The preamble to the Constitution of India affirms the solemn resolve of its people to found a ‘socialist, secular, democratic republic’. Today, on the 75th anniversary of the country’s Independence, it is plainly neither socialist nor secular—nor, one could well argue, democratic. Indeed, contrary to journalistic wisdom, India has never been ‘socialist’, unless one confuses the term with statism. The concept of secularism is contested, but if we use the political theorist Rajeev Bhargava’s thoughtful interpretation of it as entailing a ‘principled distance’ between religion and the state, then it certainly does not exist in India any more, going by the practice and utterings of its current leaders. India’s democratic institutions have been on the decline for decades, but this has accelerated so much in the last few years that Sweden’s V-Dem Institute has authoritatively described it as an electoral autocracy. In a negative sense this helps to define some key aspects of the ‘new’ India.

What follows will reflect on broad trends in India’s political economy over the last few decades. The aim is not to provide a detailed blow-by-blow account, nor an exhaustive or quantitative analysis of what has happened in this vast heterogeneous country. Instead I want to paint a broad-brush picture of the obstacles to India’s economic development and the respects in which these represent failures on the part of its state. I go on to analyse India’s ‘governance effectiveness’ in terms of three factors: public resources, state capacity and the centralized federal structure, with the concomitant weakness of regional and local government. I then examine the performance of the private economy, focusing first on the aborted structural transition that lies behind India’s politically explosive
failure to create productive jobs for its bulging youth population and the general weakening of the bargaining power of labour, before going on to explore the ways in which the inequalities and concentrations of the Indian economy foster a conclave economy and a crony-oligarchic capitalism of an increasingly Latin American kind. Finally, I discuss how this is legitimated through a mixture of limited welfare measures for the poor and a majoritarian nationalism that sustains itself by stifling the democratic process.

I. OBSTACLES

Since many may find this diagnosis rather grim, let me state right away that India has unquestionably made tremendous strides since Independence in income, life expectancy, literacy, transport, road networks, communications and other aspects of economic integration; there is no doubting the vibrancy of private entrepreneurship and technological advance—notably the digitalization of the national identification and payment systems—or the general social awakening and upward trends in other socio-economic indicators. The disappointments are mostly with regard to India’s unrealized potential, all the more striking in comparison to some other developing countries. By conventional measures, economic performance was notably buoyant in the early 2000s. Although the 2010s were largely disappointing, growth fundamentals are still potentially strong: the majority of the population is relatively young, there is a vigorous entrepreneurial spirit in all corners of the economy and there has been a remarkably fast spread of connectivity through roads, mobile phones and digital technology.

But major structural and institutional problems are blocking the full realization of these growth fundamentals. Focusing on long-term issues, rather than the immediate overwhelming problems caused by the pandemic, for example, we could single out the following.

**Infrastructure.** The Indian economy has suffered from a substantial infrastructural deficit—railways, roads, power, irrigation, ports, airports;

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1 I am grateful to Vijay Kelkar and Sudipto Mundle for comments on an earlier draft.
now broadband connectivity, etc—for many decades. There have been creeping improvements but nowhere near what is needed for a sturdy growth process in the economy as a whole, and nothing compared to China’s dazzling achievements in this field. Logistics problems and creaking infrastructure keep Indian goods uncompetitive in world markets. Public budgets have long been so laden with subsidies, salaries and debt servicing that relatively little is left for investment in infrastructure. Most tellingly, the central government’s fiscal deficit is overwhelmingly a revenue deficit (some 70 per cent), another indicator of its shrunk capacity for public investment. For a time, this deficiency of public funds for infrastructure was supplemented by public-private partnerships (PPPs). But, as elsewhere, these were often saddled with problems of mismanagement, high debt-equity ratios, regulatory capture, opportunistic renegotiation, non-transparent regulations, corruption and cronyism, leaving a mountain of bad loans on the books of public banks, often underwritten by an unholy nexus between defaulters, bankers and politicians. Yet PPPs are still very important for India’s roads and ports, and the private sector now owns almost all the country’s renewable-energy capacity and about 40 per cent of its thermal power, although the financing depends more on the banks than on the capital markets.

**Education and vocational training.** Although secondary education is a minimum qualification for many good non-farm jobs, the children from poor families overwhelmingly drop out before entering or completing secondary school, on account of economic and—particularly in the case of girls—social compulsions. (The pandemic did enormous damage to human-capital formation on top of this, which has not received the necessary remedial action.) The quality of school and college education remains low, and is not sufficient even for some manual jobs. The provisions for vocational training and skill formation are extremely deficient, particularly for rural and small-town youths—not to mention the lack of projects to provide them with viable connections to potential employers. In a so-called ‘labour-surplus’ country, there is now a serious shortage of employable labour in many factories and enterprises.

**Health and sanitation.** As the pandemic has made disastrously clear, there has been a major, long-standing social and organizational failure in matters of public health and sanitation, where India lags behind many

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4 In *The Political Economy of Development in India* (1984) I pointed to this as the main political-economy issue in India’s development, explicable in terms of a collective-action problem in a diverse country where even the elite is divided.
African countries. There has been an energetic campaign to build more toilets in recent years; but the problem of their underutilization, and the puzzle of their scant impact on public-health issues, such as child stunting, have not been resolved. These failures keep India’s disease burden high and productivity correspondingly low.

