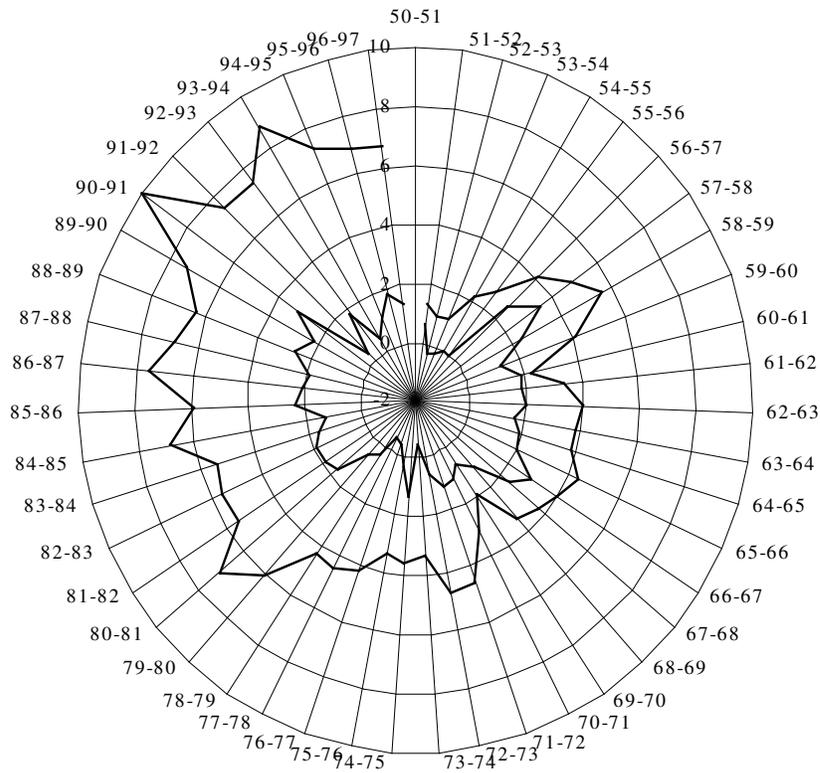


ECONOMIC REFORMS, ELECTROL POLITICS AND WELFARE

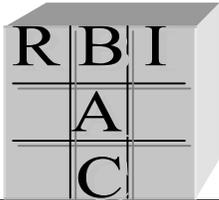
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RBI UNIT IN POLITICAL ECONOMY*

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Abstract		
<p>The introduction of economic reforms often hurts entrenched vested interests, which had prospered under state-led development. For the ruling political party that introduces reforms, alienating such interests results in loss of political support and jeopardises re-election prospects. One approach (labeled the “electoral politics” approach) suggests that the ruling party should be nimble enough to create new coalition partners, composed of the beneficiaries of the reforms process, to counter those who lose from the process. The experiences of Argentina and Mexico of employing this strategy are discussed and contrasted with the Indian experience. The paper criticizes this approach on the grounds that following such a strategy ushers in no change from the state-led strategy: interest group politics continues to dominate to the exclusion of vast sections of the population, who may not benefit from the reforms process. An alternative approach (labeled the “public interest” approach) to economic reforms suggests that the ruling party/government is imbued with public interest and is not merely concerned with electoral survival. This approach is criticised as being naïve since it ignores the political/electoral compulsions of the ruling party. Even though governments may pursue public interest, the question is what they would do in the face of severe erosion of political support.</p> <p>The approach suggested in this paper seeks to integrate the electoral politics approach with the public interest approach. A model of political support is proposed which sets out the conditions under which distancing itself from interest groups and pursuing public interest does not jeopardise the ruling party’s re-election prospects. This model is tested using Indian data.</p>		
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ECONOMIC REFORMS, ELECTORAL POLITICS AND WELFARE

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ECONOMIC REFORMS, ELECTORAL POLITICS AND WELFARE¹

1. Introduction

The first national elections after the initiation of economic reforms are often very critical: these elections determine if the ruling party will win another mandate to push forward the reforms process. There is no guarantee that the party will be re-elected even if, by the usual summary macroeconomic indicators, economic reforms have been successful. In general, economic reforms involve a transition from a state-led development strategy to a market-led one. This transition often alienates a significant number of powerful interest groups that then seek to prevent the re-election of the ruling party. It is also possible that the benefits of the reforms process are not distributed equitably, in which event opposition to the ruling party is able to create a critical mass to dis-lodge the reforming government from power.

