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Party Linkages and Economic Policy: An Examination of Indira Gandhi's India

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Charles Robert Hankla

Abstract

We know from observation that some democracies intervene deeply in their domestic economies while others adopt a more laissez faire approach. Can we explain these differences solely with ideology, or are other political influences also at work? I argue in this paper that elected leaders sometimes opt for hefty economic regulation purely to generate sources of patronage that can be used to maintain their political positions. Leaders are most tempted to take this approach, I contend, when their political parties are not stably linked to sources of electoral support. Unstably linked governing parties will tend to have very short time horizons, focusing on the immediate objective of avoiding massive vote losses in the next election. As a result, they will be less concerned with the potential future damage that a patronage-based policy may inflict on the national economy. I find support for this argument with a close examination of Indian economic policy under Indira Gandhi. Prime Minister Gandhi, I contend, increased the Indian state's control over trade, industrial production, and credit allocation just as the Congress Party's linkages to the electorate were destabilizing.

KEYWORDS: political parties, India, economic policy, process tracing

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We know from observation that some democracies intervene deeply in their domestic economies while others adopt a more *laissez faire* approach. Can we explain these differences solely with ideology, or are other political influences also at work? I argue in this paper that elected leaders sometimes opt for hefty economic regulation purely to generate sources of patronage that can be used to maintain their political positions. Leaders are most tempted to take this approach, I contend, when their political parties are not stably linked to sources of electoral support.

By far the most frequent explanation for relative government involvement in economic affairs is political ideology.[1] Leftist leaders are said to be more likely than their rightist counterparts to intervene in the economy, driven by suspicion of the free market's ability to advance social justice. By contrast, rightist, and especially liberal, governments are understood to prefer a more laissez faire approach that is consonant with their understanding of individual initiative and the efficiency of free enterprise.

While ideology undoubtedly plays an important role in the proclivity of governments to take on an expansive economic role, it is unlikely to be the sole determinant of this important policy choice. Indeed, an increasing number of studies have attributed variation in state economic intervention to the nature of a country's political institutions. They have highlighted the role played by electoral system, executive-legislative relations, party system, and other institutional factors in channeling social pressures into public policies. Past research indicates, for example, that when electoral systems are proportional, executives are stronger, and party systems are less fragmented, political decision-makers will be better able to resist social pressures for patronage.[2]

Scholarly studies associating party organization with economic policy, however, are much scarcer. Mainwaring (1999) argues that Brazil's low level of party system institutionalization has crippled its economic stabilization policy. In a similar vein, McGillivray (2004), Nielson (2003), and Hallerberg and Marier (2004) associate party centralization with trade and fiscal policy choice in democracies. Nevertheless, these studies, while shedding light on the relationship between parties and economic intervention, do not address the potential impact of party-electorate linkage characteristics. In many democracies, parties are the key

[1] This reasonable argument can be found in both scholarly and popular analyses. See, for example, Volkerink and de Haan 2001. Perotti and Kontopoulos 2002, and Oatley 1999.

[2] Examples of this large literature include Rogowski 1987, Keech and Pak 1995, O'Halloran 1994, Mainwaring 1999, Haggard and Webb 1994, Mansfield and Busch 1995, Haggard and Kaufman 1995, and Kohli 2004.

political institutions connecting voters with government, and I argue here that these linkages are an important determinant of a state's role in the economy.

In this paper, I focus on the stability of a party's linkages to the electorate. Parties that enjoy stable electorate linkages can depend on reliable voting support across elections and are therefore unlikely to fade away.[3] When electorate linkages are unstable, by contrast, political parties lack the secure vote bases that ensure them reasonable support from election to election. Unstably linked parties must therefore live in constant fear of catastrophic vote losses; their long-term viability is by no means certain. Linkage stability may be associated with a variety of factors, among the most important of which is party institutionalization. When a political party has a well-functioning institutional structure, with party representatives present in locales across a country, its electorate linkages are more likely to be stable. Stable party-electorate linkages can also be associated with the depth of a party's relationship to particular cleavages in society. Parties that are deeply rooted in highly salient social cleavages are more likely to enjoy stable voting support.[4]

What effect might linkage stability have on state intervention in the economy? Economists have long contended that more state involvement in the economy will result in more opportunities for patronage. I argue here that unstably linked parties will be tempted to shore up their shallow electoral support by providing economic patronage to influential groups. Their leaders will tend to have very short time horizons, focusing on the immediate objective of avoiding massive vote losses in the next election. As a result, unstably linked parties will be less concerned with the potential future damage that a patronage-based policy may inflict on their national economy.

When electorate linkages are stable, by contrast, political parties will be less focused on their short-term viability and have longer time horizons, other things equal. They will therefore be averse to market interventions that may cripple their country's long-term economic performance.[5] Stably linked parties,

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[3] For more on the concept of party linkages, see Mainwaring 1999.

[4] Scholars have tended to focus either on the institutional characteristics of parties (e.g. Duverger 1954; Mainwaring and Scully 1995; Mainwaring 1999; Jin 1995; Panebianco 1988; Randall and Svasand 2002) or on their role in reflecting cleavages within society (e.g. Neumann 1956; Lipset and Rokkan 1967; Kitschelt et al. 1999). In this paper, I draw my inspiration primarily from the latter tradition.

[5] It should be noted that some forms of targeted economic intervention (especially those that help overcome market failures) may be beneficial to the economy. See, for example, Waldner 1999. Nevertheless, large scale government regulation of the economy is generally thought to interfere with economic growth.

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after all, will be more likely to survive to reap the political benefits of circumspect economic policies and will have less need to pay off influential groups to avoid electoral disaster. They will be better able to resist the short-term political pressures that arise from the dislocation of economic reform, and more likely to survive to reap the benefits of higher growth.

