Democracy and Development: Friends or Foes?

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ABSTRACT

This paper reconsiders a long-held view that democracy is a hindrance to economic development, at least in its early stages, and, further, that authoritarianism works better than democracy, because it allows the state to mobilize more effectively the resources necessary for industrial take-off. The different experiences of India and China would appear to reinforce this conventional wisdom. The *Economist* sums it up thus: "A proudly democratic India that grows at 6% a year … should be congratulated for having succeeded better than a brutal anti-democratic China which grows at 10% a year." I suggest reasons to be sceptical of this view, and argue, to the contrary, that democracy will, in the medium to longer run, promote, rather, than retard, economic development, and predict that the future experiences of India and China may bear this out. This is quite apart from the philosophical consideration that democracy and liberty are intrinsic, not merely instrumental, to the process of development.

One line of reasoning rests on the classical liberal dictum, best enunciated in the last century by Friedrich von Hayek and Milton Friedman, that economic freedom and political freedom are inextricably linked. China's pursuit of a free market, without a free society, sets up contradictory forces that will eventually lead, either to slow and painful democratization, or, more likely, a sudden political implosion, which will, obviously, set back economic development. In India's case, democracy serves as a safety valve, through which putative losers of reform can make their voices heard. The paper considers debates around the 2004 general election, in particular, whether it could be considered a vote against further economic reform by those left out, especially the rural poor, or whether merely an anti-incumbency vote. I conclude, after sifting the evidence, that there is, indeed, a case that the defeat of the BJP-led NDA government and the electoral success of the Congress-led UPA government rested on the

former's triumphalist "India Shining" campaign and the latter's appeal to "aam admi" (the common man).

To clinch the analysis, I argue that the pursuit of a more gradual and nuanced approach to further reforms, so-called "second" and "third" generation reforms, such as labour law reform, disinvestment, financial sector reform, removal of agricultural subsidies, etc., can be crafted in a manner to be politically feasible, under the twin rubrics of "inclusive liberalization" and "optimal globalization". This is a critical challenge in the context of a still largely poor, democratic polity, such as India, in which the political centre of gravity is, perforce, to the left. This is the question of the moment in India, as it is in other large and democratic emerging economies, such as Brazil, Mexico, or South Africa, in which the imperative is to build a politically durable consensus around such next generation reforms. The paper outlines avenues that would make this possible, including gradualist and sequenced reforms centred around public-private partnerships (PPPs), especially in the infrastructure sector, selective expansion of special economic zones (SEZs) on non-agricultural land, income support to farmers to replace protection lost through trade and subsidy liberalization, and, perhaps most importantly, firmly establishing in the public eye the trade-employment link by promoting and nurturing small-scale producers in selected exportable sectors in underprivileged regions. If these succeed in allowing reforms to proceed, incrementally if not apace, this will vindicate my contention that, in the long run, democracy is a friend, and not a foe, of economic development.

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TEXT

This paper reconsiders a long-held view that democracy is a hindrance to economic development, at least in its early stages, and, further, that authoritarianism works better than democracy, because it allows the state to mobilize more effectively the resources necessary for industrial take-off. This suggests that there may be a trade-off between democracy and development. The possibility was first posed in the literature by the economist Jagdish Bhagwati, when, in 1966, he wrote of "the cruel choice between rapid (self-sustained) expansion and democratic processes" (Bhagwati, 1966, p. 204), and was further amplified by the political scientist Atul Kohli (1986), who, paraphrasing Bhagwati, dubbed this the "cruel dilemma" thesis. The traditional view is based on a particular theory of economic development, prevalent in the 1950s and 1960s, in which development is driven by capital accumulation. The *locus classicus* of this approach is the Harrod-Domar growth model, although it appears in much earlier work by Johann von Neumann, the somewhat later Mahalanobis model, and more recent work in "endogenous" growth theory by economists Paul Romer, Robert Lucas, and others. In this approach, economic growth is a function both of an economy's rate of saving and investment (the two necessarily being equal in a closed economy) and of the productivity of investment, captured by the incremental capital-output ratio (ICOR).[1] Since the ICOR was generally taken as a datum, it followed that policy could operate only by attempting to raise an economy's rate of saving and investment. It was self-evident that an authoritarian regime would be in a better position to do this than a democratic one, in which high "enforced" public saving, through higher taxes, would be unpopular with voters and hence unlikely to be pursued. Another early development model, Paul Rosenstein-Rodan's "big push" theory, in which an economy could only escape a low-level poverty trap by several coordinated large scale investments, also pointed in the direction of concerted action by the state, which again would be more feasible to implement in an authoritarian than a democratic state.

The success of the East Asian newly industrializing countries (NICs), the so-called "four dragons", Hong Kong, Singapore, Taiwan, and South Korea, which developed rapidly under authoritarian regimes in the 1960s

[1] Formally, in the Harrod-Domar model, $g = s/v$, where g is the growth rate of output, s is the savings (and investment) rate, and v is the ICOR.

and 1970s, seemed to vindicate this conventional view, although the dismal failure of the Soviet Union and its satellite states to do so, and the eventual unraveling of the Soviet-type system, obviously raised questions about the apparent nexus between authoritarianism and development. This could be explained away to some extent, by arguing that the former were characterized by far greater productivity of investment than the latter, something which, as noted, had been taken as a datum in the Harrod-Domar-type approach. There were even cultural theories based on the success of the NICs, a version of which has been called the "Asian values" thesis, propounded by, amongst others, Lee Kuan Yew, long-serving Prime Minister and currently Minister Mentor of Singapore. In 1994, for instance, Lee was cited thus by the *Economist* (August 27th, 1994): "I believe what a country needs to develop is discipline more than democracy. The exuberance of democracy leads to indiscipline and disorderly conduct which are inimical to development." This is an elegant summary of what remains to this day the orthodox defence of authoritarian political regimes in developing countries, most notably, China and its ruling Communist Party.