The problems referred to above have been tackled in contrasting fashion by two strands in the literature on the political economy of reforms. The first strand (“electoral politics” strand) suggests that after initiating reforms, the ruling party will have to re-align its coalitional support in order to stay in power. For a reforming government, staying in power is essential to see through to fruition the reforms process. Should the ruling party be defeated in elections, its political opponents may not pursue the reforms process as vigorously. Consequently, it is suggested that the ruling party should be nimble enough to create new bases of political support, which then help it to win re-election.

The second strand (“public interest” strand) in the political economy literature suggests that political decision-makers – whether the ruling party or bureaucrats – are not

as elections-regarding as assumed by the public choice approach. These political decision-makers enjoy a substantial amount of autonomy and decisions are taken in pursuit of public interest and welfare. Thus decision-makers are not captured by interest groups and will not hesitate to act autonomously if public interest demands it.

Each of these two strands of the political economy literature is open to criticism. The first strand, dealing with re-alignment of coalitional support, appears to endorse the strategy, widely prevalent under the state-led paradigm, of building nexuses with interest groups. A particularly adverse consequence of such a strategy is that by focusing only on interest groups the support base for reforms remains very narrow. If the benefits of the reforms are not distributed equitably, this often leads to extreme inequality, social fragmentation, violent protest and other forms of confrontational politics. See Chalmers et al (1997) for a perspective of this problem in Latin America.

The other strand of the political economy literature seems rather naïve to me. While taking a cynical view of all political decision-makers may not be appropriate, to disregard selfish motivation on their part seems very unrealistic. Indeed, it would be a rare political party that ignores the effects of economic policy on its re-election prospects (see Dixit, 1996 especially chapter 1).

In spite of this criticism with certain aspects of the two strands of the literature on political economy, there are important insights in each of them. These insights can be brought together and fashioned into an alternative way of looking at the political economy of reforms. What is being proposed in the paper is that the ruling party, instead of relying on interest groups, could seek political support by providing basic welfare improving amenities to a wide cross-section of the population. This alternative is

explored in the paper via a simple model of political support, an application of which is presented for Indian data.

The plan of the paper is as follows: Section 2 discusses the first strand of the literature on the political economy of reforms. The experiences of Mexico and Argentina are compared to those of India. The limitations of this approach to economic reforms are noted in section 3. Section 4 describes the “public interest” approach to economic reforms and presents a critique of this approach. An alternative to the “electoral politics” approach and the “public interest” approach is proposed in section 5. Section 6 puts forward a model of political support that makes precise the issues discussed in section 5. Section 7 presents an application of the model of political support for Indian data. Concluding remarks are set out in section 8.

2. Electoral Politics And Economic Reforms

The links between economic policy making and elections have been the focus of analysis since the publication of Nordhaus (1975) more than two decades ago. A substantial amount of literature has sprung up in the area dealing with politico-economic (PE) relationships in the context of developed, democratic economies (Frey and Schneider, 1978, Mueller, 1989, Rogoff, 1990). However, there have been very few studies examining the relationship for democratic, *developing* countries. A possible reason for this could be that the intersection of the sets of democratic and developing countries is very sparse. Further, many studies dealing with PE relationships employed a government popularity function to track the path of economic policy making over the electoral cycle. Such popularity indices were not available even for those developing

countries which held regular elections. See, however, Karnik (1990) for an early application to the Indian case.