Of course, even stably linked parties will sometimes succumb to the use of patronage for political gain. In a majoritarian system, for example, where two stably linked parties are competing for the votes of a small group of undecided moderates, there may be a strong incentive to use patronage. Nevertheless, the greater electoral security enjoyed by stably linked parties will prevent them from using government largess on the same scale as would similar parties without stable linkages. Parties that do not enjoy stable electoral support rely almost exclusively on patronage to ensure their electoral prospects and are in constant danger of massive vote losses. By contrast, stably linked parties have other means to build support and, moreover, the long-term consequences of economic policy choices are more central to their thinking. Indeed, even parties that are stably linked to protectionist interests will have an incentive to moderate potentially damaging economic intervention to preserve patronage for future use.

To evaluate the proposed relationship between party linkage stability and economic policy, I present here an examination of Indira Gandhi's India. I argue that the de-institutionalization of the country's dominant party, the Indian National Congress, during Indira Gandhi's tenure as prime minister helped drive the Indian state's role in the economy.[6] Put simply, I suggest that Gandhi was forced to generate new sources of economic patronage in order to shore up her shallow support in the electorate. While it is difficult to evaluate the motivations of political actors, I seek evidence for my contentions in the timing and nature of Prime Minister Gandhi's economic initiatives.

I make use of process tracing to evaluate the presence of causal linkages connecting electorate linkage instability with economic intervention.[7] Process tracing allows me to evaluate whether party linkages did in fact motivate patronage distribution, and whether they did so for the reasons predicted by my argument. The approach has the benefit of allowing me to test causation directly rather than through the lens of correlation. In tracing the decision-making process in India, I pay special attention to the perceptions and behavior of decision-makers and the sequencing of events. I ask, for example, whether Indira Gandhi

[6] In this paper, I variously use the terms "Congress Party," "Congress," and "Indian National Congress" to refer to the party of Nehru and Indira Gandhi.

[7] On process tracing, see Pierson and Skocpol 2002; Pierson 2004; Mahoney 2000, Hall 2003, and King, Keohane, and Verba 1992.

was responding in her economic policy to changes in the stability of her party's linkages to the electorate.

Party Linkage Characteristics and Economic Policy Before 1969

In order to understand the political and economic changes wrought during Indira Gandhi's tenure as prime minister, we must briefly discuss what came before. With Jawaharlal Nehru as prime minister and Congress Party president, the 1950s saw the heyday of the so-called Congress system.[8] During the Nehru era, the Congress Party dominated Indian politics, winning every federal election and controlling almost every state. The Congress, while contesting free elections, met with little effective opposition from minority parties. Indeed, India's democracy was preserved less through parliamentary elections than through the organization of the party itself. The preferences of sub-national elites across the country were aggregated into policy within the Congress structure, and in return these local party bosses delivered "banks" of voter support to party candidates. As a result, the Congress Party possessed great legitimacy and deep organizational roots across India, ensuring stable linkages to the electorate and consistent support from a vast electoral base.[9]

During this period, India set itself firmly on the path of import substitution industrialization (ISI), the strategy embodied in the country's transformative Second Five Year Plan. This development strategy called for the state-assisted production of key goods domestically, with the goal of promoting industrialization free from the rigors of foreign competition. The role of the plan was to direct the country's scarce resources to those industries targeted for expansion by the government. To ensure that plan targets would receive priority, the Indian state took upon itself the responsibility for regulating trade, industrial production, and (to some extent) financing. This significant level of state involvement in the economy was driven primarily by an ideological commitment to import substitution as a development strategy, but the patronage thus produced helped to grease the wheels of the decentralized Congress system.[10]

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[8] On the Congress system, see Kothari 1964. See also Manor 1988, Chhibber and Petrocik 1990, Weiner 1967, Rudolph and Rudolph 1987, and Brass 1994.

[9] See Table 1.

[10] In another paper (Hankla Forthcoming), I argue that party decentralization can play a role in encouraging state economic intervention, and I believe that it did under Nehru. Nevertheless, as Gandhi centralized the Congress early in her tenure, and as she briefly adopted a more liberal economic policy, there must have been another source for her eventual decision to intervene even more deeply in

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Despite the government's growing role in the economy, however, Nehru provided Indian industry with significant room for maneuver. In a speech to the Lok Sabha, India's lower house of parliament, Nehru put his economic approach this way:

> While the public sector must obviously grow – and even now it has grown, both absolutely and relatively – the private sector is not something unimportant. It will play an important role, though gradually and ultimately it will fade away. But the public sector will control and should control the strategic points in our economy. The private sector . . . will be given a fairly wide field subject to the limitations that we have laid down.[11]

While the expansion of private enterprise was heavily regulated in many sectors of the economy, the Indian state did not engage in widespread nationalization. Moreover, private industry continued to dominate a number of economic sectors even as the government pursued its new strategy of import substitution.[12]

Nehru died in 1964 and was succeeded as prime minister by Lal Bahadur Shastri. Shastri was a consummate conciliator, and during his tenure decisions were made cooperatively in the cabinet and the chief party organ, the Congress Working Committee (CWC).[13] In economic policy, Shastri was suspicious of planning and began to push India gradually towards greater openness and liberalization, but his influence was cut short when he died in 1966.[14] The vote to determine his successor pitted Indira Gandhi, Nehru's youthful daughter and a leftist cabinet member, against the senior conservative Morarji Desai. Convinced that they could easily control the relatively inexperienced Gandhi, the party's bosses (the Syndicate) engineered her election as India's third prime minister.[15]

In her early years as prime minister, Indira Gandhi generally followed in the footsteps of Shastri, continuing her predecessor's economic reforms.[16] Upon

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the economy than had her father. I identify that source here as unstable electorate linkages.

[11] Nehru, "Second Five Year Plan", a speech before the Lok Sabha, May 23, 1956, in Government of India 1958, p. 102.

[12] Kudaisya 2003.

[13] See Frankel 1978; Kochanek 1968.

[14] For more on economic liberalization under Shastri, see Mukherji 2000 and Kudaisya 2002.

[15] See Frankel 1978; Kochanek 1968; Rudolph and Rudolph 1987; Rai and Pandy 1971; Corbridge and Harriss 2000.