Environmental degradation. This has been a major drag on properly calculated net economic growth. The 2014 UN Human Development Report noted that the annual depletion of India’s natural resources (depreciation of ‘natural’ capital) as a proportion of GDP was nearly 5 per cent per year (not very different from the GDP growth rate itself), compared to 3.6 per cent for Brazil and 0.1 per cent for Costa Rica. In the Yale Environmental Performance Index, India ranks among the lowest of 180 countries. Fifteen of the world’s twenty most air-polluted cities are in India, according to IQAir data. In the north of the country in particular, 480 million people breathe pollution ten times higher than anywhere else in the world, which kills an estimated 1.7 million people every year. A disastrous water crisis is also looming. India is the largest user of groundwater in the world, extracting more than the next two largest users (China and the US) combined. Water tables have dropped by thousands of feet in parts of Punjab, Haryana and Andhra Pradesh; tanks, wells and small rivers are going completely dry. Desertification and land salinization are rampant. Water rationing is already serious in urban India. As for decarbonization, about 70 per cent of the country’s energy supply is still from coal, which receives far higher subsidies than those for renewable energy. Recently there has been more significant investment in renewables, but total investment in fossil fuels remains far greater.

2. State Capacity

All these problems—infrastructure, education, public health, environment—involves issues of government effectiveness in the delivery of public goods and services, which is very low in India. This can be analysed in terms of four inter-related kinds of state capacity—organizational, technical, financial and political.\(^5\)

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\(^5\) This expands on the classificatory scheme proposed in J. Cornick, ‘Public Sector Capabilities and Organization for Successful PDPs’, Inter-American Development Bank, Washington DC 2013.
The organizational capacity of a state will vary across different types of state function. The Indian state has shown extraordinary capacity in managing large-scale, episodic and time-bound events: organizing the complex logistics of the world's largest elections, the world's second largest census and some of the largest religious festivals on the planet. But in such essential ongoing activities as the cost-effective pricing and distribution of electricity, its capacity is very poor. This is partly because local political considerations interfere in matters like cost recovery (or under-recovery) from a large and politically sensitive customer base; here, organizational and political capacities are inter-related.

In structural terms, the Indian state's low organizational capacity is also linked to poor performance incentives within the system. Promotions are more often based on seniority than on performance. Frequent and manipulative transfers keep officials on a tight leash, held by their political masters; junior officers have less incentive to pursue training and expertise than to invest in political connections. The current government has induced bureaucrats to act as its propagandists, in unprecedented ways. There is also an inherent perversity of incentives. If as a civil servant you perform well, there is not much of a reward; but if you honestly take a wrong decision—or your good but risky decision does not work out, and some have benefited from it, there is every likelihood that a corruption enquiry will get underway and, although you may eventually be absolved, in the meantime you will be harassed and your reputation stained. This will make you very wary about taking bold but risky decisions and more likely to opt for inaction, or for safe but mediocre choices.

As elsewhere, public officials are also in a position to exploit their monopoly status for corrupt ends—extorting bribes as sole-service providers for services they were supposed to guarantee as part of their official duty; or, worse, for doing things they are not supposed to do, like looking the other way in cases of smuggling, tax evasion or pollution. Corrupt income is often shared between officials and their political masters. In state secretariats, many politicians are largely preoccupied with the sordid drama of transfers and postings, particularly to ‘rent-thick’ positions. Even when monetary rent-sharing is not involved, the threat of transfer to undesirable locations, as well as the lure of post-retirement jobs, serves as a major political weapon to keep officials subservient, both at central and regional-state levels. Moreover, in the absence of regular
monitoring of the lower levels of public service, truancy is rampant. There are numerous cases of teachers not showing up at school—or, when they do turn up, using the school to recruit candidates for private tuition, just as doctors in public hospitals will fish for private patients.

The technical capacity of the state is particularly important when it comes to screening public projects, or monitoring the delivery of social programmes to intended beneficiaries. Information technology has considerably expanded the realm of possibilities here. A study of the impact of direct payments via biometric smartcards on public employment and pension programmes in India, using a large-scale experiment that randomized their rollout over 158 sub-districts with 19 million people, found that the new system delivered a faster, more predictable and less corrupt payments process without adversely affecting programme access. These results suggest that investing in secure digital infrastructure can significantly improve state capacity in implementing social programmes, and there has been notable progress in recent years.

Similar issues arise with improving capacity in judicial, auditing and regulatory bodies, in the digitization of land records and registration processes and in payment infrastructure. India has seen remarkable progress in these respects, though there are many stories of lapses in the last mile of technological implementation. The case of Adhaar authentication in the public food-distribution programme has deprived many poor people lacking easy authentication from access to distribution, as some NGOs have pointed out. At the same time, the state’s growing technical and data-amassing capacity has also increased its powers of surveillance. The Modi government has had no qualms about using this capacity to crack down on potential civil-society opposition, as well as weaponizing old colonial laws.