Alongside the research in PE modeling, there has been a substantial amount of work done on the role of coalitions/interest groups in the determination of economic policy. The earliest work in the area goes back to Kalecki (1943). As in the case of PE modeling, some amount of work has been done exploring the influence of interest groups in developing countries (see Karnik and Lalvani, 1996).

The literature cited in the areas of PE modeling and interest groups has developed in the context of stable economic policy making. However, both these areas of political economy come together in the case of economies undergoing a transition from state-led development policies to market-led policies. This has been a feature of the 1980s and 1990s and the experiences of reforming economies have seen a combination of PE interactions and interest group politics. The change in economic policy, consequent to economic reforms, often alienates interest groups resulting in a loss of popularity of the ruling party. The loss of popularity is then sought to be neutralized by building coalitions with a new set of interest groups, which are likely to be beneficiaries of the reforms process. Thus “coalition building is strongly shaped by the interplay between policy making and electoral politics” (Gibson, 1997)

There have been a few instances where the ruling party has introduced economic reforms while simultaneously re-aligning political support for it around new coalitions or interest groups. In Mexico and Argentina the ruling party, pursuing this strategy successfully, managed to get re-elected in the elections held after economic reforms were introduced. However, the strategy of re-building coalitional bases does not guarantee

electoral victory. In India the ruling party, which introduced economic reforms, was defeated in its bid for re-election. It appears that the experiences of Mexico and Argentina cannot easily be replicated in other countries. However, this is not the main point of the criticism of the “electoral politics” approach. In fact, the real problem lies in the very success of the Mexican and Argentinian strategies since it distracts attention from the dangers of interest group politics. However, the critique of this approach is postponed to a later section. I first discuss the experiences of Mexico and Argentina, two countries that have moved from statist economic policies to economic liberalization.

2.1 Mexico and Argentina

In Mexico and Argentina two distinct coalitions formed support bases for the ruling parties. The PRI in Mexico and the Peronist Party in Argentina encompassed, what Gibson (1997) calls, a metropolitan and a peripheral coalition. The metropolitan coalition, functioning as a policy coalition, gave support to the development strategies of the parties. Historically, this coalition has been important for PRI and the Peronist party in the pursuit of state led development. It incorporated labour in its fold and promoted a new class of domestically oriented entrepreneurs as carriers of new state led strategies of economic development. These two constituencies of the metropolitan coalition, dependent on subsidies and protection, were vital for the implementation of populist economic policies².

While the metropolitan coalition gave the parties their revolutionary image, there was another, less documented, seedier side to populism in the rural areas, the peripheral coalition. The peripheral coalition provided political support to the state-led development strategy in the rural areas. Even though this strategy addressed itself to the metropolitan

coalition, winning elections required support from the peripheral coalition as well. The primary constituencies of the peripheral coalition were the peasants, rural labour and town dwellers; however, the most important were the local elite who controlled local population and orchestrated votes and support for the ruling party³.

As state led development strategy ran out of steam in the 1980s and 1990s political parties, built on coalitional support around that strategy, had to re-invent themselves for the era of economic liberalization. As the emphasis shifted to market led development, there was a need to re-cast the metropolitan coalition. Support bases within the coalition had to be re-aligned to reward new winners and neutralize those who lost their privileged positions after reforms. The process of economic liberalization meant that winners and losers were distributed within each constituency and it was not a simple matter of playing one constituency against another⁴. Nonetheless, the general balance of power in Mexico and Argentina shifted away from labour and towards business: the decades long populist commitment to maintain employment ended with the introduction of reforms; further, legislation was passed restricting the right to strike, decentralizing collective bargaining, limiting wage hikes and enabling flexible hiring and firing policies in the private sector. The peripheral coalition was, once again, electorally vital to neutralize the adverse effects of re-structuring the metropolitan coalition. The success of the re-alignment of coalitional support is evident from the fact that the PRI won the elections in 1994 in Mexico and the Peronist Party won in 1995 in Argentina.