[16] See Frankel 1978.

taking office, she was immediately confronted with a severe balance of payments crisis, largely the result of droughts and crop failures in 1965 and 1966 and the 1965 war with Pakistan.[17] Under pressure from the donor community, especially the United States and the Bretton Woods institutions, Gandhi decided to devalue the rupee and partially liberalize India's tight system of import licensing and tariffs.[18] The following year, she also partially liberalized industrial licensing.[19]

By the end of the 1960s, a growing feud between Gandhi and the organizational bosses of the Congress led to an all-out split in the party. At the same time, important changes taking place in Indian society were slowly undermining the stable linkages between party and local elites that had characterized the Congress System. Not coincidentally, Gandhi soon decided to reverse the liberalizing trend in India's economic policy, increasing the state's already significant role in the Indian economy still further.[20]

The Independent Variable: Unstable Linkages to the Electorate

The 1969 split between Prime Minister Gandhi and the Syndicate played a key role in de-institutionalizing the Congress, leaving in its wake a party with very weak and unstable linkages to the electorate. Tension between the Syndicate and the prime minister had been mounting since 1966 and, by 1969, a serious factional struggle had developed at the apex of the party.

To strengthen her position within the party and the electorate, Indira Gandhi decided to court the left-wing of the Congress, painting the Syndicate as right-wing conformists who had hardened their hearts to the poor. Although several members of the Syndicate were in fact socialists, and although Gandhi had earlier introduced a liberal reform package, her strategy proved quite effective.[21] When the Congress president, Nijalingappa, criticized public sector industries for their inefficiency at an April 1969 party meeting, Gandhi took the opportunity to

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[17] Joshi and Little 1994, Bhagwati and Srinivasan 1975, Planning Commission 1970.

[18] See Joshi and Little 1994, Frankel 1978, Bhagwati and Srinivasan 1975, Corbridge and Harriss 2000. For a discussion of the role of foreign pressure in the reforms from an American economist involved in the process, see Lewis 1997.

[19] Frankel 1978.

[20] For more information on the relative amount of patronage distributed in the Nehru versus Indira Gandhi periods, see Sudhanshu 1986, Dagli et al. 1970, Singh and Bose 1986, and George 1985.

[21] Frankel 1978.

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burnish her socialist credentials by rebutting his main points.[22] Indeed, developing a closer relationship with the left was a useful strategy for Indira Gandhi as tensions mounted with the Syndicate.[23] It linked her to a power center within the Congress Party, and it provided her with the springboard that she would later use to build her image as a crusader for the poor.

The 1969 election of the Indian president precipitated the final split between Indira Gandhi and the Syndicate. The Congress leadership, with the prime minister's initial agreement, nominated for the office Sanjiva Reddy, a prominent member of the Syndicate with a power base in the state of Andhra Pradesh. Between the nomination of Reddy and the actual election, however, Gandhi began to fear that the Syndicate intended Reddy to use the powers of the presidency to weaken or even remove her as prime minister.[24] As a result, Gandhi threw her explicit support behind the right of presidential electors (including members of the national and state parliaments) to exercise a "free vote", and her implicit support behind the independent candidate V. V. Giri. Giri eventually emerged victorious from the presidential election, having defeated Reddy by only a few votes.

Furious over the breach in traditional party discipline that had allowed Giri to win, Nijalingappa and the Syndicate responded by removing two of Gandhi's key supporters from the CWC.[25] In response, the prime minister and her supporters, without the approval of the CWC, requisitioned a meeting of the All India Congress Committee, the party's apex body, to consider the issue. This requisitioned AICC, consisting of those party members who backed the prime minister, met in New Delhi and voted to remove Nijalingappa from the Congress presidency. With this act, two Congress Parties were effectively created; one, termed the Congress (R) for "requisitioned", supported Gandhi, and the other, labeled the Congress (O) for "organization", backed the Syndicate.

When the dust had settled, most of the party organization remained loyal to the Syndicate's Congress (O). The prime minister's party, the Congress (R) and later the Congress (I), retained only a small portion of the organization, filling in the gaps with local organizations that appeared, at first glance, to be similar to those in the united party.[26] Prime Minister Gandhi, however, turned the party organization on its head, creating a system where power was derived from

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[22] Speeches by Nijalingappa and Indira Gandhi at the 72nd Party Conference, April 37, 1969, in Zaidi, ed. 1984, pp. 239-242.
[23] See Mukherji 2000; Frankel 1978.
[24] Frankel 1978; Rai and Pandy 1971.
[25] The following account is based on original documents published in Zaidi, ed. 1972. See also Frankel 1978.
[26] Frankel 1978.

personal loyalty to the prime minister rather than from local support. Many of the local party branches ceased to function, and when they did meet, they failed to provide a link between the party and the people.[27]

Deeper social changes that were sweeping India also played a role in destabilizing the Congress Party's electorate linkages. By the 1967 election, the stable, vertical linkages that local elites had used to mobilize their dependents were beginning to break down. No longer could the Congress Party rely on local elites to deliver the "vote banks" necessary for stable electoral support. As a result, the Congress Party suffered its weakest electoral outcome since independence. Indian citizens had become increasingly aware of the power of the vote and were beginning to organize horizontally by their perceived class, caste, communal, and regional interests.[28] At the same time, the national mediation of disparate local interests that had allowed the decentralized approach of the Nehru years to function had dissolved into constant factional bickering.[29] As a result, the Congress System, with its commitment to broad-based elite aggregation and accommodation, had become increasingly difficult to sustain.

In Indira Gandhi's new Congress, local elites, who had stood atop the vast, decentralized patronage networks of the old Congress system, were greatly weakened. Atul Kohli has compared the Congress organization in five districts in the late 1980s, when the party was much as Gandhi had left it, with Myron Weiner's study of the same districts during the height of the Congress System.[30] He found that, in stark contrast to the situation in the early 1960s, the Congress organization was almost nowhere to be found. The party of Indira Gandhi had lost its local organizational presence.

