would go on to form his own party, which sought an alliance with the BJP in the late 1990s. In 2004 assembly elections, Karnataka would see a three-way contest between the Congress, JD(S) led by Deve Gowda and the BJP.
The Congress mobilized the OBCs, Dalits and Muslims in a strategy known by its Kannada acronym, AHIND (Hebsur 2011). The JD(S)’s primary base comprised of Vokkaligas while the BJP’s strategy focused on the Lingayats and upper castes, who had been alienated from both the Congress and JD(S), complemented by a measure of support from OBCs. Though the BJP emerged as the single largest party in a fractured mandate, the Congress and JD(S) would agree to form a post-poll coalition to keep the BJP out of power. The Congress-JD(S) coalition was at the helm of Karnataka between 2004 and 2006 and was based on the Congress’ strength among OBCs, Dalits and Muslims and the JD(S)’s reach among Vokkaligas and Adivasis (Shastri and Ramaswamy 2004). I classify this coalition as wide-right.

The Congress-JD(S) arrangement was based on an agreement that the chief ministerial position would be alternated between the two parties. When Deve Gowda, who headed the JD(S), made certain demands to the Congress – notably, that his son, H.D. Kumarawamy, be appointed chief ministerial position and that certain Congress ministers be dismissed and replaced by others more amenable to him – the coalition fell apart in early 2006 (Hebsur 2011). The JD(S) then went on to form a coalition with the BJP, in place of the Congress. A JD(S)-BJP government came to head Karnataka between 2006-2007. The electoral coalition comprising of Lingayats, Vokkaligas, upper castes and complemented by sizeable OBC and Adivasi support is classified as wide-right.

The BJP-JD(S) arrangement would be short lived. In 2008, Karnataka went back to the polls and the BJP emerged as the largest party. Thought it was shy of a majority, it formed the government. Vasavi (2008) and Murthy (2008) point out that the Lingayats and upper castes consolidated behind the BJP who also benefitted from a three-way split in OBC support. Other
groups such as the Dalits and Muslims were firmly behind the Congress while the Vokkaligas were split between the Congress and the JD(S). The BJP’s coalition is classified as wide-right.

**Maharashtra**

Maharashtra’s social demography is characterized by the dominant caste pattern. The dominant Maratha-Kunbi caste forms almost 31% of the state’s population (Palshikar and Deshpande 1999). OBCs constitute approximately 27% of the population but are fragmented. Dalits and Adivasis comprise 10.2% and 8.9% respectively while the Brahmins make up 4% of the state’s population. As Palshikar and Birmal (2004) the numerical strength of the Maratha-Kunbi group has made them the key players in state politics since independence. In addition, the Maratha-Kunbi group enjoy considerable economic power, particularly in rural Maharashtra, a phenomenon that can be traced back to their historical ownership of land.

Until the late 1970s, the Congress had a tight hold on Maharashtra. The first non-Congress government in the state followed the end of the Emergency in 1977 and the next non-Congress government came to power only in 1995. Congress dominance itself was backed by strong support of the Maratha-Kunbi group as well as the OBCs (Palshikar and Deshpande 1999). Palshikar and Deshpande argue that the Congress adopted a rhetoric of protecting the oppressed castes but this image was completely disjointed from the party’s primary support and the interests it tended to favor. The Congress functioned primarily as a party dominated by the Maratha-Kunbis and its leadership reflected that. At the same time, Congress dominance until the 1990s involved a complex alliance that served to protect Maratha-Kunbi agrarian interests while at the same time favoring urban capitalist interests. Palshikar and Deshpande suggest this agrarian-industrial balance is in part explained by the pattern accommodation of Brahmins and
Marathas. Despite professing support of weaker socio-economic sections and constructing a common identity between Maratha and non-Maratha groups, the Congress did not overtly mobilize OBC groups at the height of its power in Maharashtra (Palshikar 1996).

Indira Gandhi attempted to weaken Maratha domination in the 1970s and early 1980s as part of her broader nation-wide strategy to attract weaker socio-economic sections. This strategy did not lead to a wholesale realignment of the Congress’ social bases in Maharashtra in the 1970s as it did in many other states. It would, however, put considerable pressure on the Congress’ Maratha-OBC base through the 1980s and fragment the Maratha leadership within the party. The Congress’ hold on Marathas would subsequently weaken significantly in the 1990s. The growing fragmentation of the Maratha vote in the 1980s would, in part, lead to the emergence of the BJP and Shiv Sena (SS) as key players in the state’s politics. The BJP was largely a Brahmin and Bania party while the Shiv Sena’s strength primarily came from Maratha support, which it drew away from the Congress in the latter half of the 1980s and early 1990s. Since the late 1980s, the BJP and SS have contested as an alliance in Maharashtra elections.