There is a further refinement of this traditional view, which has to do with the sequencing of democratization and free market reforms in formerly Communist countries. The conventional view is that Russia's failure in the 1990s resulted from putting *glasnost* (opening up) before *perestroika* (restructuring), whereas Chinese success stemmed from pursuing economic reforms under an authoritarian political system. Again, to cite Lee, this is what saved China from a political implosion. On this more nuanced view, democracy must follow economic development, not the other way around, and becomes possible when a country reaches a certain level of development at which it can afford the "luxury" of democratic institutions. This view rests both on the "cruel dilemma" thesis, already mentioned, as well as the theory that, as economic development proceeds apace, there will be forces within a society that clamour for democratic reforms and greater political liberty. To put it in somewhat banal economic terms, democracy is a "normal" good, and, when a society's income is high enough, people will demand it as a matter of course, just as they demand fine wine and designer clothes.

In recent years, there has been considerable debate on the merits of this conventional view, with an increasing number of writers, whether economists, political scientists, policy analysts, or journalists, questioning

the legitimacy of the "cruel dilemma" and the concomitant sequencing of free markets and a free society. In a prescient essay, published in the *Indian Economic Review* in 1995, and based on his Rajiv Gandhi Golden Jubilee Memorial Lecture of the previous year, Jagdish Bhagwati himself has cast doubt upon the thesis inspired by his writing of thirty years before. Having reviewed and called into question the conventional view, he presents a number of novel arguments in favour of what may be called the revisionist view presented in this paper, arguments to which we shall return later. More recently, the policy analysts Morton Halperin, Joseph Siegle, and Michael Weinstein, in their book *The Democracy Advantage* (2004), consider evidence for and against the conventional view, to which again we shall return later.

Despite undercurrents in academic and policy writings, the conventional view still appears to hold sway in the public and journalistic spheres. It has been sharpened by perceptions of the different experiences of India and China, which, at least superficially, would appear to reinforce this view. China began its economic reforms earlier than India, in 1978 under Deng Xiaoping, whereas India began to reform in 1991 after a foreign exchange crisis, under circumstances which have been vividly described by the writer Gurcharan Das in *India Unbound* (2002). China's current growth rate is around 10 per cent per annum, whereas India's is around 8 per cent. The most striking difference shows up in foreign direct investment (FDI): last year, India attracted about US $6 billion of FDI, whereas China attracted about US $60 billion, a tenfold difference. Even recognizing that Chinese statistics are confounded by the problem of "round-tripping", that is, investment flowing out of mainland China and returning as ostensible "foreign" investment to take advantage of preferential tax and regulatory treatment, and the fact that the majority of the "foreign" investment comes from overseas Chinese in Hong Kong and Taiwan, making its definition as "foreign" questionable, a large gap remains. As many economists, rightly or wrongly, and foreign investors, perhaps rightly, take FDI as a summary indicator of economic progress, this would seem to provide further evidence in favour of the conventional view.

In a variation of the "cruel dilemma" thesis, the received wisdom that China will outperform India is summarized thus by Hugh Restall in the March 2006 issue of the *Far Eastern Economic Review*: "Authoritarian China excels at economic development because it can grasp the nettle of unpopular but necessary policies, while democratic India perpetually lags

behind because its unwieldy system makes decisive action impossible."[2] Or, to put it more pithily, "In India everyone has a veto!", as writer and politician Arun Shourie, a minister in the previous government, complained, at the slow pace of privatization of inefficient state-owned enterprises (or "disinvestment of sick public sector units", in the Indian euphemism).

Of course, statistics do not necessarily tell the whole story. Unfortunately, casual empiricism would seem to accord with this conventional view as well. China has built an enviable infrastructure of roads, ports, airports, etc., and any visitor to Shanghai is immediately impressed by the modern superhighway, as good or better than any in the United States or Europe, that leads one from the glittering new airport to the gleaming skyscrapers of the special economic zones and downtown in a mere half-hour. A visitor to Mumbai, by contrast, is confronted with a two-hour crawl from a creaky airport along traffic-congested, pothole-ridden roads that skirt some of the city's worst shanty dwellings, until finally reaching the relative urbanity of the charmingly archaic colonial architecture of the city centre. The casual visitor might well be inclined to agree with economist Meghnad Desai's (2003) dismissive claim: "China will again become a viable Great Power; India may become just a Great Democracy." This sentiment is echoed by the *Economist,* which sums matters up thus in its much-cited comparative survey of March 5th, 2005: "A proudly democratic India that grows at 6% a year … should be congratulated for having succeeded better than a brutal anti-democratic China which grows at 10% a year." This makes the trade-off inherent within the "cruel dilemma" explicit, by, as it were, creating a Phillips Curve between democracy and development, with authoritarianism "buying" the differential in growth. While the gap has now narrowed to about two per cent, a similar view is echoed by Gurcharan Das, who suggests that democracy will prevent India, as compared to China, from breaking into double digit growth rates. This, in his view, is the "cost" of democracy in India, which is a more sympathetic variation of the *Economist*'s sententious comment.