2.2 India

The Indian case while presenting some similarities with the political economy of the two nations discussed also displays some striking differences. The history of India's

state-led development strategy, which was introduced by the Second Five-Year Plan (1956-60), parallels that in Mexico and Argentina very closely. Prime Minister Jawaharlal Nehru of the Congress party, impressed with the achievements of the Soviet Union, opted for the heavy industrialization strategy of economic development with substantial emphasis on the public sector. The private sector was reduced to an appendage with numerous restrictions and controls. Heavy industrialization was coupled with import substitution, which was operationalized via massive protectionist barriers. Infant industry arguments informed much of the rationale concerning protectionist barriers (Chattopadhyay et al, 1996). In subsequent years, the emphasis on the public sector was continued by successive Congress Party governments with widespread nationalization of banks and coal mining. In addition loss-making private sector units were taken over by the government contributing to the growing public sector employment. Alongside these developments, the detailed regulatory regime required to implement the state-led strategy spawned a huge bureaucracy.

State-led development strategy followed in India nurtured a metropolitan coalition composed of three constituents (Bardhan, 1984). These were: first, the private sector that was protected from domestic competition (via an elaborate licensing system) as well as international competition (via high tariff barriers); second, labor employed in the public sector, enjoying virtually life-long employment and subsidized by the rest of the productive economy; and finally, the bureaucratic and administrative set-up wielding enormous powers.

The emphasis laid on the public sector for heavy industrialization meant that the agriculture sector was starved of public funds for essential investment (Vaidyanathan,

1982). However, the agriculture sector could not be neglected since it dominated the peripheral coalition in the rural areas. The agriculture lobby, especially the large farmers, was appeased in a variety of ways: (1) land reform laws remained on the statute books but were not implemented (Kohli, 1987, especially chapter 2) (2) agriculture income tax (which was under the jurisdiction of the states) was never introduced (3) a variety of subsidies (for credit, irrigation, power, etc) was made available to agriculture on a continuous basis (Pursell and Gulati, 1993). As in the other countries and as discussed earlier, the peripheral coalition was important in India from the point of view of electoral support. The rural elite could commandeer votes for the ruling Congress Party to ensure its electoral victory. Often this was made possible by having big agricultural land-owners as candidates of the Congress party in national elections⁵ (Chicherov, 1985). Given the feudal structure of Indian agriculture, these land-owners were able to muster substantial support for their candidacy.

Economic reforms were introduced in India in 1991 in the wake of a macroeconomic crisis. Although there had been episodes of non-Congress party rule in India since 1978, coincidentally, it was the Congress party that was in charge when economic reforms were introduced. Along with the macroeconomic stabilization programme that was introduced, the government also put together a structural adjustment programme to overcome microeconomic distortions⁶ that had become endemic over the decades.

It is in terms of the management of economic liberalization and re-alignment of supporting coalitions that the Indian experience begins to diverge from that of the two Latin American countries discussed above. In spite of significant achievements in the

realm of macroeconomic stabilization the Congress government was defeated in the elections of 1996. This result, so strikingly different from the victories of the Peronist Party and the PRI, clearly indicated that the Congress Party was unsuccessful in realigning its coalitional support in the wake of the economic reforms. The traditional support bases of the Congress Party were usurped by the revivalist Hindu party, the *Bhartiya Janata Party* (BJP)⁷. While the BJP partially adopted the economic reforms agenda of the Congress, it introduced elements of economic nationalism and religious revivalism to take over the metropolitan coalition. Religious revivalism made its appeal to the labour constituency of the metropolitan coalition, while economic nationalism was addressed towards domestic business, which feared international competition that had been introduced as a part of economic liberalization. To capture the peripheral coalition the BJP has depended on its parent organization, the *Rashtriya Swayamsevak Sangh* (RSS), which has a dense network across India. However, in spite of the defeat of the Congress party in 1996, the BJP was unable to form a government⁸; that task was accomplished by an alignment of 13 political parties under the banner of the United Front (UF). The UF government collapsed in 1998 and the BJP once again made a bid for power. This time around, in addition to the organizational support of the RSS, the BJP received political support from a few regional parties⁹ and made a successful bid for power.