The financial capacity of the Indian state is extremely weak and as a result—and contrary to widespread perceptions—the state itself is relatively small. Tax revenue as a proportion of GDP was only 17 per cent in 2019–20, which is unusually low for a democracy, and represents a slight decline in fiscal capacity from thirty years ago. This means the

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state not only has a very low proportion of civil servants relative to the size of its population, but lacks the resources to fund many of the posts it has sanctioned. In 2014, the number of civilian employees per thousand of population in India was less than half that of the US, not to speak of Europe. In the US, the proportion of the total work force in the public sector is about 7 per cent, in the UK around 18 per cent and in India barely 2 per cent. There is a large and persistent number of unfilled vacancies across all branches of the Indian government: police, judiciary and public enterprises. Not all of these are due to funding problems. Since the officials who are in post are over-burdened, they are also inefficient, so politicians can blame the dysfunctional bureaucracy when their constituents complain. This in turn helps to perpetuate a clientelist system, in which people frustrated in getting the public services that are their due turn to politicians, who then do special favours in exchange for votes.

But lack of state finance is a crucial problem. India’s public finances are in such dire straits that nearly 70 per cent of the central government’s total borrowing in recent (pre-pandemic) years was used to fund current expenditure, mostly salaries and debt-servicing, with obvious negative consequences for expanding capital expenditure.\(^8\) During the pandemic, which devastated the jobs and incomes of vast numbers of people, particularly in the urban informal sector, the Indian state proved one of the stingiest in the world at providing relief services, pointing to the large fiscal deficit and (excessively) mindful of its international credit rating.

One reason why the tax–GDP ratio is particularly low in India is the enormous informal sector, which employs nearly three-quarters of non-agricultural workers and is largely beyond the bounds of direct taxation. But even in the formal sector, tax rates on long-term capital gains in individual incomes are much lower than in Brazil, China or South Africa; about 60 per cent of declared long-term capital gains are from those earning over Rs. 10 million in annual capital gains. The deductibility of investments from individual income taxes also helps the rich. Wealth and inheritance taxes are zero, even though there has been a sharp increase in the asset holdings of the wealthy—and in the number of dollar billionaires—in recent decades. The proportion of indirect taxes in total revenue has been rising steadily, with regressive social effect. The tax exemptions, concessions and unwarranted subsidies enjoyed by

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\(^8\) One qualification here may be that some of the expenditure is on the salaries of teachers and health workers, which may be considered as human-capital expenditure.
the better-off sections of the population come to nearly 8 per cent of GDP. As a sop to ‘middle’ classes, the income-tax exemption limit was doubled in 2019, thus shrinking India’s already small income-tax paying base. In September 2019, the Modi government drastically reduced the corporate tax rate, which at a stroke resulted in a loss of revenue amounting to nearly half the total health budget. Ultimately, the financial capacity of the state is constrained by the disproportionate political influence and lobbying power of the wealthy—which brings us to the problem of state political capacity.

State capacity in political terms entails the ability to resist pressure from interest groups and to maintain a credible commitment to long-term goals. India’s long-standing inability to reduce its massive subsidies for fertilizer or energy, not to speak of zero tax on the largest agricultural income-earners, is a clear sign of weak political capacity in face of the vested interests of rich farmers and fertilizer companies. (There is evidence that in Uttar Pradesh, India’s largest regional state, transmission losses in electricity from public utilities—mainly through theft—rise sharply before state assembly elections.) Similarly, the inability to raise taxes on capital or wealth shows weak political capacity vis-à-vis the rich.

The official class itself, including top politicians and bureaucrats, forms another vested-interest group. One reason why many public-sector enterprises in India are inefficient is because the politicians and bureaucrats involved cling on to their power, patronage and corrupt contractual opportunities, refusing to allow them any real autonomy in management, even when this exists on paper. Since economic liberalization in the 1990s, the position of the public sector has diminished; but in contrast to China, the commercialization of public-sector enterprises has been rather shallow, and they remain largely under the thumb of the relevant ministries. Even in the private sector, officials’ control over regulatory bodies encourages monopolistic practices and inefficiency. These bodies are often stacked with post-retirement bureaucrats who do not rock the boat, respect the wishes of their political masters, cozy up to the business to be regulated and often lack sectoral expertise in good regulatory policy (lateral appointments of experts are fought tooth and

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nail by the whole bureaucracy).\textsuperscript{10} Far from bringing transparency and coherence to the system, the proliferation of regulatory bodies in recent years has, with few exceptions, made it murkier and more fragmented. Often they just add another layer to the bureaucracy, with similar hide-bound procedures. In any case most regulatory bodies have no penal powers against non-compliance, nor financial autonomy or control over recruitment. As noted, substantial sections of the bureaucracy, the investigative agencies—for example the CBI, the Enforcement Directorate, the National Investigative Agency—and the police are highly politicized and often deliberately incapacitated to render them subservient to the ruling political party.

3. THE LAST MILE

Even in areas where the central administration functions reasonably well, government effectiveness is much lower at local level. There are two main reasons for this. One is where major barriers to implementation of government programmes are embedded in society—for example, traditional gender or caste norms often severely limit the implementation at ground level of development programmes aimed at improving the conditions of women or lower castes. Here failures of state capacity actually reflect local community failures. The other reason has to do with over-centralization of India’s federal structures, going back to the foundation of the Republic, which has served to inhibit local effectiveness.