Though the Congress remained electorally successful in the 1980s, its victories concealed considerable weaknesses in the party’s hold on its key bases, notably the Maratha-Kunbi and OBC groups. By the time the 1990 assembly election occurred, these weaknesses became evident. The Congress did manage to win the 1990 assembly elections but saw a major decline in its vote share. It continued to rely on a social base of the dominant Maratha-Kunbis and OBCs supplemented by other groups such as the Dalits. Based on the inclusion of wide range of socio-economic groups as well as the business interests, this coalition is classified as wide-right.
The Congress’ declining strength among key social groups was clearly evident by the mid-1990s. Palshikar and Birmal (2009) suggest that the three main trends in Maharashtra’s politics in the 1990s was a fragmentation of the Maratha-Kunbi vote, factionalism within the Maratha leadership of the Congress in the state and growing electoral competitiveness. Deshpande and Birmal (2009) suggest that these trends were accompanied by a complex pattern of identity politics in the state since the 1990s. It was under these circumstances that the BJP-SS alliance began to consolidate its own Maratha support under the banner of Hindu nationalism. While the two parties were strong in urban areas, they began to make clear inroads into the Congress’ rural Maratha base by the mid-1990s.

The BJP-SS strategy would prove successful and in 1995 the alliance formed the second non-Congress government in Maharashtra’s history. The victory was backed by strong Maratha support for the SS combined with BJP’s strength among upper castes. In addition, the BJP-SS combine complemented this support with that of the OBCs. Since 1995, OBC support for the BJP in particular would increase further. Election survey data in Palshikar and Deshpande (1999) show that though the Congress continued to receive a notable portion of the Maratha-Kunbi vote, the group supported the BJP-SS coalition in greater numbers. OBC vote shares were split between the Congress and BJP-SS, with latter appearing to hold a slight edge. The Congress however continued to be the main party of choice for the marginalized Dalit and OBC sections. The BJP-SS winning coalition’s strength was based substantially on the dominant Maratha-Kunbi group as well as upper caste support and supplemented by partial OBC support. Palshikar and Deshpande suggest the OBCs still remained divided between the Congress and BJP-SS in 1995 but would begin to move in sizeable measure towards the latter. In 1995, the BJP-SS did not receive strong support from more marginalized sections. Based on its reliance of the
Maratha-Kunbis as its core group, I classify the electoral coalition in Maharashtra between 1995 and 1999 as narrow-right. The BJP-SS coalition would look to consolidate its Maratha–Kunbi vote base and began to make even greater inroads into the OBCs by the late 1990s.

In a background of considerable electoral uncertainty and growing fragmentation, the Congress, however, managed to come back to power in 1999 in coalition with the NCP. The NCP was a break-away party formed in 1999 by one of the Congress’ heavyweights in the state, Sharad Pawar. Pawar had been chief minister of the state in the 1980s and enjoyed extremely strong support among his fellow Maratha caste members, particularly in rural parts of the state. Factional struggles saw Pawar leave the Congress on a prior occasion in 1978, only to rejoin the party soon after. His second departure from the Congress has so far proved permanent. With the decline in its own Maratha-Kunbi support base, the Congress benefitted from the fact that the NCP’s core base comprised of this group. At the same time, the Congress continued to be the party of choice for Dalits, Adivasis and Muslims. Palshikar and Birmal (2009) suggest that with the move of its core Maratha-Kunbi support to the BJP-SS, the Congress has had to build a base around “new and temporary” supporters. The Congress-NCP main support comes from a diverse range of groups including the Maratha-Kunbis, Dalits, Adivasis and Muslims. It does also receive some support from OBCs, though the BJP-SS alliance enjoys an advantage in support of this group. Given the diversity of socio-economic profiles as well as the incorporation of key business interests, I classify this coalition as wide-right.

The Congress-NCP managed to win in both 2004 and 2009 based on a similar wide-right coalition. In 2004, the vote bases of the Congress and NCP once again complemented each other; the former receiving support from Dalits, Adivasis and Muslims while the latter relying primarily on core support from the Marathas. In 2004, BJP-SS support came primarily from Maratha-
Kunbis and OBCs. The Congress-NCP achieved a rare third consecutive assembly election victory in 2009 in the midst of considerable social churning. Again, the mutual strengths of the two parties – the NCP among Marathas and the Congress among Dalits, Muslims and Adivasis – formed the basis of the victory and I classify the electoral coalition as wide-right as in the case of the 1999 and 2004 victories. As Palshikar, Deshpande and Birmal (2009) describe the Congress is becoming a rainbow party receiving some support from a range of social groups and have strengths only among the Dalits, Adivasis and Muslims. The support of Marathas and OBCs was split between the main parties but the NCP’s core strength among the Marathas remains crucial to the Congress. In addition, the 2009 election saw the entry of a new player – the MNS. The MNS was a break-away group of the SS. The Congress-NCP victory in 2009 was helped by the MNS cutting into the SS’ Maratha support. While the state appears to have settled into bipolar competition between the INC-NCP and BJP-SS, there remains considerable fluidity in voter support from key social groups.

Haryana

Since its formation in 1966, Jats have been the key political players in the state. Jats are a landowning dominant caste who are primarily engaged in agriculture and constitute between 25 and 30% of Haryana’s population (Jodhka 1999). The state has a sizeable Dalit section – about 18% of the population. Jodhka suggests that other landowning groups constitute between 8% and 11% of the population with the Gujjars and Rajputs comprising 2 to 3% and Yadavs about 6 to 8%. Brahmins and Banias are numerically small but have been visible in state politics.