3. Limitations of Electoral/Coalitional Politics

The previous section has shown that the Argentinean and Mexican experiences with realigning coalitional support after the introduction of economic reforms cannot be easily replicated. In India, the ruling party, which introduced reforms, was unable to

retain political power in the national elections. This section makes the point that even if the strategy of realigning coalitional support is successful it is fraught with dangers since it leaves large sections of the population out of the political calculus.

The problems of state-led development have been well documented in the literature. Beginning from the mid-1970s, the focus was on government failures whereas the previous decades had focused on its mirror image, market failures. State intervention in the economy through regulatory mechanisms, public investments, public sector industries and protectionist barriers became central in explaining economic stagnation in developing countries (Bhagwati and Srinivasan, 1976, Krueger, 1974). In short, the criticism of state-led development indicated that while the quantity of state intervention tended to increase, its quality suffered. Starting from a rationale of market failures, state intervention often expanded in response to interest group pressures. For instance, subsidies were given, not for activities which involve externalities, but where the benefits could be captured by interest groups. The clientelistic relationship or nexuses, built up over years of stable relationship between interest groups and the state, often led to mis-allocation of resources and a lowered rate of growth in the economy (Olson, 1982).

The economic reforms process is expected to reverse the pattern of state intervention set in motion by decades of state-led development strategy. Nexuses with interest groups, nurtured by a quid pro quo relationship (political support in exchange for government favors) are expected to be reversed by the withdrawal of the state and the ushering in of market-led development. The severing of links with interest groups is expected to improve allocation of resources and push the economic reforms process forward. Simultaneously, it is anticipated that interest groups, which find their avenues

for preferential government treatment closed, would withdraw support to the government. This presents the government undertaking reforms with a dilemma: the existing state-led strategy of development, that yields support from interest groups, is no longer viable; on the other hand, introducing reforms distances existing interest groups from the government leading to loss of political support and possibly electoral defeat.

The experiences of Argentina and Mexico as discussed by Gibson (1997) and also that of Sri Lanka (see Moore, 1997) shows that the ruling party in each of the countries was able to continue to play the game of quid pro quo with new interest groups while forsaking the old ones¹⁰. The picture that emerges from the experiences of Argentina, Mexico and Sri Lanka is that coalitional or interest group politics did not disappear after economic reforms. The strategy that was employed to win support during the statist regime was continued under the market-led strategy; all that had changed was the composition of the coalition. On the face of it, the transition from a statist model to market driven model was achieved democratically, where democracy is often equated with the existence of electoral competition. However, it is important to make a distinction between electoral competition and democracy.

Fox (1997) points out that electoral competition is necessary, but not sufficient, for the consolidation of democratic regimes. In fact, a lot of the literature on transitions to democracy in Latin America placed virtually exclusive emphasis on electoral regimes (Vilas, 1997). However, investing more meaning into the term “democracy”, extends the concept beyond electoral competition. Democracy, to be meaningful, needs to be an inclusive concept¹¹ (Vilas, 1997). Fox (1997) expresses a similar idea in his notion of associational autonomy as a necessary condition of democracy. Associational autonomy

is especially crucial for the poorest members of society. Their survival makes them especially vulnerable to clientelistic incentives, which can be viewed as political subordination in exchange for material rewards such as vote-buying by political machines. As discussed earlier, the peripheral coalition played a crucial role in ensuring electoral victories for the ruling parties in Argentina and Mexico. The link between peripheral coalition, vote-buying and electoral victories is not hard to visualize.