To elaborate on this: there were two conflicting considerations in the minds of the framers of the Constitution. One was that a large part of India’s society and economy was rural, diverse and informal, and so devolution of power was the obvious democratic way to go, matching the desired autonomy of—and information available to—the local people in this vast country. At the same time, the framers were worried about the stark inequalities and injustices in local communities, where the oppressed might need central intervention and authority to get relief and redress. Above all, the immediate context of Partition and its attendant violence made the framers wary of centrifugal forces and divisive

\textsuperscript{10} For a good account of the state of regulatory bodies in different sectors, see Devesh Kapur and Madhav Khosla, \textit{Regulation in India: Design, Capacity, Performance}, New Delhi 2019.
or fissiparous tendencies. So they tried to strengthen the central government’s power over the regional states to a degree that is highly unusual for federated countries. In India, the Centre has the power to take over regional-state governments on a temporary basis, to redefine and reformulate the states themselves, to establish ‘concurrent’ jurisdictions with them and to wield far-reaching ‘residual’ and emergency powers. The most elastic sources of revenue generally accrue to the central government, so the states are perpetually dependent on it for finance. Today, while the states incur 60 per cent of total government expenditure, they collect on average barely 40 per cent of the revenue—much less in the poorer, densely populated states of northern India—and their borrowing power is subject to Central approval.

Political and economic tension around this vertical fiscal imbalance has always been a feature of Indian federalism. During the period of 1990–2010, which saw shifts in the allocation of political power as rising regional parties came to play an important role in coalition governments at the centre, the imbalances of India’s federalist arrangement were partly corrected in the course of coalition negotiations and transactions. But these corrections were not institutionalized, so subsequent governments could easily change them, as happened from 2014 with the onset of predominantly single-party rule at the Centre under Modi’s BJP. The party has an explicit ideology of national unification and cultural homogenization under a single strong leader. Although its electoral strategy depends for expediency on micro-managing an intricate network of alliances with various regional castes and sub-castes, once the elections are over the regime centralizes all power in the Prime Minister’s office, so that even the BJP-rulled state governments do not have much independent power.

In the non-BJP states, the Modi government has set about undermining local autonomy in various additional ways. First, in the name of national security, it has unilaterally revoked the (already severely diminished) special powers with which the erstwhile state of Jammu and Kashmir was supposedly invested, breaking it into two centrally administered territories. The central government has also taken over jurisdiction of a significant chunk of the border states and put them under the Border Security Force. In many of these states, the Army has an extensive and arbitrary license to operate under the Armed Forces Special Powers Act. Second, the Central government has used the partisan appointment of
regional-state governors to interfere with local administrative functions, often in violation of procedural propriety. Central bureaucrats have often bypassed state governments and given orders directly to district-level administrators, for example in the inflexible implementation of centrally sponsored schemes. Recently the government has proposed changing the rules of the Indian Administrative Service to centralize the bureaucracy still further.

Third, the Central government has significantly infringed upon the fiscal structure of the states through the abolition of the Planning Commission, much of whose grant-giving authority has been passed to the Ministry of Finance, with no scope for discussion with state governments. It has initiated centrally sponsored projects—the Prime Minister once again taking the political credit—in areas officially listed as belonging to the states. It has altered the terms of reference of the Fifteenth Finance Commission in a centralizing direction (though the Commission has deftly tried to bypass some of the changes). It has imposed various cesses and surcharges, reducing the revenue pool to be divided with the states, and has delayed its grudging dispensation of Goods and Services Tax (GST) revenues to the states—for which the states had agreed to give up part of their fiscal autonomy, in hope of larger compensation. Fourth, in both law and order and agriculture, which are state subjects in the Constitution, and labour legislation, which is a ‘concurrent’ subject, the central government has rammed through arbitrary laws with little if any consultation with the states. The wanton use of the Unlawful Activities Prevention Act against minorities and dissenters and the use of central investigation agencies to hound opposition politicians both indicate an arbitrary centralization of punitive power and violation of state autonomy in law and order.

As a result, the governmental rhetoric of ‘cooperative federalism’ has been a fraud and Centre–state relations are characterized by disarray and distrust. This was reflected in the disastrous mismanagement of the pandemic. When the first wave struck in March 2020, the Prime Minister imposed a sudden and unnecessarily drastic lockdown, without any consultation with state governments, and forced through a central Disaster Management Act that did not take into account the varied stages of preparation or incidence of infection in different parts of India. This caused an untold amount of suffering in the country, not to speak of the misery of the inter-state migrant workers, whom the central government
turned out to be woefully ill-equipped to help, where it was not outright callous. During the catastrophic second wave, in spring 2021, there was no central coordination or pre-planning of hospital beds or oxygen; this time, the Modi leadership went into hibernation and blamed the state governments for not doing enough. In particular, the massive economic damage to small and micro enterprises could not be relieved without central financial transfers or loan guarantees to those that were still standing, about which the central government seemed completely unconcerned. The initial stages of vaccine procurement and distribution took place amid utter confusion.

It should be said that the state governments have largely been complicit in the BJP’s general wrecking of the federal structures. When Jammu and Kashmir was unilaterally broken up and the autonomy and dignity of the Kashmiri people further trampled upon, there was hardly a bleat of protest from any state government, including those run by the opposition parties, which have often remained silent when the arbitrary decisions of the central government affect other states. Of course, collective action on the part of state governments is hampered not only by party differences but by the economic divergences between the states—which entail redistributive fiscal transfers to poorly performing states, resented by the better-performing ones—and by the demographic imbalances, particularly between the densely populated north and the south. The use of population as a criterion in fiscal transfers can penalize states that have been more successful in fertility control—a conflict likely to come to a head in 2026, deadline for the postponed ‘delimitation’ decisions defining political constituencies.