Given their numerical strength, Jats have been crucial players in state politics. Compared to other groups, Jat political mobilization occurred early and they have historically tended to
view the Congress as anti-Jat (Datta 2005). Another key trend in Haryana politics has been high levels of anti-incumbency and electoral volatility (Pal and Rai 2009). Haryana saw successive changes in government between 1991 and the 2005 and has also tended to see swings in party support of certain groups. In 1987, Devi Lal and the Lok Dal backed by strong Jat support won the assembly election in the state. Four years later, it was the Congress that displaced the Lok Dal and the party has relied on the support of Dalits, who have been loyal Congress supporters in the state (Joshi and Rai 2004). The Congress has historically relied on a core base of Dalits, OBCs and Muslims in Haryana and has typically not been a party of choice of the sizeable Dalits. Based on the fact that its core groups are similarly socio-economically marginalized ones, I classify the coalition between 1991 and 1996 as narrow-left.

In conforming to the anti-incumbency theme, the Congress lost power to the HVP-BJP coalition in 1996. The HVP is primarily a rural Jat party and its base was complemented by the BJP, whose strength is derived from Brahmans and Banias in urban areas (Wallace 1997). Given that this coalition is more diverse in socio-economic terms than the Congress’ base in 1991, I classify the coalition as wide. The HVP-BJP coalition would last only three years and, in 1999, Haryana went back to the polls in 2000. The 2000 assembly election saw the INLD emerge as the victor under Devi Lal’s son, Om Prakash Chautala. The INLD is primarily a party of Jats and relies substantially on their support (Heath and Yadav 2000). Heath and Yadav’s survey data suggests that the party’s primary strength comes from the Jats and other peasant castes and this support is supplemented by upper castes and some OBC support, though the Congress remained the main party of choice for these groups. As in the case of the HVP-BJP coalition, the INLD’s base exhibits a relatively wide range of socio-economic support and this electoral coalition is classified as wide-left.
The INLD subsequently lost power in 2005 to the Congress and in 2009. As in the early 1990s, the Congress’ core support Dalits, OBCs and Muslims (Heath and Yadav 2000; Joshi and Rai 2004). As in the case of the previous Congress government between 1991 and 1996, the coalition comprising a core of these socio-economically weaker sections falls under the narrow-left category. In 2009, the Congress retained power; an extremely rare feat given Haryana’s trends of anti-incumbency. In 2009, the state saw a multipolar contest between the Congress, INLD-BJP coalition, HJC and BSP. Though it lost some Dalit support to the HJC and BSP, it received a sizeable proportion of the Dalit vote share while retaining its hold on the OBCs and Muslims. In contrast to 2005, the Congress’ share of the Jat vote increased significantly and this meant that its coalition was more diverse in its economic profile than previously. As such, this coalition is classified as wide-left.

Orissa

Since the mid-1990s, Orissa has seen bipolar competition between the Congress and BJD-BJP coalitions. In the early 1990s, Biju Patnaik and the JD enjoyed considerable strength in Orissa. It won the 1990 elections but was subsequently defeated by the Congress in 1995. The BJD, an offshoot from the JD, was formed in 1997. The BJD-BJP coalition won state elections in 2000 and 2004 and, in 2009, the BJD won assembly elections on its own.

Unlike the JD ‘s experience in north India, the party was not built around an OBC base in Orissa (Kumar 2004). Despite the size of OBCs in Orissa, they have historically played a more marginal role in the state’s politics, which has been dominated by the Brahmins, Karnas and Kshatriyas. These three groups have dominated party politics as well as the state bureaucracy. Kumar points out that the political leverage of the upper castes is enhanced by the fact that they
are concentrated in coastal areas of Orissa. The Khandayats, who fall under the OBCs, are a notable exception to the general weakness of OBC political mobilization in the state. Kumar also points out that the state also has a high proportion of Adivasis (22.2%) and Dalits (16.2%).

Both the JD and BJD in Orissa depend on support from a broad range of castes. Until the late 1990s, the Congress similarly received fairly broad support. Upper castes and Khandayats tend to be strong BJD supporters. The OBC vote has been split. While electoral surveys indicate a recent move towards the BJD, votes of this group is split between the BJD and Congress. Dalits used to be core supporters of the Congress but since 1999 have moved towards the BJD (Kumar 2004). Adivasis have been Congress loyalists but the BJP receives some Adivasi support. In sum, Orissa’s winning parties since 1991 have received support from a broad range of social groups. The entrepreneurial base is thin and as a result business is not represented in these coalitions. I therefore classify Orissa’s electoral coalitions as wide-left.

Rajasthan

Rajasthan is a two-party state where the BJP and the Congress have both come to power since the 1990s. The BJP won assembly elections in 1990, 1993 and 2003. The Congress won in 1998 and 2008. Both parties derive support from distinct sets of voters. Unlike some other north Indian states, Rajasthan has continued to see upper caste political in the post-Mandal period (Jaffrelot 2009a). The upper castes also form a sizeable portion of the population relative to other Indian states – 20.5% (Lodha 2009). The BJP’s primary base consists of upper caste groups (Brahmins, Rajputs and other upper caste groups) and this is supplemented by some intermediate non-Jat OBC groups (Lodha 2009, 2004). Increasingly, the party has seen greater support from Dalits and Adivasis. This coalition consists of a broad range of support and I therefore classify
BJP coalitions as wide. The Congress tends to derive support from a narrower base. The party’s core support consists of Jats, Dalits and Muslims. It also receives some Adivasi support. These groups tend to be the most marginalized in socioeconomic terms. The class profile is confined. As a result, I categorize this coalition as narrow. In addition, like its other north Indian counterparts, there are few entrepreneurial groups. As such, both Congress and BJP coalitions have minimal business representation. The coalitions that have backed the BJP have been wide-left while those backing the Congress have been narrow-left ones.