Prime Minister Gandhi crafted a strategy for the 1971 elections to harness the social changes and to minimize the damage caused by the party's weak institutional foundation. This strategy contributed powerfully to the demise of the Congress System and introduced India to the use of personality politics as a substitute for stable electorate linkages. Instead of relying on elite intermediaries, decentralized patronage networks, or a strong local organization, the prime minister spoke directly to voters of the need to "abolish poverty". Her campaign was based on broad populist promises to improve the lot of India's vast underclass, and centered on developing a personal connection between the prime minister and the voters. Where stable, vertical linkages with voters had been the

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[27] Kohli 1990.
[28] Manor 1992; Kohli 1990; Corbridge and Harriss 2000; Dhar 2003; Singh 1981; Kothari 1975; Frankel 1978.
[29] Chhibber 1999.
[30] Kohli 1990; Weiner 1967.

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keys to electoral success in the 1950s, Gandhi and her promises were all that mattered in 1971.[31]

To encourage voters to focus on national issues and her personality, Gandhi decided to hold India's national and state level polls at different times.[32] Elections to the Lok Sabha were held in 1971 and pitted Prime Minister Gandhi's Congress against a coalition of the Congress (O) and two rightist parties, the Swatantra and the Jana Sangh. Against Gandhi's calls to "abolish poverty" ("Garibi Hatao"), her opponents, accusing the prime minister of developing a cult of personality, invited voters to "abolish Indira" ("Indira Hatao").

At the polls, Indians sent a clear message: they wished to free themselves of poverty more than they wished to be rid of Indira Gandhi. The prime minister's populist appeals had worked magnificently, garnering her almost 44% of the popular vote and a solid majority in the Lok Sabha.[33] Indeed, her performance (for it was *her* performance and not that of her party) almost equaled the pre-1967 victories of the united Congress. Many of the country's most marginalized voters, now more aware of the power of the ballot, made an independent decision that Indira Gandhi had their interests at heart. Indian politics had entered a new era, becoming less elitist and more fractious at the same time.

There was a catch to Indira Gandhi's stunning 1971 victory, extraordinary as it was. The prime minister's reliance on personalistic appeals meant that only 22% of Indian voters identified with her party in 1971, as against 39% in the less successful 1967 election.[34] This precipitous drop, accompanying as it did an increase in electoral support, indicated that linkages between the Congress Party and the electorate had destabilized. As many citizens as ever had turned out to vote for the party, but they were really voting for Indira Gandhi. As a result, their support was very likely shallow, and if the prime minister did anything to alienate them, there could be a severe price to pay.[35]

Still, her party's striking victory in 1971, followed by another triumph in the state elections of 1972, convinced Gandhi that there was no need to rebuild her shriveled party organization. Gandhi's populist approach was further reinforced by India's stunning victory in the Indo-Pakistan War of 1971, which helped contribute to the prime minister's mass celebrity.[36] She could win without

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[31] Weiner 1989; Frankel 1978; Corbridge and Harriss 2000.
[32] Rudolph and Rudolph 1987.
[33] See Table 1; Mitra and Singh 1999.
[34] Chhibber 1999.
[35] Mitra 1994; Rudolph and Rudolph 1987; Weiner 1989; Corbridge and Harriss 2000.
[36] Frankel 1978

the stable linkages of the past, and, in any case, a party organization would create rival sources of power.[37] The price that Gandhi paid for her reliance on populism and unstable linkages can be seen, however, in a comparison of the Congress Party's electoral performance under Indira Gandhi and Nehru.

Table 1:
Lok Sabha Election Results for the Indian National Congress, 1952-98

	% Seats	% Popular Vote
Period of Stable Linkages		
1952	74.4	45
1957	75.1	47.8
1962	73.1	44.7
Coefficient of Variation	0.014	0.037
Period of Unstable Linkages		
1967	54.4	40.8
1971	67.9	43.7
1977	28.4	34.5
1980	66.7	42.7
1984	76.6	48
Coefficient of Variation	0.319	0.117

Sources: Mitra and Singh 1999, www.indian-election.com, www.indiamap.com

As Table 1 shows, the electoral support won by the party under Gandhi was much less stable than under her father.[38] The coefficient of variation (defined

[37] Chhibber 1999, Corbridge and Harriss 2000.
[38] I include the 1984 election in the statistics for Indira Gandhi as it was contested immediately following her assassination and, according to most analysts, Rajiv Gandhi's firm victory was largely based on the sympathy vote for his mother.

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as the standard deviation divided by the mean) in the popular votes gained by the Congress under Nehru was only 0.037 as against a coefficient of 0.117 under Gandhi. The coefficients of variation for seats won in the Lok Sabha are even father apart. The electoral support garnered by Nehru's Congress varied from 44.7 percent in 1962 to 47.8 percent in 1957. For Indira Gandhi's Congress, the corresponding range is 34.5% in 1977 and 48% in 1984. These data indicate that the voting support for Indira Gandhi's Congress varied much more across elections than the voting support for Nehru's Congress, providing evidence that Gandhi's personal celebrity and status as the hero of the Indo-Pakistan War could not prevent the destabilization of her party's electoral linkages.

Examining the Causal Linkages:
Did Linkage Instability Drive Patronage Creation?

The destabilized electorate linkages that afflicted the Congress Party were, I argue, vital determinants of India's economic policies under Indira Gandhi. To strengthen the patronage networks necessary to maintain her broad but unstable voting coalition, the prime minister expanded trade protection and state regulation of the economy. Indeed, Gandhi was unable even to contemplate serious economic liberalization because her party's tenuous hold on power prevented it from absorbing short-run political costs.

The unstable linkages that connected Gandhi's Congress Party to the electorate meant that her support, while wide and cross-cutting, was fundamentally shallow. To maintain her unstable voting coalition, Gandhi proceeded to dispense economic favors with an eye toward rewarding supporters, punishing opponents, and winning over the uncertain.[39] To increase her leverage, Gandhi accumulated an extraordinary array of additional sources of patronage. For example, she created an increasingly stringent import and industrial licensing process and established greater state control over the financial resources used to create and expand protected industries. Therefore, as my argument would anticipate, unstable electorate linkages led to extensive trade protection and government regulation under Prime Minister Gandhi. The demise of the Congress System, which after all was based on extensive, if stable, patronage linkages, did not lead to liberalization in India, or at least not for long. It gave way to an Indira system, in which populist rhetoric and shallow voter support produced high import barriers and extensive government intervention in the economy.