Partly as a result of these differences, there has been little demand on the part of the regional governments to have a strong council of chief ministers to coordinate with the central government, nor any attempt to rejuvenate the now largely dormant Inter-State Council created in 1990 for such purposes on the recommendation of the Sarkaria Commission. The GST Council, which could have been a forum for Centre–state negotiations, has instead become an arena of unequal and adversarial relations. Indeed, many state governments have themselves been delinquent in devolving power and finance to lower sub-provincial government levels, the panchayats and municipalities. Even in opposition-ruled states, the regional parties operate in a highly centralized way, while elections to local bodies are fought on supra-local
terms. In China, sub-provincial levels of government tend to spend more than half the total government expenditure, compared to barely 3 per cent in India. The poor performance of sub-provincial local bodies in India in the last-mile delivery of public services and facilities is partly attributable to this striking asymmetry between the two countries in devolved governance structure. In India’s major cities, urban planning and development projects are designed and run by agencies controlled by the state governments, with no accountability to the elected municipal bodies, leading to a great deal of misalignment and dysfunctionality. The regional-state governments have also done precious little to reform local tax structures: in India, local property taxes are among the lowest in the world as a percentage of GDP; much lower, for example, than Brazil, Turkey or the Philippines.

4. STRUCTURAL TRANSITION ABORTED

There was a time when the process of development was thought to consist of a structural transformation of the economy, allowing people to move from low-productivity, often back-breaking work in the agricultural and informal sectors to better and more productive jobs in the manufacturing and service sectors. In East Asia this kind of structural transformation has been reasonably successful, providing millions of formal-sector manufacturing jobs to rural migrants.

It has been much less successful in India, however, where low-skill entrants to the labour force have mainly crowded into the low-productivity informal sector, including agriculture, where 45 per cent of workers still toil, yet which produces only about 15 per cent of GDP.\textsuperscript{11} As mentioned above, the vast majority of workers are still in the informal sector, or are informal workers (with few benefits) in the formal sector. The Indian success stories have been in capital- or skill-intensive manufacturing (autos, pharmaceuticals) or skill-intensive services (software, financial and business services).\textsuperscript{12} In other kinds of manufacturing, where low-skilled workers have a better chance,

\textsuperscript{11} For most farmers, the major part of their income now comes from non-farm work.

\textsuperscript{12} Recent industrial-policy programmes like ‘Make in India’ or ‘Production Linked Incentives’, adopted with much fanfare, have kept the emphasis on capital- or skill-intensive industries, rather than unskilled labour-intensive projects.
expansion prospects have been bleak. The fraction of unskilled labour-intensive industries in India’s total non-oil merchandise exports declined by almost half between 2000 and 2020. Manufacturing as a percentage of total employment and of GDP has remained stagnant, even declining somewhat in the last few years.

Growth of employment in India has generally been sluggish since the National Sample Survey began collecting data on it in 1972; but for the period 1999–2018, employment growth has actually decelerated, particularly for less-educated workers. This does not always show up in the unemployment figures, as discouraged workers (mainly women, but also men) have dropped out of economic activity. India now has one of the lowest labour-force participation rates in the world. All this has ominous implications for both the economy and the polity, as the so-called demographic dividend is—with large numbers of young workers, in the absence of job prospects—turning into a ticking time-bomb. The frequent vandalism and violence caused by youth gangs, vigilante goons and lynch mobs are a distressing symptom of this; the recent flare-ups in northern India over the declining levels of military recruitment with job security are an alarming signal. Even when jobs are created, there is a major regional discrepancy between demand and supply. The burgeoning numbers of young people are concentrated in the populous states of the north, where poor governance and infrastructural deficiency limit both job growth and the delivery of welfare services. But job creation is more buoyant in the west and south India. Inter-state migration acts as a partial relief; but with the staggering numbers it cannot be a solution, given the large costs of dislocation and nativist unrest; already some states have announced job reservations for local workers.

In addition to the major obstacles to the type of large-scale, labour-intensive industrialization associated with East Asian development discussed above, the government’s policy of continually encouraging foreign portfolio investment in India, without countervailing measures, has often kept the rupee overvalued, neutralizing any labour cost advantage in exports. The business press and some liberal economists have habitually put the blame for the lacklustre performance of India’s labour-intensive industries on trade unions’ support for stringent labour laws.

Even in a high-growth state like Gujarat in west India, the growth pattern has been highly capital-intensive, and the proportion of the workforce in agriculture remains unusually high.
But much of this legislation has been diluted, both in major states and at the central level. Trade unions are now substantially weaker, partly due to the universal drift of technology towards greater capital- and skill-intensity, and partly due to increased capital mobility, both between countries and across regional states in India. Even in the organized sector, over a third of workers are now ‘contract labourers’ without security or benefits, sometimes working side-by-side with regular workers.

The earlier raft of central labour legislation has now been replaced by four Codes (though these are yet to be ‘notified’). While simplifying the tangled mess of old labour laws was a positive step, some of the new codes involve dilution of labour rights, particularly in the matter of job security, and weaken the power of arbitration courts in industrial disputes. These Codes were rammed through Parliament without any discussion, as were the 2020 Farm Laws (repealed in 2021 after massive protests, with state elections looming in Punjab and Uttar Pradesh). But so far organized labour has not mounted any sustained protests to compare to the farmers’ action. This may be the result of the low bargaining strength of organized labour in India, as well as their lesser numbers.