More recently, there has emerged a contrarian view on this India-China comparison, which relates, more than tangentially, to the larger debate on democracy and development. In their much-cited July/August 2003 *Foreign Policy* article, "Can India overtake China?", economists Yasheng

[2] I hasten to add that Restall does not share this view, but merely accurately summarizes it!

Huang and Tarun Khanna challenged the orthodoxy by arguing provocatively that it could. While dismissed at the time by most analysts of the Asian scene, their argument is finding increasing adherents, as evidenced by a spate of recent high-level conferences, most notably the March 2006 Asian Corporate Conference in Mumbai, and the Harvard Alumni Association's New Delhi conference the same month, both featuring sessions devoted to a comparison of growth prospects in India and China, in which the Huang-Khanna thesis was given much credence.

Superficially, as I have noted, the evidence seems to be in favour of the conventional view. What, then, is the thrust of the Huang-Khanna-inspired contrarian view? Just that what is conventionally taken as a sign of Chinese strength – high rates of FDI and domestic savings – are instead signs of weakness, of an economy with an inefficient financial system which cannot usefully canalize domestic savings into domestic entrepreneurship, and the consequent need to import capital and know-how from abroad. Indeed, given the very high rates of investment, what is surprising is not how high the Chinese growth rate is, but rather how low it is. India, with inward investment a tenth of China, has achieved a growth rate in the range of 8 – 9 percent, whereas China has managed to squeeze only an extra percent or so of growth out of the cogs of the system – suggesting an incremental capital-output ratio (ICOR) inefficiently high in China compared to India. Indeed, a recent World Bank study reports an ICOR in China that has risen from 3.96 in the first half of the 1980s to 5.4 in 2002. It would not be too much of an exaggeration to claim that China's economic miracle is to have become a screwdriver-turning assembly economy for the developed world, or the "workshop of the world", to put it more politely. The label "Made in China", ubiquitous on the shelves of Western shopping malls, usually means "assembled in China from Western technology and capital by low-wage Chinese labour".

Even more worrying for the long term is the inefficiency of the Chinese banking system, which is used to finance the soft budget constraints of state-owned enterprises. Even conservative, official estimates place the ratio of non-performing loans at about 25 percent of the total, but the true level is probably much higher, perhaps 40 percent or more. By any sensible standard of accounting, most Chinese banks are bankrupt. When these loans need to be recapitalized, the chickens may well come home to roost.

On the obverse side, the apparent weakness of India in attracting FDI reflects the strength of indigenous Indian entrepreneurship and the relative efficiency of the financial system, banks and the stock market alike. In India, growth is driven by domestic demand, and many of the new national champions, whether old, established business houses, such as the Tatas, or newcomers in the information technology field, such as Infosys, feature homegrown innovation and management. Such is their success, in fact, that they are becoming internationally recognized brand names in their own right, and are growing through acquisitions abroad, including in the developed world. A trivial but telling example might be that the Pierre, New York's premier hotel, is no longer the flagship of the Canadian Four Seasons group but, in fact, is part of Tata's Taj Hotels group, whose own flagship, the Taj Mahal Palace Hotel in Mumbai, was built as a proud testament to indigenous entrepreneurship over a century ago in the colonial era. More recently, and more importantly, Tata Steel has acquired Corus, a British steel manufacturer, after winning a fierce bidding war with other suitors, and has catapulted itself into the top echelon of world steel producers, yet another sign of growing Indian entrepreneurial might.

These considerations might start to point the way towards an answer to our larger question. The repressive nature of the autocratic Chinese regime naturally promotes heavy investment and discourages entrepreneurship and innovation, whereas the chaotic nature of India's bureaucratic democratic polity is manifest at the macroeconomic level of low rates of FDI, poor infrastructure, etc., which masks the vibrancy of entrepreneurship and innovation at the microeconomic level. The Huang-Khanna-inspired contrarian view, thus, brings the democracy-development debate in through the back door, as it were, by casting attention on those features of the Chinese and Indian polities which might create an environment conducive, or not, to economic development.

This detour into the debate sparked by Huang-Khanna brings us back to our main theme, and conjures ideas to pursue. I suggest reasons to be sceptical of the "cruel dilemma" conventional view, and argue, to the contrary, that democracy will, in the medium to longer run, promote, rather, than retard, economic development, and predict that the future experiences of India and China may bear this out. Indeed, early warning signs are already present, as noted above.

First, though, it is necessary to sort out a potential conceptual muddle around the various questions that are interlinked in the debate. To ask which of democracy and authoritarianism better promotes development, if that is your goal, is to beg a logically prior question, viz., which system is intrinsically more inclined to promote development? The first question is instrumental, the latter a system-theoretic or comparative political theory question. Furthermore, both of these are "positive" or empirical questions about how we believe that the world operates. One could, and, indeed, should, ask a "normative" or ethical question, about which system one ought to pursue. On this, it is a fundamental precept of classical liberal theory and its successors that democracy and the system of liberties more generally is a political system that is intrinsically desirable in itself, not merely as an instrument to promote economic development. Or, to put it another way, achieving and sustaining a democratic polity is itself part of the process of development. Of course, liberal political theory would also suggest that economic development is in itself desirable, especially so in a country starting from a low level of per capita income, as it will lift potentially millions of people out of poverty and give them economic opportunities to better their own lot and that of their families. If one grants this, and if the "cruel dilemma" thesis holds, then this gives rise to the Phillips Curve-type tradeoff between democracy and development.