**Uttar Pradesh**

Uttar Pradesh’s coalitions have been coded on the basis of the following sources – Brass (1997), Hasan (1996), Duncan (1997), Jaffrelot and Zerinini-Brotel (2004) and Pai (2002, 2004). Since 1989, UP has seen the continuous and sustained rise of lower caste groups, most notably the OBCs. The post-1989 period has also seen high levels of party system fragmentation and unstable coalitions at the helm of UP politics. Since 1989, social groups have been polarized along party lines. The BJP’s core support comes from the upper castes. It also relies on some OBC sections. The SP depends on Yadavs and Muslims while the BSP’s main base is among the Dalits. In 2007, this Dalit base was supplemented with upper caste support. The Congress has weakened significantly in UP since 1989. The entrepreneurial base in the state is thin. As a result, minimal business representation is the norm.

UP has seen BJP, BSP-SP, BJP-BSP and BSP governments since 1991. I classify BJP and BJP-BSP governments as wide left. The BJP’s base consists of certain economically-advanced castes and OBCs. There is considerable heterogeneity in the profile of these groups and this coalition is classified as wide. In addition, the BJP has been in coalition with the BSP,
which depends on Dalit support. This coalition has similarly been wide. I classify BSP-SP coalition as narrow-left since support is derived from three of the most socioeconomically marginalized groups in UP – Dalits, Muslims and Yadavs. Business representation is minimal in all UP coalitions.

**Madhya Pradesh**

Coalitions are classified based on Pai (2004), Sisodia and Shankar (2009), Jaffrelot and Zerinini-Brotel (2004) and Jaffrelot (1996). MP is a two party state. Congress won elections in 1993 and 1998. The BJP has won in elections in 2003 and 2008. Unlike other parts of the Hindi heartland, the Congress managed to retain considerable support from lower castes in the post-Mandal era and Pai (2004) suggests that this was because Dalit and Adivasi issues were included in the broad ambit of economic development under Digvijay Singh. The Congress relied on a wide base including Dalits, Adivasis and OBCs. A section of upper castes support the Congress as well. The BJP derives strong support from the upper castes but its base is broad and included upper castes, OBCs and this has been supplemented by increasing Adivasi and Dalit support. Business presence is weak in the state and like the case of UP, Rajasthan and Bihar, coalitions on the “left” are the norm. I classify both Congress and BJP coalitions in MP as wide-left.

**West Bengal**

The Left front was in power in West Bengal between 1977 and 2011. The Left’s coalition consisted of a wide range of groups including Dalits, Adivasis, Muslims and some upper castes. Dalits (Chaudhuri 2007). Dalit, Adivasi and Muslim support were particularly important. Under colonial rule, entrepreneurial groups were present in West Bengal. However, unlike western India, West Bengal was dominated by British capital. Indigenous business development was
considerably weaker than in western India. Since the 1970s, West Bengal saw major
deindustrialization. Bania and Marwari groups that constituted the bulk of local entrepreneurship
started looking elsewhere. By the 1990s, the state’s local entrepreneurial base was thin. I classify
the Left Front coalitions in the 1991-2010 period as wide-left.

Kerala

Kerala has seen alternation of power between the CPI(M)-led LDF and the Congress-led
UDF coalitions. Both coalitions attract a wide range of support. The LDF tends to attract greater
support from three marginalized sections – the Ezhavas, OBCs and Dalits (Gopa Kumar 2009;
IBRAHIM 2009). The Congress is the party of choice for Muslims and Christians. Upper caste
and Nair support tends to be split between the two fronts. Kerala does have an entrepreneurial
base, though these groups are small. Due to the wide range of support for both coalitions and the
presence of business representation, I classify both LDF and UDF coalitions as wide-right.

Tamil Nadu

Tamil Nadu has seen increasing party fragmentation since the 1990s (Wyatt 2002). Groups
such as the MDMK and PMK now command sizeable support among particular social groups.
Despite this, the state has seen alternation of one of the two main Dravidian parties, the
AIADMK and the DMK. The Congress remains a distant third force in this political space. The
Dravidian parties have had to increasingly rely on smaller parties. They now have to enter into
arrangements with parties such as the PMK and MDMK to attract the support of groups such as
Vanniyars and Thevars. Despite this reliance, both the AIADMK and DMK have come to power
with diverse bases of support (Thirunavukkarasu 2001). Tamil Nadu’s entrepreneurial base is
fairly diverse in social terms. Among other groups, upper castes, Chettiar's, Nadars and Gounders
have sizeable business presence (Damodaran 2008). These groups are small in size.