Gandhi used her new sources of patronage to build support in the electorate and, frequently, to court and coerce powerful interest groups whose

[39] For more on the relative distribution of patronage under Indira Gandhi, see Hankla 2006.

backing could help win elections. For example, the prime minister's nationalization of India's commercial banks, while it increased her popularity with India's masses, also (ironically) helped to augment her support among business groups and India's political left. Leftists were a vital part of Indira Gandhi's support base, especially before the 1971 elections, and they were very pleased with any step to assert government control over the economy.

By contrast, business leaders were distressed by bank nationalization but had little choice but to accept it. Gandhi's Congress, devoid of a functioning party organization and obliged to campaign across a vast country with limited media access, depended heavily on donations for its electoral success. Most of these campaign donations originated from the private sector, many as a result of government coercion or reciprocal promises.[40] Gandhi used her control over bank credit and other vital economic resources to establish her influence over Indian businesses, to punish industrialists who had supported the Syndicate in 1969, and to ensure her access to financial support.[41] She also distributed finance and food aid to state governments to influence their elections, and provided jobs, farm subsidies, and other economic benefits to voters to encourage their support for her party.[42] The prime minister's short time horizons, focused as they were on maintaining her party in power, led her to discount the long term impact of her actions on her wide support base.

As my argument would anticipate, Indira Gandhi, after an initial liberalization of policy, expanded government access to patronage in a number of key areas. Because India is predominantly an agrarian society, patronage targeted to rural interests was an important part of this expansion. Varshney (1995) has documented the rise of rural power in the wake of the green revolution, a development that prevented Indira Gandhi from effectively taxing agriculturalists. Instead, Gandhi, no doubt motivated by a desire to preserve her popularity among workers in India's enormous agrarian sector, extended rural credit and generated subsidies that benefited farmers.[43]

My focus here, however, is on the massive sources of patronage generated by India's strategy of import substitution industrialization. Prominent among these were import licensing and tariffs, industrial licensing, and federal financial allocations. More specifically, Gandhi tightened trade protection, import licensing, and industrial licensing while bringing new sources of finance under the government's direct control. Further, she made each of these seemingly

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[40] See Kochanek 1974; Sengupta 1995; Weiner 1989; Rudolph and Rudolph 1987.
[41] Interview with an Indian government official, New Delhi, October 2003.
[42] See Bardhan 1984; Chhibber 1999.
[43] Varshney 1995. Frankel 1978 notes that this new attention to rural areas was hardly sufficient to put a dent in the poverty pervasive in India's countryside.

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independent policy adjustments either immediately before or immediately after the Congress split, at a time when the party's electorate linkages had become increasingly unstable. In the sections that follow, I argue that her motivation for these policy shifts was to acquire the means to shore-up her shallow support in the electorate.

Import Licensing and Tariffs

High levels of trade protection were fundamental to the operation of Nehru's strategy of import substitution industrialization. Extensive trade controls were obviously required if Indian products were to substitute for imports, spurring domestic industrial production. Without high barriers to imports, the proponents of ISI believed, foreign products would smother Indian infant industries before they had a chance to compete.

Further, high levels of trade protection were necessary to conserve foreign exchange. Because the strategy of ISI endorsed by the plans discouraged exports, India was severely starved for foreign currency.[44] High levels of trade protection were therefore imposed to ensure that the country imported only the commodities and inputs most vital to the success of the plans. In order to erect a high barrier against imports, Nehru's government used both tariffs and quantitative restrictions, introducing a complex import licensing system to determine what commodities could be brought into the country.

Soon after taking the reigns of government in 1966, however, Indira Gandhi devalued the rupee and liberalized India's trade policy in response to a severe balance of payments crisis. To her chagrin, these reforms aroused great opposition domestically and contributed to her party's poor performance in the 1967 elections. With the stability of its electorate linkages already in decline, the Congress Party simply was not able to absorb the short-term impact of liberal economic reform. Consequently, just as the Congress Party's electorate linkages were destabilizing at the end of the 1960s (due to social changes and the party split), Gandhi restored India's stringent import licensing, raised tariffs, and reintroduced export subsidies.[45] Indeed, the Indian economy was even more closed under Indira Gandhi than it had been under her father.

The restoration of strict import controls provided Gandhi with a key source of patronage to help shore up her shallow voting coalition, and she soon

[44] Interview with Indian economist, New Delhi, October 2003.

[45] Interview with a Congress Party official, New Delhi, October 2003. For information on India's trade policy during this period, see also Bhagwati and Srinivasan 1975; Joshi and Little 1994; Agrawal et al. 2000.

distributed licenses and export subsidies to benefit friends and punish enemies.[46] This motivation for expanding state intervention in trade is demonstrated by the nature of the trade policy reforms. Gandhi increased the number of tariff exemptions available to businesses, a change that allowed her to "cherry-pick" the importing firms that would receive her largess. Her power was not, therefore, restricted by the need to apply preset tariff lines to specific categories of commodities. Very likely, the prime minister used this new power to build political support.[47]

Indira Gandhi's political dependence on trade protection was further revealed by her reaction to India's 1973 balance of payments crisis. Unlike in 1966, the prime minister did not even attempt liberalization; instead, she introduced more stringent controls from the outset.[48] While adopting firm measures against inflation, she increased the complexity of India's import licensing clearance process and further escalated tariffs. The prime minister's precarious hold on power depended on populism and socialist rhetoric, making her unwilling to risk a repeat of her experience in 1966. The instability of her party's linkages to the electorate, I argue, prevented her from adopting any policy that might have created major short-term voter opposition.