Cheered on by short-sighted capitalists and their supporters in the financial media, the Modi government is in effect pushing the economy toward more distrust, labour unrest and stagnation in labour productivity. This is already apparent in some of the violent factory incidents that have attracted international attention, such as when workers ran-sacked Wistron’s iPhone assembly plant near Bangalore. The factory employed about 2,000 permanent workers and 7,000 ‘contract workers’, without any job security or benefits, with no labour union. The workers’ grievances included non-payment or delayed payment of wages, an extension of the workday to 12 hours with little notice or consultation and inadequate safety provisions for women workers on the night shift. The company, a Taiwanese assembler for Apple Corporation, has admitted its faults; but this kind of backlash against unfair work conditions and arbitrary labour laws should not be unexpected. Similarly, there has been substantial dilution, if not outright gutting, of workplace-safety regulations, and many attribute the recent rise in industrial accidents in India to this wanton deregulation. Companies and governments of this ilk do not realize that negotiating and co-managing job stability, welfare and training programmes with workers may be good for long-run
productivity and profits. Capitalism sometimes has to be saved from short-sighted capitalists (as both Marx and Keynes pointed out).

5. A CONCENTRATED CONCLAVE ECONOMY

The inequality of household wealth in India, already very high, has soared further over the last few decades. The World Inequality Report suggests that the top 1 per cent holds about 33 per cent of national wealth, while the bottom half of the population holds about 6 per cent; in 1991 those shares were 16 and 9 per cent, respectively. This kind of inequality generates a Latin American-style ‘conclave economy’, where a limited sector caters to an affluent elite demanding relatively capital-intensive and skill-intensive goods, whereas much of the general economy suffers from insufficient demand and underutilization of capacity, and thus low aggregate investment and employment.

What about corporate concentration? One study estimates that India’s twenty most profitable firms generated 14 per cent of total corporate profits in 1990, 30 per cent in 2010 and 70 per cent in 2019. Evidence suggests that these profits were not due to innovations or productivity rises, but mainly to market power. This level of corporate concentration may be one reason for the dramatic disjuncture between India’s battered real economy and its generally booming stock market. (Spillovers from world financial markets until very recently flush with liquidity may be another.) It could be argued that the composition of the ‘most profitable’ firms may have changed over time; this was indeed the case in the first two decades after liberalization—say, 1991 to 2011—when there was quite a bit of ‘churn’. Significantly, this period also saw the rise of regional capital, particularly in the south and west, with quite a bit of competition among these new business groups. Politically, this coincided with the rise of powerful regional parties and their assertive role in national coalitions.

But now, with single-party dominance and the centralization of political power under a supreme leader since 2014, the political economy of the corporate-sector constellation has mutated into what Harish Damodaran

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14 According to research by Marcellus Investment Consultancy. See ‘India Inc’s profits increasingly belong to a tiny clutch of companies’, Economist, 21 May 2020.
has called ‘conglomerate’ capitalism.\(^5\) Many of the new regional entrepreneurs became heavily debt-laden, enfeebled by the increasing capital-intensity of projects and the demanding requirements of the new technology, including data-driven scale economies and network externality. National-market integration in general benefits larger firms over smaller or local ones. Modi's demonetization and an initially bungled implementation of the general goods and services tax also pushed India's small and medium businesses onto the ropes; the pandemic and the drastic initial lockdown then delivered further crushing blows.

As a result of all this, market competition has withered. In most sectors—telecoms, airlines, steel, cement, aluminum, paints, synthetic fibres, cars, trucks, tyres, consumer electronics—there are only two or three players, dominating over 50 per cent of market share. Meanwhile protectionism has limited the role of foreign competition. India’s current political-economic regime is unmistakably one of crony oligarchy. Favours and special regulatory dispensations tend to be reserved for a select number of big firms. In some cases, rules are changed in midstream to help the cronies.

There are numerous examples of this. One would be the airport acquisitions by the Adani conglomerate, which went from running no airports to becoming India’s largest corporate airport handler within just a few months. Another is the hasty move by TRAI, the telecoms regulatory authority, to amend its previous rules and change its definition of ‘significant market power’ after complaints about the predatory pricing practices of Reliance Jio, now found to be in the clear. Others would include the bending of pre-existing environmental regulations to favour Adani’s mines, or the imposition of multiple complex restrictions on the entry of foreign retailers to help the Reliance Retail chain. And so on.

The results have been dramatic. In 2014, Mukesh Ambani was the fortieth richest man in the world; by 2020 he had become the fourth richest, his net worth having quadrupled in the Modi period. Gautam Adani’s net worth tripled over the same six years (now he is supposed

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\(^5\) Harish Damodaran, ‘From “Entrepreneurial” to “Conglomerate” Capitalism’, *Seminar*, no. 734, 2020. Although Damodaran calls the earlier period ‘entrepreneurial’, even then there was a great deal of rentier capitalism—think of the stories about the ‘mining mafia’—particularly in the period of the international commodities boom.
to be the richest man in Asia). Even when heavily debt-strapped, these favoured conglomerates have little difficulty in raising domestic or foreign money, as they enjoy a kind of implicit ‘sovereign guarantee’, both in finance and in navigating the murky waters of regulatory approval. Most of the large investors in Adani’s firms are offshore funds (some based in Mauritius).