Nevertheless, due to the wide range of support as well as the inclusion of entrepreneurial groups,
I classify Tamil Nadu’s coalitions as wide-right.
6. **Conclusion**

Conventional wisdom suggests that poor democracies are unlikely to focus on growth-oriented policies. According to a long literature on redistribution, poorer individuals prefer greater redistribution. Others suggest that democracies have a greater proclivity to redistribute than non-democracies. In the context of the developing world, where resources are limited yet capital-friendly policies have to be adopted to ensure growth, a trade-off between growth-oriented and redistributive policies typically exists. As such, developing democracies are unlikely to prioritize growth-oriented issues. Yet, India poses a major puzzle for existing explanations. Triggered by an extensive shift in its economic policy framework in 1991, India has been among the fastest-growing countries in the world over the last two decades.

India’s growth transformation is surprising at many levels. By its own standards, India’s growth after 1991 represented a major break with the past. For more than three decades after independence, India remained mired in economic mediocrity – the infamous “Hindu rate of growth” of 3.2 per cent characterizing its performance for the first three decades after independence. In contrast, it has seen average annual growth rates of over 6.5 per cent between 1991 and 2010.

If India’s growth transformation is surprising in light of its own history, it is even more puzzling when viewed in a comparative context. Like other cases of successful late development in the post-World War II period such as China and South Korea, the scope and scale of India’s economic transformation has been vast. But the political context under which this change has occurred has been dramatically different. Not only did vibrant democratic politics precede India’s move to a high growth path, economic change has occurred in a polity where the poor
form a majority of the electorate. More importantly, the poor are more likely to participate in electoral politics in India than those above them on the socioeconomic ladder. Democracy aside, India also differs from other successful late developers in another crucial respect. Unlike many other late developers, India is extremely diverse in ethnic terms. For some economists, ethnic diversity results in poor economic and policy outcomes (e.g., Alesina et al. 1999; Easterly and Levine 1997; Miguel and Gugerty 2005a). Not only do high levels of ethnic heterogeneity prevail in India but the social context is characterized by a long-entrenched, hierarchical system – caste. For a variety of reasons, India, at first glance, was an unlikely candidate to prioritize growth-oriented concerns.

Unlikely as it was, India’s growth transformation has occurred in a context that is now widely shared by several developing countries. With the third wave of democracy, poor countries have to simultaneously balance imperatives of democracy and economic development. Like India, many developing countries, particularly in Africa and south-east Asia, have high levels of ethnic heterogeneity. Not surprisingly, this diversity often finds expression in the electoral space as it has in the Indian context. India, therefore, provides a useful context from which to gain insights into a very broad but deeply consequential question. What are the political conditions favorable to growth-oriented policies in poor democracies? To analyze this large question in a more tractable fashion, I focused on a specific empirical puzzle in this dissertation. I examined varied subnational policy responses to the competition for investment in India after 1991. As is widely acknowledged both in the economic literature and in policy circles, investment is a critical input in the growth process.

Despite being subject to similar institutional conditions and experiencing a common shock in the form of the 1991 reforms, Indian states have reacted very differently to the competition for
investment. Some states have been far more proactive and investor-friendly in policy terms than their counterparts. And these differences are not captured by a simple rich vs. poor state dichotomy. Indeed, initial conditions in 1991 do not completely account for these patterns observed. Nor do conventional explanations privileging colonial heritage, political competition or ideology. Moreover, the electoral context across Indian states is broadly similar in one aspect – the poor form the largest and most critical section of the electorate. What then explains the divergence in policy responses across Indian states in the competition for investment? Why have some states been far more investor-friendly than their counterparts?

6.1. Findings

Based on a comparison of Indian states, I found that there are conditions under which redistributive pressures are muted and growth-related policies can be prioritized, even in the presence of a predominantly poor electorate. I advanced a two-stage argument that privileged the role of electoral coalitions. At a proximate level, my argument inherently relies on the logic that an overlap of political and economic power provides the most favorable conditions for advancing an investor-friendly agenda. I draw on this insight from the developmental state literature, which highlights the critical relationship between state and capital (Amsden 1989; Evans 1995; Johnson 1982; Kohli 2004; Wade 1990). While the type of “marriage of repression and profits” that Kohli (2004: 13) emphasized in the case of cohesive capitalist states in East Asia is not possible in India’s well-established democratic context, there are parallels.

In particular, one of these parallels forms the background to my first main claim. At a proximate level, I suggest that certain types of electoral coalitions with a confined class basis are most conducive to the prioritization of a pro-business agenda. Specifically, I argue that narrow-
right coalitions, characterized by the joint presence of core groups with similar economically-
advanced profiles and substantial representation of business interests, are most conducive to
investor-friendly policies. Redistributive pressures on policymakers backed by such coalitions
are more muted. They are also not pulled in multiple directions by divergent demands. As a
result, policymakers backed by narrow-right coalitions can prioritize a pro-business agenda.

At the same time, narrow-right coalitions have a confined class profile that is
unrepresentative of the broader electorate in poor democracies. The key question then is how do
such coalitions arise in the midst of a poor electorate? The answer that I offer, which forms my
second main claim, is perhaps a little surprising. I suggest that such narrow class coalitions can
arise in developing democracies if the basis of electoral politics is non-economic. In a variety of
poor democracies, programmatic, class-based mobilization is absent. Instead, both party
strategies and voter attachments tend to be driven by symbolic concerns; most often these
revolve around identity, ethnicity or nationalism. Where such symbolic issues, based on social
attachments, cut across economic interests, class politics is impeded. Furthermore,
unrepresentative, narrow class coalitions can arise in such cases.