Industrial Licensing

The industrial licensing process was another important component of India's economic policy, determining which firms and regions would reap the benefits of import substitution. An industrial license granted a firm the right to operate in industries made lucrative by high barriers to trade.

Industrial licensing in India has its roots in the Industrial Policy Resolution of 1948. This resolution, as amended in 1956, divided India's industries into three categories:

> In the first category will be industries the future development of which will be the exclusive responsibility of the State. The second category will consist of industries . . . in which private enterprise will be expected to supplement the effort of the State. The third category will include all the

[46]Interview with an Indian government official, New Delhi, October 2003; Sengupta 1995.

[47] Interviews with two Indian officials, New Delhi, October 2003.

[48] For more on the crisis, see Joshi and Little 1994; Srinivasan 1992; Mukherji 2000.

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> remaining industries, and their future development will, in general, be left to the initiative and enterprise of the private sector.[49]

This approach was incorporated into the industrial policy of the five-year plans and implemented under the Industries (Development and Regulation) Act of 1951, which required Indian businesses to seek a license before establishing new undertakings or significantly expanding old ones. Through this mechanism, the Indian government acquired the power to direct the country's means of production towards prioritized economic undertakings.

As in trade policy, Prime Minister Gandhi began a policy of tightening this already restrictive industrial licensing system as the 1960s were drawing to a close. The prime minister based her expanded licensing powers on a new law, the Monopolies and Restrictive Trade Practices (MRTP) Act of 1969. With this new act, she gained additional powers over which firms would enjoy the benefits of import substitution, powers that she used to protect her position in the face of shallow electoral support.

By the mid-1960s, government studies had made it clear that industrial licensing, which was intended in part to encourage the growth of small firms, had in fact allowed larger enterprises to force them out of the market.[50] As the Fourth Five Year Plan put the problem:

> The largest corporate groups are the most advantageously placed to seek and obtain foreign collaboration and to expand or to initiate a number of large and new activities. . . . In the process there is inevitably an increase in the concentration of economic power.[51]

In 1967, ostensibly reacting to this unintended consequence of licensing, Gandhi and her party introduced the MRTP Act in parliament. Under the new bill, small and medium enterprises would be freed from the need to obtain a license for industrial projects that cost less than Rs1 crore.[52] By contrast, India's largest business houses would always need to seek government approval to establish or expand their factories. Further, the major houses would be forced to direct their energies toward industries requiring massive investment, generally of more than Rs5 crores. Any sizable federal loans received by these big business houses

[49] Industrial Policy Resolution, 1956, in Planning Commission 1956, pp. 45-46.
[50] Sudhanshu 1986; Kochanek 1974; Stone 1994.
[51] Planning Commission 1970, pp. 14-15.
[52] A crore is an Indian measure equivalent to 10 million.

would also allow the government to convert its investment into equity, introducing the potential for partial government ownership over the new project.[53]

Needless to say, the major business associations adamantly opposed the new law, seeing in it a risk to their future existence. The Associated Chambers of Commerce and Industry (ASSOCHAM), when asked for its views by the government,

> . . . expressed apprehension that, if implemented in its present form, the Bill could have very far reaching and unforeseen effect which could be gravely deleterious to the future economic development of the country.[54]

Despite the objections of large businesses, parliament passed the MRTP Act in 1969, and it entered into force in 1970.

The same year that the MRTP Act went into effect, Indira Gandhi decided to require government approval for major expansions in every industrial sector.[55] She therefore revoked all forty-one license exemptions then in place. Further, through revised industrial policies introduced in 1970 and 1973, as well as through the Foreign Exchange Regulation and Control Act of 1973, the prime minister continued to expand her government's tight regulation of the economy.[56]

It is interesting to note that Gandhi's new industrial licensing policy began in 1969-70, during and immediately after the Congress Split. Nitish Sengupta, a deputy secretary charged with implementing the MRTP Act, put it this way:

> . . . it was really during the years of the late 1960s and early 1970s that the central government took upon itself the vast powers of intervention and regulation. . . . The central government came to occupy a decisive role in relation to the country's industrial and industry-related developments.[57]

As the theory would expect, the timing of Gandhi's new policies corresponded perfectly with her loss of the Congress Party organization and her need to rely on shallow, populist support. The prime minister's new powers over industrial licensing formed one of her most important sources of patronage, allowing her to reward friends and to punish enemies.[58] Through industrial licensing, Gandhi was able to harness the financial power of the private sector to

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[53] Kochanek 1974; Frankel 1978; Sudhanshu 1986.
[54] Associated Chambers of Commerce and Industry 1969.
[55] Frankel 1978.
[56] Sengupta 1995.
[57] Sengupta 1995.
[58] See Stone 1994; Sengupta 1995; Bardhan 1984; Chibber 2003.

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aid her in sustaining her precarious voting base. For example, in one case, Gujarati oil barons funded the Congress Party's 1974 election campaign in Uttar Pradesh in exchange for industrial deregulation.[59] Similarly, a 1988 government study (published when Rajiv Gandhi, who adopted much of his mother's approach, was prime minister) found that the government had used industrial licenses to dissuade private industry from investing in non-Congress states.[60]

The Allocation of Government Finance

To shore up her unstable voter support, Gandhi also made strategic use of at least two important sources of government finance: the Planning Commission and the nationalized commercial banks. The money allocated through these government bodies was used for a variety of purposes, including the establishment and expansion of protected industries. The prime minister was able to use these outlays as a source of patronage to build her support base among both state governments and private actors.

Immediately before the Congress split, Gandhi moved to consolidate her control over India's credit markets. In July 1969, as part of her ongoing struggle with the Syndicate, the prime minister nationalized the country's fourteen largest commercial banks. In doing so, she extended an unprecedented level of government control over the distribution of investment in India, gaining for herself a powerful new source of patronage just as her party's linkages with the electorate were destabilizing.