Thus, if one wants to argue against this tradeoff, one needs to challenge frontally the "cruel dilemma" thesis, and thus effectively sever the putative empirical link between an authoritarian political regime and more rapid economic development. This is a far more difficult challenge, intellectually, than to accept, grudgingly or gleefully, the tradeoff, and then solemnly aver that one must accept a lower level of economic development as the price of political freedom, as the *Economist* quotation, implicitly if not explicitly, suggests. How, then, can one proceed?[3]

One possible avenue is to take the route of statistical and quasi-statistical analysis of a range of countries and time periods, to determine whether there is, indeed, a negative correlation (whether causal or not) between democracy and development. There has been some good work along these

[3] I do not here take up the classical political science argument, articulated first by Immanuel Kant in the 18th century, that democracies are less likely to go to war with each other than authoritarian regimes, as this does not seem especially pertinent to the comparative political economy context of this paper. For a discussion of this Kantian argument, see, for instance, Maoz and Russett (1993).

lines, but the exemplar in this literature is the 2004 book by Halperin, Siegle, and Weinstein, mentioned earlier in the text. These authors find that democracies do better than autocracies at all stages of development, not merely at the level of the already rich industrial economies. This certainly casts doubt upon the conventional view, but this statistically driven approach must be supplemented by a more nuanced consideration of arguments based on specific causal mechanisms and a careful consideration of cases, which in our particular case are the comparative political economy of India and China. We turn next to this task.

One line of reasoning, attractive to this author, rests on the classical liberal dictum, best enunciated in the last century by Friedrich von Hayek and Milton Friedman, that economic freedom and political freedom are inextricably linked. One cannot have one, without the other, for very long, without getting into a crisis. At one level, this can be read merely as a gloss on the normative liberal view, and an instance, perhaps, of the liberal fallacy, "that all good things go together", in this case, democracy and development. At another level, it may be read as an empirical claim that a free market will eventually create pressures within a society that will lead to a political freeing up. As Ralph Harris, founder of the Institute of Economic Affairs and an original member of the Mont Pelerin Society, puts it in an interview in 2000: "It wasn't a theoretical thing; it was an active thing, that drive for democracy, for freedom. The argument always was that democracy is impossible without a free economy. [That] you need a free economy was a necessary though not a sufficient condition of democracy." This economic libertarian thesis also relates to another strand of literature, from political science, which argues that economic development will eventually create a push from within societies for political freedom. The experience of the now rich industrial countries shows exactly this experience during the course of the 19th century. To perhaps oversimplify it, the rise of the new manufacturing and commercial class, as a direct byproduct of modern industrial economic development, led to new claims for political liberty and freedom from this now risen bourgeoisie, which led to democratization through several stages, culminating in universal suffrage, free elections, free press, and protection of other civil liberties, a process that carried through the 19th into the 20th century. We have witnessed the same process, in a temporally compressed fashion, in the rise of democracy in South Korea and in several Latin American countries, including, most notably, Chile, which made a transition from market reforms under the brutal and repressive military

regime of Augusto Pinochet to today a stable multiparty democracy and one of the most successful economies in the region.

On this view, then, China's pursuit of a free market, without a free society, sets up contradictory forces that will eventually lead, either to democratization, perhaps slow and painful, perhaps accelerated, or, equally possible, a sudden political implosion, which will, obviously, set back economic development. The fact that there are a large and growing number of political demonstrations every year (about 75,000 officially reported last year) is presumably a concern to the regime, and suggests that fear of a popular uprising against the Communist Party's monopoly on political power is, while still remote, not entirely fanciful. Equally worrying is the increasing gap between the new rich, concentrated in urban agglomerations mainly in the coastal areas, and the rural poor, especially in the remote hinterlands of the interior. This shows up as an increase in income inequality in China, however measured. The simplest measure is the Gini coefficient, which takes values ranging from 0 (perfect equality) to 100 (perfect inequality). Calculations show that the Gini coefficient in China has been rising and is in the range of 45 or higher. In India, by contrast, it has actually been coming down as a result of economic reforms, and is around 33 or so. (For comparison, it is about 40 in the United States, slightly lower in the United Kingdom and Canada, and about 60 in Brazil.)

While those who have been the beneficiaries of economic reform in China are evidently content to live without political liberty and acquiesce in the Communist Party's strategy of economic reform without political reform, what of those who have been left behind? They cannot express their discontent publicly, but the simmering frustrations may at some point boil over and threaten the stability of the regime. It might be argued that exactly this occurred during the protests at Tiananmen Square in 1989, and that the regime was able to contain the situation. Indeed they were on that occasion, but those protests were led by a relatively small number of urban students and activists. It is not clear how the regime would react to a mass uprising by the rural peasantry, and whether its repressive tactics would succeed, or whether the country would descend into chaos.

This possibility relates to one set of arguments that have been made recently against the conventional view and in favour of the contrarian view espoused in this paper, known as the "safety valve" vs. "bottling

up". To quote Bhagwati (1995, p. 7) from his Rajiv Gandhi lecture: "… authoritarian regimes 'bottle up' problems while democracies permit catharsis, the apparent chaos of democracy in fact constituting a safety value that strengthens, instead of undermining, the state and provides the ultimate stability that is conducive to development." On this view, then, the repressed opposition to the Chinese Communist regime, at present muted and muzzled, or "bottled up", may indeed burst out of the bottle and threaten to bring down the whole edifice (to mix metaphors with some poetic license). Again to quote Bhagwati (1995, p. 9): "The instinct and the practice of authoritarian regimes … is to repress, to bottle up, these conflicts, building towards eventual eruption when the pressures have built up to an explosive level." This is precisely the fear in the case of China.