4. Economic Reforms And Welfare

If the economic reforms process is to proceed smoothly without social fragmentation and violent protests stemming out of extreme inequality then welfare of deprived sections of the population needs to be an integral part of economic reforms. However, the process of transforming a statist, often elitist, society to a market-led, democratic society is a daunting, multi-dimensional process. One dimension pertains to the need for introducing and pushing through the reforms process. Second, the introduction of reforms creates winners and losers and potentially the losers have the capacity to overwhelm the reforms process. Third, if reforms are not merely to be introduced, but seen through to their fruition then the ruling party needs to stay in power. Fourth, the need and the desire to stay in power traps the party into the same coalitional politics that was practiced before the introduction of reforms. Fifth, coalitional politics does not lead to an inclusive form of democracy. Finally, the genuinely deprived sections of society rarely belong to any coalition and are most in need of safety nets as the reforms process progresses.

The problems referred to in the previous paragraph create virtually insurmountable obstacles to pushing forward a reforms process that distributes gains to a

wide cross-section of the population. In many of the reforms processes that were initiated the major objective was one of withdrawing the state from activities that were not part of its domain. The problem of “too-much” state (Grindle, 1997) was evident in numerous developing countries. Frequently this resulted in stagnant, inefficient economies and states that were unresponsive to the needs of the poor. Rectifying the problem of “too much state” led to an over-correction and resulted in “too-little state”¹². The initial macroeconomic stabilization component of economic reforms often led to severe curtailing of government expenditures, especially expenditures which were not supported by strong interest groups and lobbies. Unfortunately, the likely beneficiaries of government expenditures (on basic health and education, for instance) were the least well equipped to bear the burden of the transition from a dirigiste regime to a market-oriented one.

The importance of the state in the provision of safety nets for the disadvantaged has taken a long time to be realized. More than a decade of experience with a “minimal” state and its adverse consequences on the welfare of the poor has convinced most economic reformers and international organizations of the need for strengthening government by infusing it with the capacity to be efficient, effective and responsive (Grindle, 1997). The capacity to manage the macroeconomic policy has to be supplemented by strategic interventions in areas of market failure, especially in the provision of public goods or goods with substantial externalities, for example, basic health and education. However, the realization that there is an appropriate role for the state even in the context of a market-driven economy does not automatically translate into such a role being fulfilled since the welfare-enhancing role of the state is

operationalized via the ruling party in charge of the government.¹³ Unfortunately, when one moves the focus from the state to the government, the political economy problems referred to earlier come back with force. However, the view that political parties will be captured by interest groups and would rarely act in the public interest has its detractors.

The usual public choice view that decision makers, either in government or in bureaucracy, respond passively to interest group pressures is disputed by those who appeal to the autonomy of decision makers (Evans, 1992, Grindle and Thomas, 1991). Grindle and Thomas argue that many of the changes that have occurred in developing countries in the 1980s could not have taken place if decision-makers had no autonomy. These changes, including decentralization of decision-making, shrinkage of the public sector, withdrawal of the state from many economic activities, would have been anathema to politicians and bureaucrats schooled in the statist strategy of development. According to Grindle and Thomas (1991), assumptions of narrow self-interest as the basis of all political action leads to pessimistic conclusions about policy changes and about the ability of policy elites to conceptualize and act upon some vision of public interest. In contrast to the assumption of narrow self-interest, Grindle and Thomas find policy elites capable of articulating goals for societies, for activities of the state and strategizing about how social change can be introduced.