Indira Gandhi's decision to nationalize the banks, a possibility that had long been debated in the Congress, was first and foremost an effort by the prime minister to strengthen her socialist credentials vis-à-vis the Syndicate.[61] Finance Minister Morarji Desai, a vocal opponent of nationalization, had previously elicited an agreement within the government and the CWC to try bank regulation first. When the prime minister decided to move ahead with nationalization, she first removed Desai from the finance portfolio, taking the job for herself. I. G. Patel, a secretary in the finance ministry, has described what happened next:

> Without any fanfare, she [Indira Gandhi] asked me whether banking was under my charge. On telling her it was, she simply said: 'For political reasons, it has been decided to nationalize the banks. You have to prepare within 24 hours the bill, a note for the Cabinet and a speech for me to the nation on the radio tomorrow evening. Can you do it and make sure there

[59] Frankel 1978.
[60] Chhibber 1999.
[61] Frankel 1978; Patel 2002.

> is no leak?' There was no pretence that this was not a political decision, and the message was clear that no argument from me was required.[62]

The prime minister wanted nationalization to come as a surprise for maximum political effect, and she decided to implement it through Presidential decree rather than to wait for the slow legislative process. This approach had the added benefit of implying to the public that bank nationalization had been effected solely on the initiative of the prime minister and over the objections of the Syndicate.[63] Gandhi's decision was greeted with jubilation by the Indian masses and indeed by many members of the Congress Party. It played an important role in hastening the split and, very likely, in creating the progressive image that the prime minister exploited so effectively in the 1971 election.

The nationalized banks served as sources of credit for a wide variety of protected economic ventures across India, providing Gandhi with tremendous leverage over India's private sector. Her leverage was further increased by the banks' insertion of clauses into certain loan contracts allowing the government to convert its investment into equity. Table 2, which shows the per capita flow of bank loans and other federal institutional funds to projects within each state, provides a sense of the scale of investment resources now under the prime minister's control. Departing from the practice of other countries with nationalized credit systems, Prime Minister Gandhi extended direct political control over loan distribution, appointing allies to the boards of nationalized banks. India's credit system became increasing politicized, loans were awarded based on non-market criteria, and defaults mounted.[64] Corruption ran rampant among loan officers and loan applicants, as schemes multiplied to take advantage of the arbitrary rules governing access to credit.[65]

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[62] Patel 2002, p. 135.
[63] Frankel 1978.
[64] Interview with an Indian government official, New Delhi, October 2003; Bardhan 1984.
[65] Sengupta 1995; Bardhan 1984.

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Table 2:
Per Capita Flow of Federal Institutional Funds to Projects Within Each Indian State, 1973-80 (rupees)

States	Nationalized Commercial Banks	Development Banks	Agriculture Refinance and Development Corporation
Andhra Pradesh	243	59	45
Assam	132	35	6
Gujarat	392	219	27
Bihar	109	23	20
Kerala	385	67	14
Madhya Pradesh	138	26	32
Maharashtra	667	131	30
Karnataka	349	122	35
Orissa	120	31	18
Punjab	776	78	87
Haryana	520	113	123
Rajasthan	219	60	26
Tamil Nadu	365	97	19
Uttar Pradesh	149	37	28
West Bengal	370	70	9
Himachal Pradesh	205	58	8
Jammu & Kashmir	237	77	1
Manipur	141	5	8
Meghalaya	182	86	0
Nagaland	364	35	4
Tripura	149	17	2

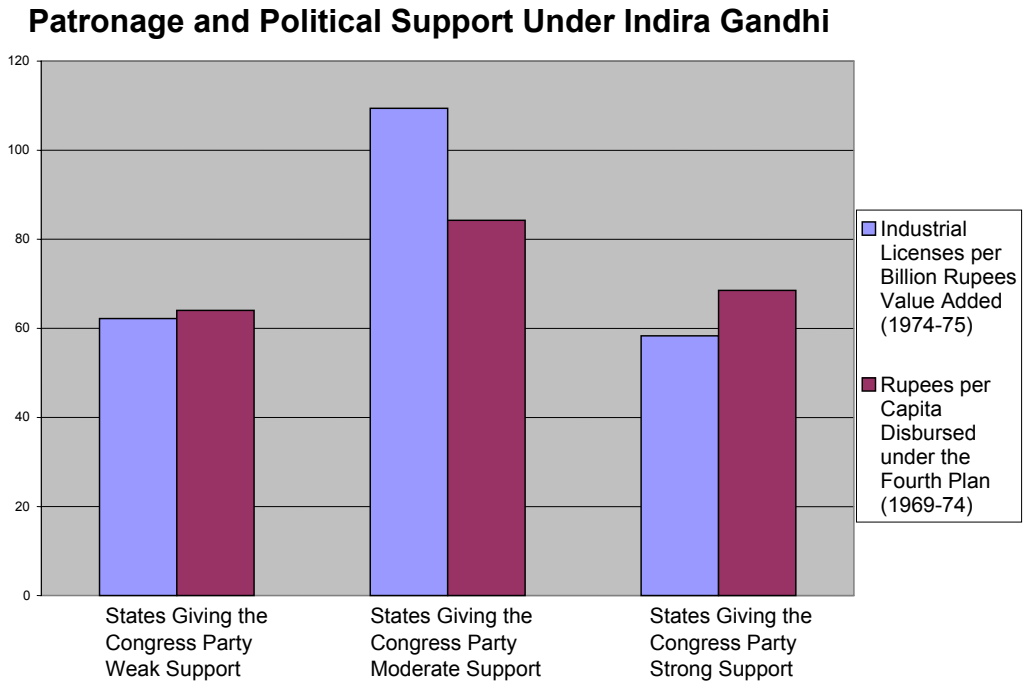
Source: Thimmaiah 1985

Further, the evidence indicates that Gandhi used central outlays under the Fourth Five Year Plan to build political support, although she broadly retained prior constraints on the central government's ability to determine the allocation of funds. In 1967, when Morarji Desai appointed D. R. Gadgil as deputy chair of the Planning Commission, the Congress Party was still broadly decentralized. The new deputy chair backed a systematic approach to central plan outlays, and his efforts combined with the demands of powerful state chief ministers to produce the Gadgil formula. This formula based central outlays on the population of states, their income, their tax gathering efforts, their outstanding projects, and

their special needs. It granted the states federal finance in the form of block grants that could be spent largely at their discretion. The introduction of the Gadgil formula completed the process of devolving planning power from the Centre to the states that Shastri had begun in 1964.[66]