The crony oligarchs mainly operate in non-traded goods or highly regulated sectors, where getting government favours is much more important than the need to compete in foreign markets; it is unsurprising that not a single global champion has been created by these billionaires, who are happier wallowing in rent-thick sectors. The BJP’s new protectionist regime—known as atmanirbhar or self-reliant—ends up making imported inputs more costly and exports less competitive, creating further obstacles to India’s integration into the global value chain. The result is a low-productivity oligarchic-autarchic economy. According to the Economist, India’s share of billionaire wealth derived from ‘rent-thick’ or crony sectors rose from 29 to 43 per cent between 2016 and 2021.

In the period 2014–21, public-sector banks have written off loans worth more than Rs. 8 trillion, while ‘willful defaulters’ have robbed these banks with impunity, thanks to the long-standing nexus between business, politicians and bankers. The Modi government has undermined its own flagship Insolvency and Bankruptcy Code to preserve its discretion in regulatory forbearance for business promoters. (One Reserve Bank Governor resigned after objecting on this score.) The recovery of loans under the IBC process has so far been ridiculously low, as the whole system is gamed by the politically connected. Delayed court judgments are often due to evasive actions by defaulting borrowers, even as they continue their asset stripping. Accounting and regulatory standards are quite lax in general in the Indian corporate sector; some believe nearly half the listed companies in the stock market have accounting problems.

The other side of what is in effect a quid pro quo process has seen corporate money flowing to fill the ruling party’s coffers. The ingenious con game known as electoral bonds—introduced in 2017, in the name of electoral reform—allows torrents of money to pour from a handful of conglomerates, with no public disclosure requirements, mainly to the BJP, whose takings far exceed all the other parties combined. Electoral
bonds are tax-deductible, so in a sense the taxpayers are subsidizing these contributions to the ruling party. While the public does not know who the corporate donors are, the State Bank of India does—and therefore the government knows, too. In a climate of fear, this helps to ensure that most of this dark money will go to the ruling party and not the opposition. No longer does the BJP need, as the regional parties once did, to raise money from an odd assortment of smaller fish—the liquor barons, sugar barons, local real-estate tycoons or PWD contractors. Now big national capital can channel ample money to a single national party, and is suitably rewarded in a crony-oligarchic system. Since some of these conglomerates also own media companies, they are happily able to carry government propaganda, often full of half-truths and misinformation, if not outright lies, and are further funded by the ‘paid news’ of ruling politicians, as well as a regular supply of government advertising, denied to others. The Reporters’ Collective, a group of investigative journalists, recently found out that one of the surrogate advertisers for the BJP on Facebook was newj, a subsidiary of Reliance Jio, which had pumped millions of rupees into Facebook posts promoting the party.

Over time there has also been a change in the composition of the politicians in general. Even ignoring the serious understatements to the Election Commission, the median wealth of Indian politicians has risen substantially in the last two decades (as has their median crime record). The number of MPs with ‘business’ as their declared profession has increased significantly, and many politicians coming from other occupation groups thrive in business once they get elected. This produces some egregious conflicts of interest, as they gain direct influence over the regulations that will govern their business.

6. Political Legitimation of the System

Although India’s capitalist development has been lopsided, oligarchic and deeply unequal, the government presiding over it has not suffered from any lack of electoral or popular legitimacy, judging by its election victories and the popularity of its supreme leader. Continuous

16 Tax-deductibility of donations to political parties has another malign effect. In India there are about 2,500 registered parties, even though less than 100 of them are politically active. The rest can serve as money-laundering machines, as for political parties there is no accountability for domestic or foreign funds.
cheer-leading and open sycophancy by large sections of business and the media have created an atmosphere of triumphant acclaim, which in turn affects public perception and demoralizes the opposition. The leader’s oratorical skills, the massive cadre-based electoral machinery of the RSS/BJP, the clever crafting of alliances with different castes and sub-castes in particular areas, access to disproportionately large corporate donations for election funds and, relatedly, a brazenly biased media, as well as the disorganized nature of the opposition, have all helped in the electoral legitimization process. But it is important to note that two further factors have worked in favour of the BJP.

First, the Modi government has introduced some new welfare schemes for the poor—of which the Ujjawala scheme for distributing cooking-gas cylinders and the Swachh Bharat toilet-building programme have had the greatest resonance—as well as continuing the most popular schemes of Manmohan Singh’s 2004–14 Congress-led governments for food distribution, rural employment and affordable housing (albeit with a substantial change in approach, from the earlier emphasis on citizens’ rights to their now being the Prime Minister’s ‘gifts’). The idea of a financial gift is enhanced by the direct transfer technology by which a cash amount is directly deposited into the bank account of the beneficiary. Some of the new schemes have not been very successful—for example, many poor households cannot afford the gas cylinders, once the initial financial support runs out, and for various reasons many do not use the new toilets—yet for electoral legitimacy what is important is that the BJP is in full control of the branding and the effusive narrative about the massively successful programmes, with Modi claiming full credit. Even when a particular programme does not quite deliver, the trick is to use a megaphone to talk about cases where it has worked, and to keep the public distracted by the announcement and hype of yet another spectacular roll-out.