It is certainly true that viewing all policy changes from the lens of narrow self-interest does not capture the complexity that is inherent in such decision making. It is also entirely possible that decisions are made in pursuit of public interest¹⁴ without electoral outcomes necessarily clouding such initiative. The question really is what level of risk will be tolerated by the decision-makers before they decide that re-election prospects will

be jeopardized. Some of the early literature in politico-economic modeling (Frey and Schneider, 1978) had indicated just such a dilemma that politicians face. So long as the ruling party enjoys a popularity buffer, public interest considerations will dominate policymaking. However, when this popularity buffer wears thin, increasingly electoral considerations will start to play an important role. A similar dilemma would be faced by policy elites in the Grindle and Thomas (1991) framework. At what point in the electoral calculations will public interest considerations be discarded in favor of self-preservation? It would be extremely unrealistic if such considerations are not factored in while modeling political decision-makers. Risk aversion with respect to elections may be higher or lower among political actors, but it certainly cannot be equated to zero. As soon as this is admitted a different strategy for initiating welfare-enhancing reforms needs to be created. The next section makes an attempt in this direction.

5. Welfare-Enhancing Coalitions

It is well known that the process of reforms puts in jeopardy networks and nexuses that have been built up over a number years under a dirigiste regime. The power of interest groups as well as the discretionary powers of politicians and bureaucrats tends to come under a strain, provoking strong anti-reform attitudes and positions. Political opposition to reform comes from interest group leaders and other political entrepreneurs who react to the programs' anticipated effects on their constituents. (Haggard and Webb, 1994). Newly reforming economies can often be overwhelmed by the demands of interest groups, many of who may be very vocal, well organized, and eager to maintain the pre-reform system. Examples of such behavior are not hard to find. In India, for instance, it has proved very difficult to open up the government owned insurance sector to domestic

and international competition; industrialists, constituting the so-called Bombay Club, have lobbied the government to maintain protectionist tariff barriers. The demands of such groups usually outweigh those of the poor and vulnerable, especially under a democratic system, which responds to the loudest and best organized groups (Graham, 1994). Graham, however, also points out that governments introducing reforms do have alternatives and it is possible to break with established practices and focus efforts on the poor. In fact, this idea has been made more precise by Williamson (1998).

The possibility that reforms can change the focus of government intervention from favoring interest groups towards providing welfare amenities for the poor revolves around the core concepts of transactions costs viz., remediableness and credible commitment (Williamson, 1998). Remediableness is the property that one can describe a feasible, superior alternative (welfare amenities for the poor in place of subsidies to interest groups, for instance) that can be implemented with net gain (Williamson, 1996). There are two stages of remediableness: one, economic (can a superior, feasible form of organization be described?); and two, political (does the proposed alternative enjoy the requisite political support to be implemented?).

In the context of the problem being addressed in this paper, the answer to the economic question would be in the affirmative. The proliferation of interest groups (IGs) and their capture of the government leads to excessive government spending, misallocation of resources and lowered growth rates of the economy (Olson, 1982, Wallis and Oates, 1988). Further, pushing for investment in welfare amenities (education or health) involves substantial externalities and contributes significantly to growth (Dreze and Sen, 1996). Thus if the analysis considers the costs of IG activities to the economy

and the benefits of providing welfare amenities, it would be possible to assert that a remediable option to the IG-government institutional arrangement exists.

The answer to the political question would be a guarded yes. The four-way classification of nation-states¹⁵ of Williamson (1998) may be invoked here. Developing economies which are de jure and de facto democratic "can be sometimes induced to make changes that developed economies cannot.....Added latitude obtains if and as deals can be made between organizations that are administering economic aid.... in developing country" (Williamson, 1998, p.115). The conditional supply of aid by an outside agency makes possible deals that are seen as improvements by incumbent politicians and by standard welfare criteria. Often, supplementing this is internal pressure from NGOs, etc, which call for more equitable distribution of benefits of the reforms process. Consequently, "What would otherwise be an irremediable condition thus becomes remediable because a superior feasible alternative can be both described and implemented" (Williamson, 1998, p.115).