The explanation for the origins of coalitions is a mid-range one and context matters in
determining which non-economic issues drive electoral politics. In the case of Indian states,
social identity, particularly caste, has been central to electoral politics. I find that the impact of
identity politics on both party strategies and voter attachments has allowed narrow coalitions to
emerge in some Indian states. In terms of party strategies, the impact of identity politics has been
filtered through the underlying social cleavage structure. In other words, I find that social
demography affects incentives of parties in constructing electoral bases of support.
I find that different social cleavage patterns can be associated with particular party strategies of electoral coalition construction. Based on the dimensions of group size and economic resource control, I classify India’s diverse cleavage structure into four patterns. These diverse patterns have led to different incentives for political parties. In particular, dominant caste structures, which include large entrepreneurial groups, provide enabling conditions that have allowed the emergence of narrow-right coalitions. In contrast, Hindi-heartland patterns with large, economically-marginalized groups can be associated with narrow-left coalitions. Finally, two cleavage patterns that I term “southern” and “cross-cutting” are characterized by groups with little numerical strength. While entrepreneurial groups exist, these groups are small. As such these coalitions provide greater incentives for parties to target a wide range of social groups in constructing electoral coalitions. Voter attachments have, in turn, interacted with these party strategies. I find that social identity is a key determinant of voting decisions in India. As a result, parties in some states can rely on the en masse support of certain social groups.

The findings were based on a combination of quantitative and qualitative analysis. The dissertation employed a nested research design. The two-step argument was first demonstrated through four in-depth case studies of Gujarat, Punjab, Bihar and Andhra Pradesh. I then tested the argument on a broader sample of fourteen states in the 1992 and 2010 through a time-series cross-section analysis.

6.2. Implications for broader debates

My argument has implications for several existing debates in the comparative politics and international political economy literatures. In particular, it engages closely with existing studies on the politics of policymaking and growth, the economic role of the state, ethnicity and
development, and the effects of mobile capital on policymaking. In addition, the study is relevant to specific issues in Indian political economy. I outline each of these below.

6.2.1. Politics of economic policymaking and growth

At the most general level, my dissertation suggests that greater scrutiny of the link between social attachments and economic outcomes is merited in studies of policymaking and growth in developing countries. Unlike advanced industrial countries, which have been the primary focus of the political economy literature on growth, trends of policymaking in developing countries are markedly different. For a start, programmatic politics is conspicuously absent in many developing countries. Instead, symbolic factors, rather than substantive economic concerns, form the core of electoral politics in poor democracies.

The analysis of Indian states in this dissertation highlights the non-economic basis of electoral politics. Social identity has played a critical part in democratic politics in India. At both the level of parties and voters, social attachments cut across economic interests. The dynamics of policymaking in cases where social attachments cut across economic interests tends to be very different. As was clear from the subnational context in India, the centrality of social identity inhibits class-based electoral mobilization. It can also lead to coalitions that are unrepresentative in terms of the socioeconomic profile of the broader electorate. Narrow-right coalitions in Gujarat and AP exemplify this dynamic. As such, several existing hypotheses on politics and policymaking that assume class-based electoral mobilization have limited applicability in many poor democracies such as India.

Aside from highlighting the role of social identity on economic policymaking, my dissertation also draws attention to another dynamic that differs between advanced industrial
economies and developing democracies. Policymaking in developing countries often involves stark trade-offs, most notably between growth-related and redistributive issues. Resources are limited in developing democracies and countries have to undertake tasks of development and democracy simultaneously. Moreover, the benefits of growth often occur in the long-term but costs of pro-business policies necessary to spur growth have to be borne in the short-term. Not surprisingly, high levels of political contestation have surrounded pro-business policies in developing countries. In the case of Indian states, chapter 2 provided several examples of such contestation. Perhaps no economic policy issue has been as politically polarizing in India as the acquisition of land by governments for industry. The trade-off between growth and redistribution has also meant that politicians have actively avoided highlighting growth or economic reforms in election campaigns.

The analysis of subnational investment policies in this dissertation points to a sobering aspect related to the politics of growth in developing countries – the conditions most conducive for the prioritization of growth-oriented policies are at odds with broad democratic participation. Indeed, fostering growth involves difficult trade-offs. It also involves privileging certain societal classes, most notably capital, over others in terms of policy. As the developmental state literature has clearly highlighted, successful cases of late development in the post-World War II period have been built on a base of close state-business relations. Such close relations imply a narrow apex of policymaking and coincidence of goals between the state and private capital (Kohli 2004). I similarly find in this analysis that governments that have been most proactive in the competition for investment in India have been those that have derived support from narrow class coalitions. While these narrow coalitions allow the state to prioritize growth-oriented policies, they are in no way representative of the broader electorate. In that sense, this dissertation strongly supports
Kohli’s claim that India’s high growth phase is simultaneously responsible for progressive
dynamism at the apex and exclusion of certain groups in the polity and the economy (Kohli
2012).