In some cases, the full blare of the narrative has been more important than the programme itself. A recent parliamentary committee, headed by a ruling-party MP, revealed that in the first three years of the gender-equity programme, Beti Bachao, Beti Padhao, some 80 per cent of the budget had been spent on publicity alone. There is now also the widely publicized promise to supply electricity and piped drinking water to each household, which is paying political dividends long before any real progress has been made in implementation. The poor care for such
welfare schemes, and the stories of them reaching other people, if not yet themselves, indicate how much the leader cares for common people. They are certainly not too bothered about the government cozying up to crony oligarchs. Meanwhile the Modi government’s centralization of welfare schemes and use of direct-transfer technology to deposit benefits in citizens’ bank accounts have successfully weakened the traditional intermediation by local caste leaders in the welfare-delivery process. One interesting side effect of these centralized welfare schemes, bypassing the state governments and giving all credit to the Prime Minister, has also been to undermine or weaken state-level welfarist chief ministers—including those belonging to the BJP.

Secondly, when the ruling party cannot control the narrative about things that voters care about, like jobs—where its performance has been dismal—or food and fuel prices, then its non-economic narrative kicks in, amplified by WhatsApp, Facebook, political theatre and religious spectacle. Here the potent blend of nationalism and religion has been a powerful antidote to bad news on the economic front. ‘You see, under our supreme leader, we finally have a chance to be a super-power, strong economically—don’t you see how the stock market has been booming and how many billion-dollar ‘unicorn’ start-ups are waiting for IPOs—and militarily: don’t you see how valiantly our great helmsman is steering our ship in these treacherous waters, full of neighbouring enemy countries, Muslim terrorists, infiltrators and internal fifth columnists? And yet how pious the leader is, busy rebuilding the great Ram temple, reviving India’s ancient Hindu glory!’

The relentless broadcasting of such narratives is a central feature of the ruling party’s psychological warfare, for which opposition parties are no match. Two aspects of this narrative require special attention. One is that over the last three decades, thanks to the political mobilization of various caste and regional groups, India’s polity and society have become markedly more fragmented; the ruling party has cleverly used the image of a supreme leader who is above all these divisions, providing a symbol of reassuring muscular unity. The second is the superb micro-management, within India’s bewildering patchwork quilt of

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17 One striking case is that of the BJPs Chief Minister of Madhya Pradesh who had long taken credit for various welfarist measures in his state. But now that the wind has been taken out of his sail by the Prime Minister’s welfare schemes, in his stump speeches he has turned to various Hindu symbolic issues.
sub-castes, of tactical alliances combined with Hindu consolidation and ideological hegemony—so that a large fraction of even the marginalized Dalits, not to speak of many ‘backward’ castes, have voted for a party suffused with upper-caste ideology. These alliances have been helped by years of quiet work by rss-affiliated ground-level workers in incorporating the iconic gods and historical leaders of marginal groups into the broad Hindu tent.

Religion-infused nationalism combined with Hindu majoritarianism, which provides a democratic veneer of numerical supremacy, plus a populism that invokes a strong leader ‘embodying’ the popular will (manipulatively interpreted) and overcomes the irksome encumbrances of liberal institutions and the separation of powers—aided, it should be said, by a compromised or erratic Supreme Court that has for years allowed a dismantling of basic constitutional rights—all feed into a powerful form of legitimacy that the ruling party never tires of using, or the connected business sector of conniving at.

Nevertheless it is not clear how long such forms of legitimation can last. Ultimately the odds are against drastic homogenization, or the cramming of the manifold diversities of Hindu society into the Procrustean bed of an invented, artificial, poisonous, religious nationalism. Historically, Hinduism has never been an organized or standardized religion and in a country of extreme linguistic, cultural and other diversities, as well as powerful centrifugal forces that are bound to resist the ongoing assault on federalism, the project of ‘Hindi, Hindu, Hindustan’ and suppression of the civil rights and dignity of the world’s largest minority population (nearly 200 million Muslims, among other non-Hindus) is unlikely to be viable over a long period, without giving up all semblance of democracy. Besides, the social divisiveness that the ruling party is bringing about is likely to undermine the institutional basis of mutual trust and normative coordination that capitalism ultimately depends upon. Nigeria and Ethiopia, two of the largest countries in Africa, provide stark examples of how distrust and disharmony generated by extreme social fragmentation can make it difficult for either capitalism or democracy to thrive. (Already some, including business magnates there, have warned that the poisonous political divisions that the ruling party is promoting for electoral purposes in Karnataka have started affecting the thriving business atmosphere there.)
A national-security alarm gave the BJP a major victory in the 2019 elections, even in the face of decelerating economic growth and declining job prospects for the youth. But ‘crying wolf’ may not work every time. The ruling party has won some important regional elections, but has also been convincingly defeated in others, mainly in the south and the east of the country. Farmers won a significant victory when Modi was forced to withdraw his arbitrarily formulated Farm Laws. In future, civil-disobedience movements and regional resistance against poorly deliberated laws that seem to violate the spirit, if not always the letter, of the Constitution—and more generally violate the spirit of democratic culture and the principle of federalism that survive at ground level in many places—are likely to grow and may provide considerable opposition, although their effect on electoral outcomes may not be immediate. Digital technology which allows authoritarian governments to spread misinformation and snoop more easily, also enables people to unite and organize resistance. That way, going back to the Preamble of the Constitution, India may not be socialist or secular soon, but a complete obliteration of its already highly flawed democracy is somewhat less likely, as the country lurches on past its 75th anniversary, into the future.