It appears that Gandhi preserved this structured system while exploiting the Gadgil Formula's ambiguities to transform plan outlays into a form of patronage. Even under the formula, the central government could determine at least 20% of transfers with considerable discretion.[67] Which of the states harbored "special problems" that required central funding? Which states had "special needs" arising from infrastructure investment? It was up to the Planning Commission, the government, and ultimately the prime minister to say. Further, Gandhi and her government had more direct control over certain plan outlays that did not fall under the Gadgil formula. As a result, there was still considerable room for plan transfers to be used to build the prime minister's political strength.

Figure 1:



Sources: George 1985, Sudhanshu 1986, Dagli, ed. 1970, Singh and Bose 1986

[66] Frankel 1978.
[67] George 1985.

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Can the relative distribution of patronage during Indira Gandhi's tenure provide any evidence for the role of political considerations in India's economic behavior? Figure 1 shows the state-level allocation of industrial licenses and plan finance during her time as prime minister. The data indicate that Gandhi focused India's patronage on states providing her party with marginal electoral support, allocating fewer government benefits to states giving the Congress either very weak or very strong support. This targeting of patronage, which I analyze more closely in Hankla (2006), provides evidence that electoral politics was important in the distribution of economic benefits during the Indira Gandhi years.

Concluding Observations: Patronage or Ideology?

As a means of summarizing my argument, I want to revisit a question that I posed at the beginning of the paper. Is it possible that ideology could have driven Indira Gandhi's decision to increase the state's role in the Indian economy? After all, India's development approach since the days of Nehru had been a socialist one, dependent on a powerful government to promote industrialization and economic independence. Indeed, the Nehru period had been characterized by significant state intervention in the economy (although not generally as much as during the period 1969-74). Perhaps Prime Minister Gandhi's economic policy was merely the culmination of India's socialist development strategy?

I argue here that, for two primary reasons, Gandhi's economic policy decisions are better explained by her need to develop new sources of patronage to stabilize her electorate linkages than by any socialist ideology. The first of these reasons relates to the timing of the prime minister's economic initiatives. When Gandhi took up the mantle of prime minister in 1966, she instituted liberal reforms, devaluing India's currency and reducing trade barriers. The growth of Gandhi's socialist rhetoric, as well as her decision to accelerate the state's economic role, corresponded perfectly with the destabilization of her party's electorate linkages. The prime minister accelerated her shift towards socialism in 1967, when the Congress Party's poor performance indicated that the stable electorate linkages and aggregative structure of the Congress system was in decline. Further, Gandhi's key initiatives of bank nationalization and the MRTP Act came to fruition in the same year (1969) that the Congress split deprived the prime minister of the party's local organizations. To say the least, the timing indicates that Gandhi's new economic policies were, at least in part, a response to the emerging political situation.

The very nature of Prime Minster Gandhi's economic intervention provides a second reason to interpret her policies as tools to build political support. Much of the evidence to support this contention is provided in the prior section's analysis of trade, industrial, and fiscal policy. Prime Minister Gandhi

centralized control over each of these economic policy areas, providing herself an opportunity to use the state's economic influence politically.[68] For example, as I have already noted, she changed India's trade policy to allow the cherry-picking of individual firms for support, and she assigned political supporters to the boards of nationalized banks.

Therefore, while it is difficult to prove the motivations of political actors, there is significant evidence that Indira Gandhi made use of trade and economic benefits, whether in the form of fiscal transfers, industrial licenses, or trade concessions, to build and maintain her political support. The instability of her party's linkages to the electorate, a result of both the Congress split and more fundamental social changes, necessitated the prime minister's use of patronage to stay in office. Having centralized the Congress Party under her personal leadership, Gandhi and her associates managed India's patronage networks personally, targeting largess for the maximum political benefit. This system, with a few changes, remained largely in place through the 1970s and 1980, and, according to many observers, significantly slowed India's potential economic growth.[69]

Are unstable electorate linkages still encouraging significant state intervention in India's economy today? Answering this question is complicated by the recent proliferation of regional parties in the Lok Sabha and the corresponding explosion in the size of India's governing coalitions. It is more difficult to trace the political motivations for patronage distribution when the interests of numerous parties must be considered, especially when some parties (such as the BJP) may enjoy more stable electorate linkages than others (such as the Congress). Nevertheless, there is preliminary evidence that unstable linkages still play a role in motivating the government's economic role. Despite the dramatic economic liberalization of 1991, subsidies and other politically sensitive forms of patronage have yet to be eliminated. Indeed, a recent study estimated that central government subsidies in 1998-99 amounted to 4.59% of India's GDP.[70] While some of these subsidies were undoubtedly used to achieve socially desirable goals, financial resources almost certainly remain a useful political tool for India's governing elite.[71] Moreover, the elimination of these government controlled resources would surely be a dangerous strategy for any party lacking stable electoral support.

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[68] Numerous scholars have noted Gandhi's centralization of power. Among the most notable are Kochanek 1976 and Kohli 1990.

[69] For example, Bhagwati and Srinivasan 1975.

[70] Srivastava et al. 2003.

[71] Among the desirable social goals is the elimination of rural poverty. See Sengupta 2006.

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The Indian experience highlighted in this article suggests, I believe, that the linkage stability of governing parties can be an important determinant of economic policy outcomes in democracies. Political party leaders who must concern themselves with the short-run survival of their parties may be tempted to use patronage to shore-up their shallow electorate support. The time horizons of these leaders are often short, reducing their concern for the future economic impact of policies that increase government access to patronage. Future studies will hopefully map out the party linkage-economic policy nexus in other cases, providing a fuller and more nuanced understanding of this important relationship.

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