6.2.2. The role of the state in economic development

In emphasizing policy responses of the state, my dissertation shares an affinity with the
developmental state literature. An analysis of investment promotion policies in chapter 2
suggests that the economic role of the state remains as relevant today as it was at the time when
East Asia underwent a dramatic transformation. States continue to perform vital tasks that
critically affect investor decisions. However, unlike the authoritarian developmental states of
East Asia, increased capital mobility and electoral pressures have led to a different set of
constraints on the ability of states to effect change in most developing countries today.

This changed context has led to a shift in the nature of state involvement and the types of
policy tools used. An analysis of the tasks undertaken by Indian states in the competition for
investment offers some insights into the changing economic role of the state. As Kohli (2012)
suggests, the Indian state has always played less of a transformative role than classic East Asian
developmental states. The state’s involvement in India has typically been facilitative. This focus
on facilitation, rather than direct involvement, has been clearly evident in the subnational context
after 1991. States such as Gujarat see their primary role as creating a supporting environment
where transactions costs for business are lowered. Unlike the classic developmental states, there
are few attempts to manufacture comparative advantage or ‘pick winners.’ Certain policy tools
such as concessional finance are also no longer available to states in a context where firms have
multiple sources of funds.
Aside from these changes, the mobility of capital has resulted in growing leverage of business. The type of policy tools used in the Indian context reflects this power to some extent. Successful state involvement in the Indian context has involved predominantly carrots and almost no sticks. This is largely because of business’ ability to relocate across jurisdictions. Concessions and subsidies tend to be widely-used policy tools used by states in India. Such sops to business are clearly suggestive of business’ growing power after 1991. Large investors, in particular, are able to bargain between competing units to obtain favorable terms.

In sum, my dissertation suggests that the role of the state remains crucial to economic trajectories in the developing world. However, a context of democratic pressures and mobile capital has resulted in changes. The Indian case suggests that the type of direct involvement undertaken by the classic developmental states appears to be a thing of the past. Given the growing leverage of business, engendered by greater mobility, state activism has taken on a more facilitative bent.

6.2.3. Mobile capital and policymaking

At the start of the current era of globalization, some scholars predicted that capital mobility would lead to a convergence of economic policy in units competing for business (e.g., Andrews 1994; Cerny 1993). States had to adopt similar capital-friendly policy environments or risk losing investment to competing jurisdiction. At the extreme, this line of argument predicts a race to the bottom along several policy dimensions. Other scholars, focusing on advanced countries, have found that claims of policy convergence are not supported empirically (Garrett 1998; Mosley 2003). The subnational context in India offers a useful context to evaluate these competing claims of policy convergence and divergence in the face of capital mobility. Unlike
the cross-national context, Indian states are bound by similar fiscal, electoral and constitutional rules. A variety of institutional differences, which could have had confounding effects, are controlled for in a subnational research design.

The analysis of state-level investment promotion policies in India points to two trends. First, there is little doubt that the leverage of capital has increased in India in light of the competition for investment. In particular, inter-state competition for large investment projects epitomizes the growing power of business. The Tata Nano case in chapter 2 clearly highlighted this dynamic. The second insight that can be drawn from the Indian case is that capital’s growing power does not necessarily lead to policy convergence across competing units. In fact, there is no empirical evidence to support the claim of policy convergence across Indian states. The evidence in chapter 2 is in line with the “divergence” claim.

Perhaps, what is missing most notably from the convergence hypothesis is politics. As most of this dissertation has attempted to show, social and political environments are critical in shaping investment promotion policies. These varied environments place dissimilar constraints on policy makers and certain conditions are more conducive to the prioritization of investor-friendly policies. Diverse social and political environments have, thus, meant that state policy responses have varied significantly.

6.2.4. Ethnicity and development

The second stage of my argument offers a social origins explanation for the emergence of electoral coalitions in India. In particular, it focuses on ethnicity, specifically caste. In line with a rapidly growing body of work in comparative politics, this dissertation associates ethnic politics with economic outcomes (e.g., Lieberman 2009; Singh 2010b). Like many of these scholars, this
dissertation suggests that ethnic diversity does not automatically lead to political polarization. Nor does it preclude positive economic outcomes; a claim that has been advanced by several studies in the economics literature (Alesina and La Ferrara 2005; Alesina et al. 1999; Easterly and Levine 1997; Miguel and Gugerty 2005a). Indeed, India’s growth transformation on the whole belies such claims.

However, my argument suggests an association that has generally been overlooked in the comparative politics literature. Drawing on the subnational context in India, I show that ethnicity is closely linked to entrepreneurship in some contexts. In the Indian case, historical links between caste, occupation and economic resource control have meant that entrepreneurship is unevenly concentrated in the polity. Certain social groups tend to be overrepresented in the entrepreneurial base in most Indian states. In this regard, my dissertation highlights an important link between ethnicity and entrepreneurship that has not been emphasized in the comparative politics literature. The ethnic origins of entrepreneurship has, however, been central in studies of Indian business history (e.g., Damodaran 2008; Tripathi and Jumani 2007). Some economists have similarly emphasized the link between ethnicity and economic activity in contexts outside India (Greif 1993; Fafchamps 2000). As such, the analysis in this dissertation suggests that entrepreneurship and economic power are not equally distributed in the population. Rather, they tend to be concentrated among certain groups because of the position of these sections in the traditional social hierarchy. The concentration of economic power among certain sections of society has implications for the dynamics of policymaking.
6.2.5. Issues specific to Indian political economy