The obverse of this argument, of course, is that, in India's case, democracy serves as a "safety valve", through which actual or putative losers of reform can make their voices heard, whose manifest appearance is superficial chaos but whose latent reality is deep-seated stability. This safety value operates through the democratic "trinity" of free and fair regular elections, an independent judiciary, and a free press (and free expression more generally), all conspicuous by their absence in varying degrees in "hard" or "soft" authoritarian regimes. This deliberative, democratic process is particularly striking in India, in which there is a long-standing culture of public argument and debate. This, indeed, is the central thesis of economist and philosopher Amartya Sen's 2005 book, *The Argumentative Indian*. This deliberative and argumentative ethos may often appear, especially to outsider observers, as a paralyzing state of confusion, but it is merely, again to quote Bhagwati, "the robust noise of a functioning democracy". He elaborates further: "Its chief virtue is that where different groups … jostle for voice and representation, it provides a platform for the contest and an airing of the demands, yielding a catharsis if not the satisfaction that success brings and thus acting as a safety valve." (Bhagwati, 1995, p. 9.)

Let us consider this "safety valve" argument further in the case of India, considering the three primary elements of democracy that we have identified. We shall turn to elections in a moment. Consider first an independent judiciary and a free press. Both of these are very much in evidence in contemporary India. The judiciary, especially the Supreme Court, has become increasingly activist, particularly through public

interest litigation (PIL). A new avenue is the Right to Information Act (RTI), which allows individuals to bring civil servants to account for failing to live up to their obligations. These are coupled with an especially vigorous and active press, both the traditional media of print and television, and increasingly the internet, which bring to light government failings and in which there is constant debate on all matters political, social, and cultural. This stands in sharp contrast to the Chinese case, in which political discourse is entirely absent from the permitted media and in which any hint of criticism of the regime in the press or public sphere is punishable by arrest or other severe sanctions.

More subtly, but equally importantly, the fact that India is pluralistic as well as democratic gives social, cultural, and political space to ethnic and religious minorities, who are able to cultivate their identities within the context of plural national identities, to borrow a phrase from Amartya Sen (2006), and hence need not resort to violence nor succumb to fundamentalism, both of which, it goes without saying, are as destabilizing to economic possibilities as they are corrosive of the body politic. Notably, Islamic fundamentalism is not widespread in India, unlike in neighbouring, non-democratic Pakistan or in some of the autocratic regimes of the Middle East, and it would be difficult to deny that democracy plays an important part in this difference.

I turn now to what may be the lynchpin of democracy, viz., elections. India has a history of unbroken free and fair elections starting with independence from British colonial rule in 1947 and the establishment of the Indian republic in 1950 up until the present day, even including the period immediately following emergency rule by Prime Minister Indira Gandhi from 1975 – 1977. Indeed, in the 1977 election, which boiled down to a contest between the Indian National Congress Party led by Mrs. Gandhi and the Janata Party led by Morarji Desai, the opposition campaigned on the platform that the country faced a choice between "democracy and dictatorship". In the ensuing election, the Congress was defeated, and, to the great surprise of many, mostly Western, observers, Mrs. Gandhi respected the election results and resigned. This was a crucial test of Indian democracy, which it passed with flying colours. A much earlier test, of course, in the immediate aftermath of independence, was whether India would remain democratic or degenerate into a military dictatorship, as quickly happened in Pakistan. Echoing the "Orientalism" (in the sense of the late Edward W. Said) of John Stuart Mill, amongst

others, Winston Churchill famously predicted that Indians would not be able to govern themselves and that the country would collapse after the end of colonial rule. Fortunately, he lived long enough to see his prediction fail.

Our concern, here, however, is not so much with the historical record of Indian elections, but with the question of whether democracy, and in particular the conduct of elections, has helped or hampered economic development in India. For this question, by far the most interesting case study is the 2004 general election, in which a government which campaigned on the success of economic reform was defeated by an opposition whose election platform appealed to those who had been left out. This raises the obvious and important question, whether it could be considered a vote against further economic reform by those left out, especially the rural poor, or whether merely an anti-incumbency vote, which is another long-time feature of Indian politics.[4] I conclude, after sifting the evidence, that there is, indeed, a case that the defeat of the BJP-led NDA government and the electoral success of the Congress-led UPA government rested on the former's triumphalist "India Shining" campaign and the latter's appeal to "aam admi" (the common man), more on which below.

To give the background: In the lead-up to the election, the economy was booming, and a confident Bharatiya Janata Party (BJP) (which headed the National Democratic Alliance or NDA coalition), campaigned, certain of victory, with the triumphalist election slogan, "India Shining".[5] Everyone, including the Indian National Congress Party, then in opposition, expected an easy re-election victory for the BJP. Even senior Congressmen sat the election out, so certain were they of the outcome. The pressing question for the Congress was: on what basis would they contest the election? Taking a bold gamble, and borrowing a leaf from the old playbook, the Congress Party's senior political strategists, led by Jairam Ramesh, amongst others, crafted an election strategy aimed at the rural masses, who had been left out of the economic boom, centred mainly in the major metropolitan areas.

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[4] As an aside, India is perhaps unique amongst the major democracies in having an in-built anti-incumbency bias in general elections, i.e., being an incumbent reduces a candidate's probability of re-election, ceteris paribus. This is in sharp contrast to the prevalent pattern in Western countries, in which is there an incumbency advantage.

[5] This was the brainchild of the late Pramod Mahajan, senior BJP political strategist in the 2004 election, who also received much of the blame, ex post facto, for the election defeat.

The campaign slogan was: "Congress Ka Haath Aam Admi Ke Saath," which translates loosely as: "Congress Walks Hand in Hand with the Common Man." This was also a clever play on the Congress' election symbol, the hand.[6] As charismatically delivered by the party's leader, Sonia Gandhi, the campaign message, that economic growth must engage and embrace those who had been left out, largely the downtrodden and lower caste rural population, and not just further enrich the existing upper caste urban elite, struck a resonant chord. It is also struck a blindspot of the BJP, whose political base was mainly the very upper caste urban elite who were the prime beneficiaries of the economic liberalization.

The election results were stunning, not least for the Congress: they were swept back into power, and the BJP were out. "India Shining" had badly backfired. The new coalition, called the United Progressive Alliance (UPA), headed by the Congress, embedded the winning campaign platform in the National Common Minimum Programme (NCMP), authored by, amongst others, Jairam Ramesh, and overseen by a National Advisory Council (NAC) reporting to the Prime Minister.

The election results raise a number of pertinent questions. First, was it, indeed, the difference in the campaign messages of the two main parties that led to the election result? And, second, has reform slowed down or even stalled, due to the populist hue of the platform to which the current government is tied as enshrined in the NCMP? If the answer to one or both questions is "yes", and economic growth tapers off due to a failure to push forward the reform agenda, this could be a return of the "cruel dilemma" thesis, albeit in refined and muted form, and a vindication, perhaps, of Das' contention that democracy will keep India below double digit growth of aggregate income.

In answer to the first question, there is no consensus amongst the many economists, political scientists, policy analysts, journalists, and others who have studied and opined on the 2004 general election. Amongst the many scholarly and popular writings on the subject, two of the best scholarly works are essays by political scientists E. Sridharan (2004) and Ashutosh Varshney (2006). Sridharan's findings reinforce the widely-held perception that the BJP's political base is largely amongst the urban upper caste

[6] See Exhibit 1 at the end of the paper for a reproduction of one of the campaign posters, taken from the 2004 election manifesto, incorporating these features.

Hindus, who are beneficiaries of economic reform, whereas the Congress draws support largely from the rural backward castes and minorities, who have not seen very much of the fruits of economic reform to date. Varshney's results are in accord with this finding. Of course, it is not possible to leap from this to the conclusion that the 2004 election results hinged on economic reform, a conclusion that Varshney believes cannot conclusively be drawn from the data available. To quote him (Varshney, 2006, p. 15): "We have … noted that the masses have developed negative views about those who benefited from reforms. Those who thought the rich benefited may have … voted disproportionately against the NDA, but did they do so *for that reason?*" He goes on to argue that the development of a system of alliances as between the two major parties and various smaller and regional parties in alliance with each of them, coupled with a general anti-incumbency bias in Indian politics noted before, confutes the tempting conclusion that voters turned against the NDA because of economic reforms. His conclusion instead is (Varshney, 2006, p. 17): "First, India's plebian orders have begun to resent the elite-serving nature of economic reforms in India. Second, their resentment against reforms has not yet become the principal basis of their voting choices." Having said that, even if it is not true that the BJP lost and the Congress won primarily because of economic reforms, the fact that the Congress campaigned on a slogan to help the "aam admi", as against the BJP's "India Shining", and the general perception that attitudes toward economic reform played a role in the election results, probably in themselves act as a political constraint on the Congress-led UPA government: in politics, perception often becomes reality. Thus, the spectre of the refined "cruel dilemma" thesis still needs to be tackled, and we must turn to our second question, as to whether the newly elected UPA government has been, either by choice or by political compulsion, slowing down the pace of economic reform, if not stalling it altogether.

On this second question, there is certainly the perception that this, indeed, has been the case, as we stand well past the midway point of the mandate of the current government. What fuels this perception is in large part the fact that the UPA relies upon the Left Front parties for its electoral survival in the Lok Sabha. The UPA has 222 parliamentary seats, whereas it would need 273 for an outright majority. The Left parties have 61 seats. The Left supports the government "from the outside", i.e., they are not part of the UPA. If they withdraw their support, the government will fall. They are thus what political scientists call a "veto player". The DMK (Tamil Nadu),

the second largest in the UPA coalition after the Congress itself, is also a veto player. Indeed, in 2006, the DMK did block a disinvestment of part of the central government's holdings in two public sector unit in Tamil Nadu, NALCO and NLC. The previous year, under threat from the Left parties, the government reversed a decision to disinvest 10 per cent of its shares in the public sector until, BHEL. After these policy reversals, the Prime Minister, Manmohan Singh, announced that all disinvestment decisions would be placed "on hold". On another front, the government is moving forward very gingerly on the creation of special economic zones (SEZs), once again given protests from the Left parties and of various grassroots political activists, although here the economic arguments in their favour is less clear-cut, and has not attempted a large scale reform of labour laws, which, at present, make it difficult to fire workers, and hence retard employment growth. To quote Varshney (2006, p. 17): "Hence the oft-heard claim in the press that privatization, reform of labor laws, elimination of agricultural subsidies and further dismantling of the small [scale] sector will not go forward until the government's dependence on the left ends." This begs the further question: why has the Congress not pressed the Left more vigorously? If the Left were to bring down the UPA government, the likely result in a new election would be a strengthening of the BJP, which would, almost surely, be more detrimental to the Left than to the Congress. This leaves unanswered why the Congress concedes, rather than challenges, its Left allies. Varshney's persuasive hypothesis is: "The Congress has not called the left's bluff, because Congress party strategists have independently come to the conclusion that the party's social base requires a programmatic focus on the lower and middle echelons of society." (Varshney, 2006, p. 18)