Finally, my dissertation engages with studies in Indian political economy. A growing body of work in political science and economics has highlighted the divergence of economic and policy outcomes across Indian states (e.g., Ahluwalia 2000; Besley et al. 2007; Kochhar et al. 2006a; Lieberman 2009; Singh 2010b; Sinha 2005). In highlighting marked policy differences across Indian states, my dissertation joins this literature. The rising focus on a subnational level of analysis points to the fact that making national-level generalizations on economic outcomes in India is increasingly difficult. Economic transformation in large polities such as India is an uneven, complex process. Aggregating outcomes at a national-level of analysis can mask important changes underneath. This is particularly true when economic and political leverage of the states vis-à-vis the center has grown in the post-liberalization period. My dissertation squarely points to dissimilarities below the national level.

Aside from interacting closely with existing work in Indian political economy, this dissertation speaks directly to a long-standing puzzle in Indian politics. Though the poor form a majority of the electorate, lower class coalitions have been conspicuously absent in India. More generally, class-based electoral mobilization in India has been weak. My dissertation addresses the question of why this is the case. In answering this question, it points to the role of social identity. Social identity, notably caste, cuts across economic interests in the electoral realm. This, in turn, impedes the development of class politics. The claim that caste cuts across class interests is hardly new. Indeed, in explaining the lack of lower class revolts in India in his seminal study, Barrington Moore pointed to the segmenting role played by caste (Moore 1969). Yet, the role of caste in limiting class-based mobilization and, in turn, affecting economic outcomes is not
widely analyzed in the Indian political economy literature. My dissertation suggests that this link needs to be explored more closely.

6.3. Open questions and future avenues of research

This dissertation attempted to address a broad yet consequential question on the political conditions conducive to growth in developing democracies. The two-stage explanation that it provided was linked closely to the Indian context. In particular, the second stage of the argument drew on aspects related to local social demography in India. How relevant is the study to contexts outside India? Where are we likely to see similar political dynamics?

While I do not claim generalizability to all developing country contexts, I believe that the broader insights of this dissertation are applicable outside India. Like Indian states in this dissertation, states in other developing countries must interact with private capital to ensure growth. In that sense, the imperatives of policymakers in other developing countries to foster growth are no different from those in India. More importantly, like their Indian counterparts today, policymakers elsewhere have to balance the need for pro-business policies with democratic pressures. The subnational context in India clearly highlights the constraints and difficulties arising from having to balance these two imperatives simultaneously. Policymakers in India and other developing countries also share a common background in terms of the sequence of democracy and industrialization; democracy has preceded industrialization in most poor democracies. In that sense, there are clear parallels between India and other developing countries. An analysis of the Indian context can offer lessons on the micro-dynamics of economic policymaking in developing democracies.
Though the central problem faced by policymakers in other developing contexts is similar to those in India, my argument is more likely to be applicable to parts of the developing world than others. In particular, the second stage of my argument focuses on non-economic factors of electoral mobilization. This, in turn, suggests that the explanation is most likely to be applicable in developing countries where ethnicity, identity, nationalism or other symbolic factors drive electoral politics. At first glance, most African countries as well as south-east Asian cases such as Malaysia and Indonesia seem to be likely candidates to fit the bill. The extension to other contexts, however, remains an open question and one that I hope to address in future work.

A second open question is linked to the pre-eminence of identity politics in India. I take the centrality of identity politics as an empirical given in the Indian context. I do not attempt to explain the origins of identity politics. Two broad genres of explanations exist in this regard. The first and older strand arises from Indian political sociology. Authors such as Kothari (1970a) suggest that democracy was overlaid on a deeply entrenched and regressive social system. As such, pre-existing social groupings became natural cleavages around which politics was organized. Politicians found that such groupings had a basis in societal consciousness and, at the same time, offered enough flexibility to be moulded for political ends.

A more recent rational choice explanation has been advanced by Chandra (2004). In attempting to explain the success of ethnic parties, Chandra asks why voters vote on the basis of ethnicity and politicians mobilize voters on this basis. She suggests that in low information environments, which characterize patronage democracies, it is rational for voters to vote for co-ethnics in anticipation of benefits. Similarly, in such low information environments, it is rational for politicians to expect loyalty of co-ethnics and target these individuals. There is, thus, no clear consensus on the origins of identity politics in India. Its origins merit further examination.
Finally, Bihar’s surprising economic transformation has led commentators in the Indian media to suggest that the hold of caste politics may be weakening and that voters are increasingly rewarding economic performance. The example of the JD(U)-BJP’s second electoral victory in Bihar in 2010 is often used to support this claim. It is unclear if this is a temporary phenomenon or whether there has been a qualitative shift in the nature of voter attachments. Even if it is true that economic performance is increasingly being rewarded, it is an extremely nascent trend. Moreover, it may not be the case that the focus on economic performance completely overshadows the importance of social identity in electoral politics. Nevertheless, it remains a trend that might become more evident over time in India.
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