There is certainly evidence that one may adduce in favor of Varshney's thesis of the Congress' political re-orientation. The current UPA government has a veritable "dream team" of economic reformers and technocrats in its ranks, including, of course, the Prime Minister himself, Manmohan Singh, who was the architect of the original 1991 reforms that jumpstarted the Indian economy; P. Chidambaram, Minister of Finance; Montek Singh Ahluwalia, Deputy Chairman of the Planning Commission; Jairam Ramesh, one of the architects of the Congress victory and the NCMP, and now Minister of State for Commerce; and Mani Shankar Aiyar, originally Minister of Petroleum and Natural Gas, and now Minister in charge, amongst other things, of Panchayati Raj, and himself a former diplomat, and later speechwriter to Rajiv Gandhi during the 1980s.

But the emphasis, at least rhetorical, has been on flagship initiatives such as the National Rural Employment Guarantee Programme (NREGP) and on increased reservations for backward castes in higher education and in the private sector, and not on pushing forward the economic reform agenda, which is as yet incomplete.

Varshney has some additional shrewd observations on the implications of this for the Congress Party's political strategy, which deserve to be quoted in full: "The Congress Party's new social base begins to explain the UPA's new moves towards rural employment guarantee and affirmative action. Indeed, two ideas, never explicitly articulated by the party but well understood in political circles, have driven this strategy. First, the upper segments at best constitute no more than 25 – 30 per cent of India's population. After the kind of support they have provided the BJP over the last ten years, getting them back in the older Congress umbrella is harder than consolidating gains in the middle and lower segments. The upper segments are also less attractive because the number of votes in the middle and lower segments is much higher. Moreover, the middle and lower segments tend to have higher turn-out rates. Thus, in the pure arithmetic of vote, unless they regroup and begin to participate in elections more, the upper segments of Indian society are dwindling as a power base in electoral politics. Their control over the press, especially the English-language press, means that they can still generate a vigorous debate in the country, strengthening the public sphere of democracy. But their election participation is lower than the national average, making them less than fully consequential in electoral politics." (Varshney, 2006, pp. 19 – 20).[7]

Varshney's observation echoes a prescient remark by writer and politician Mani Shankar Aiyar, who wrote in 2003, while then in opposition: "Reformers of an academic mould tend to underplay the economic significance of the political fact that the votes of the poor and the backward regions far outweigh the votes of the rich and the relatively advanced areas….Until we go back to the ethic of Daridranarayana and the wiping of every tear from every eye, reforms will remain an elitist preoccupation with an elitist bias." (Aiyar, 2003, pp. 17 – 19) It is exactly the intuition of this political reality that guided the Congress back into power in 2004.

[7] It is noteworthy that, as with the effect of incumbency, differential turnout rates in India amongst the various socioeconomic strata do not follow the pattern in Western democracies: in India, one is more likely to vote if poor, ceteris paribus; the opposite being the case, for instance, in the United States.

In light of these considerations, should we conclude that economic reforms, and hence further economic development, has, indeed, stalled under the current Indian government, whereas Chinese reforms and growth evidently proceed apace, hence giving credence to the "cruel dilemma" thesis in its muted form? I believe that this conclusion would be premature, for a number of different reasons. First, despite the rhetorical change in the Congress' position vis-à-vis its predecessor BJP government, there has been very little actual change in government policy, and certainly no attempt to roll back any of the elements of the economic reforms implemented by previous governments going back to 1991.[8] Economic growth continues to be robust, and models deployed by the Planning Commission predict a status quo or "base case" growth rate of aggregate income on the order of 8 – 9 per cent per annum, only slightly lower than the Chinese growth rate.[9] Second, and perhaps more importantly, the Congress finally shows signs of doing what no previous Indian government has done, including the 1991 reformist government, which is to "sell" reforms to the Indian electorate. The failure to do so, and the management of reform as a largely technocratic enterprise, almost, as it were, by stealth, is one of the reasons attributed by Gurcharan Das, amongst others, for the lack of a popular political consensus on the merits of economic reform, and hence its apparent political fragility in India. Recently, however, Prime Minister Manmohan Singh has been giving speeches, in India and abroad, espousing the concept of "inclusive globalization", a term, evidently, which refers to market-oriented and outward-looking economic reforms which nonetheless are socially responsible and are concerned with the plight of those disadvantaged members of society who have not shared in the fruits of economic growth to date. This new concept is also evident in the approach paper to the 11th Five Year Plan, entitled "Towards Faster and More Inclusive Growth". It is

[8] There is an interesting recent debate on whether it is correct to date the economic liberalization in India to 1991, which is the orthodox view, held by Bhagwati amongst others. A revisionist view, propounded by economist Dani Rodrik, amongst others, argues that one must look earlier, to the Rajiv Gandhi era in the 1980s, when important changes in mindset took place that made the 1991 reforms possible, so that it would be more accurate to date the reforms as originating with the induction of Rajiv Gandhi as Prime Minister in late 1984.

[9] Consider the following illustrative "back of the envelope" calculation: an investment rate of 35 percent (approximately the current one) and an ICOR of 4 gives a growth rate of 8.75 percent. Perhaps coincidentally, this would also correspond to the "golden" rule savings/investment rate a la Phelps, in which the optimal savings rate is approximately equal to the economy's share of capital of national income.

instantiated in the 2007 Union Budget, which, for the first time, shows signs of implementing what might be called "social policy", by directing exponentially increased public funds to health and education. If this concept takes hold in the public consciousness, it might succeed in creating what Jairam Ramesh has termed a "politically durable consensus" around further economic reforms, which, obviously, is a political necessity for the economic reform agenda to be carried forward by the current, or indeed a successor, government. Another positive recent sign is that Oscar Fernandes, a senior Congress leader, who was serving as Minister of State without portfolio, was given independent charge of the Ministry of Labour in a cabinet reshuffle in late 2006, with a mandate to begin discussions with relevant stakeholders on putative labour law reforms in the context of the special economic zones (SEZs), a key element of the gradualist reform agenda that I sketch below. But it is still too early to tell if Fernandes' political weight will give the government sufficient traction on this issue within the remaining lifespan of its mandate.

Evidently, the jury is as yet out on whether the current Indian government succeeds in pushing forward the agenda of economic reform, and hence on whether it avoids succumbing to the "cruel dilemma". At some level, this is not surprising, since the government is only a little more than halfway through its five year mandate. But, as I have just noted, there are some reasons to be optimistic, despite the more obvious and visible reasons to be pessimistic, that Varshney and others have pointed out.[10] In the sequel, I make some policy recommendations, on how the current, or a successor, Indian government could push forward the reform of economic agenda, in a manner which is electorally feasible, and which accords with Ramesh's concept of a "politically durable consensus" around further reforms. The success of such an agenda would ensure that the "cruel dilemma" thesis is confounded, and that democracy and development can be friends, rather than foes.

To conclude, I argue that the pursuit of a more gradual and nuanced approach to further reforms, so-called "second" and "third" generation reforms, such as labour law reform, disinvestment, financial sector reform, removal of agricultural subsidies, investment in primary education and primary health care, etc., can be crafted in a manner to be politically

[10] I should note that Varshney (2007) strikes an optimistic note in keeping with the general tenor of the present piece.

feasible, under the twin rubrics of "inclusive liberalization", a modification of Manmohan Singh's term, and "optimal globalization", a concept that economist James Dean and I have previously developed (Dean, Dehejia, et al., 2004). These would attempt to strike a balance between growth and equity that had, perhaps, been forgotten in the early heady days of economic liberalization, and make this more tempered reform strategy, including further reforms, politically more palatable to a larger majority. In the bargain, India is on track to maintain a growth rate of 8 percent, accelerating perhaps to 10 percent, in the coming years, as necessary investments in infrastructure, both physical and social, begin to yield dividends. Interestingly, the very recently published Goldman Sachs report on India claims that under "status quo" policies and fairly conservative assumptions India is poised to grow at 8 percent per annum, and suggests that 10 percent growth is possible if a number of conditions, such as a higher investment rate, are met. This is entirely consistent with the generally optimistic epistle presented here.

The challenge of "growth with equity" is especially critical in the context of a still largely poor, democratic polity, such as India, in which the political centre of gravity is, perforce, to the left. As sociologist and politician Jorge Casteneda (2006, p. 30) puts it: "The combination of inequality and democracy tends to cause a movement to the left everywhere." This is the question of the moment in India, as it is in other large and democratic emerging economies, such as Brazil, Mexico, or South Africa, in which the imperative is to build a "politically durable consensus" around such next generation reforms. Avenues that would make this possible include, inter alia, gradualist and sequenced reforms centred around public-private partnerships (PPPs), especially in the infrastructure sector, selective expansion of special economic zones (SEZs) on non-agricultural land, income support to farmers to replace protection lost through trade and subsidy liberalization, incremental labour law reform (initially in the context of SEZs) and, perhaps most importantly, firmly establishing in the public eye the trade-employment link by promoting and nurturing small-scale producers in selected exportable sectors in underprivileged regions. If these succeed in allowing reforms to proceed, incrementally if not apace, this will keep the spectre of the "cruel dilemma" at bay, at least for the moment. This is, perforce, a narrative, as yet unfinished, rather than a clinching analytical argument, such is the nature of ephemeral social, including economic, phenomena, and it may yet be overturned by future events. But even then it is suggestive evidence

in support of my central thesis, that, democracy, far from being a hindrance, is a handmaiden, of economic development, at least in the Indian case. Ironically, India may be shining after all.

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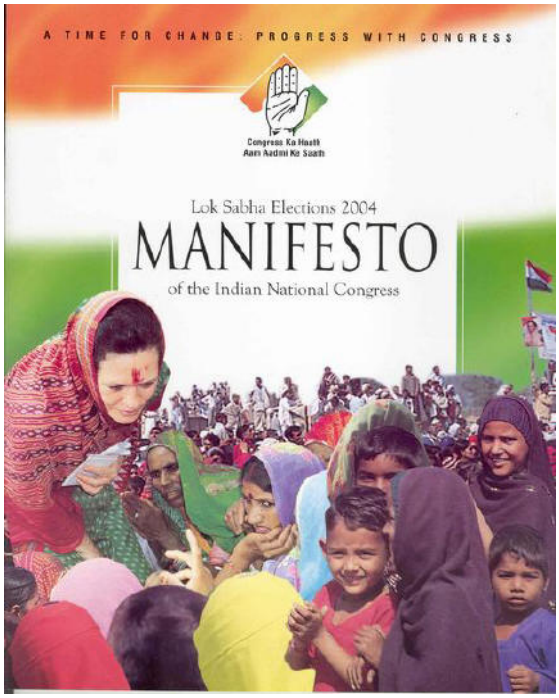

Exhibit 1: Indian National Congress Party election manifesto in the 2004 general election.

Source: http://www.aicc.org.in/documents.php