The notion that an existing situation is remediable does not automatically translate into a movement towards the feasible alternative situation. The process of pushing through these reforms over the long term involves a battle of attrition against the status quo and must often be seen as a process of building broad-based coalitions (Waterbury, 1989). This must, of course, be distinguished from the coalitional politics that was discussed earlier in the context of Argentina and Mexico. The process involves building broad-based coalitions so that the pool of beneficiaries of the reforms process widens to counter those who are opposed to the reform process. Essentially what must happen is that the existing configuration of interest groups has to change as the economy undergoes

stabilization and structural adjustment. This has to happen if the status quo is ever to be transcended (Haggard and Webb, 1994). It is this idea of building broad-based coalitions that is pursued in this paper. It is not at all the claim that the process is simple; quite the contrary it is likely to prove enormously difficult to get the government to move away from narrow sectarian interest group politics to building broad-based coalitions.

The greatest danger to an elected government pursuing welfare is forsaking established interest groups for coalitions, which may not vote it back to power. Even if the aggregate benefits of such a strategy are widespread, politicians may not be able to capture these gains if institutional arrangements weaken or dissipate support from beneficiaries and strengthen anti-reform forces (Geddes, 1992). The dilemma that most elected governments face is that they must remain in power long enough for reforms to take hold and yield tangible benefits; at the same time they cannot forsake groups which can least afford the negative effects of economic reforms. The first part of the dilemma forces the government to rely on interest groups to muster support for re-election. However, if the disadvantaged groups are persistently neglected, that too leads to disaster. The relatively disadvantaged suffer the adverse effects of reforms disproportionately, at least in the initial stages since most macroeconomic stabilization programs involve pruning of government expenditures and those expenditures which do not have strong political support (such as health and education for the poor) are among the first to be cut.

For vast sections of the population in developing countries suffering great deprivation, benefits of economic reforms can be delivered, primarily, in the form of basic amenities, such as, primary health care and elementary education. The availability

of such tangible benefits will ensure that the poor develop a stake in the reforms process. I shall argue below that a re-allocation of government expenditures from narrow interest group based subsidies towards provision of basic amenities will make it possible for the government to make its support base wider, as well as muster support for economic reforms. However, it is fairly obvious that the process of re-allocating government expenditures from subsidies to welfare amenities is unlikely to be straightforward. Those who no longer receive subsidies and largesse from the government would most certainly withdraw support to the government. The question that will trouble the government is whether this withdrawal of support will be compensated by the gain in support from those who benefit from the provision of health or education facilities. If the answer to this question is yes, then government intervention can be re-oriented towards genuine welfare enhancement. If the answer is in the negative, then the status quo is likely to prevail.

6. A Simple Model Of Political Support

The model of political support developed here seeks to make precise the issues discussed in the previous section. The purpose of the model is to examine the conditions under which a re-allocation of government expenditures, from subsidies to interest groups towards welfare-enhancing amenities, will not reduce political support for the ruling party. The model assumes that there are only two kinds of voters in the society: non-poor and poor¹⁶. The non-poor belong to interest groups and receive favors from the government in exchange for political support. Favors from the government include receiving subsidized public sector services or goods. Ostensibly, these services or goods are characterized by externalities but their benefits can be captured by the non-poor.

The notion of political support from the non-poor is broader than merely the votes cast by this constituency. If one considers the non-poor in the rural areas, then they would be part of the peripheral coalition. Hence political support would include commandeering votes for the ruling party and providing funds for elections which translate into votes via vote buying, better publicity, etc.

The poor, on the other hand, are assumed to not benefit from the subsidized public sector services directed towards the non-poor. The welfare of the poor is enhanced by the consumption of state provided, subsidized, basic amenities, such as, primary health and education. It is highly unlikely that the non-poor will consume any of these basic amenities since they would have access to superior, privately provided health and education. The poor do not constitute an interest group or lobby in any sense; further political support for the ruling party from the poor can only come in the form of votes.

Bearing the above in mind the following model of political support is proposed:

$$P = P(S, H, E) \quad \dots(1)$$

Where,

P = is an index of government popularity

S = number of persons receiving interest groups oriented subsidies

H = number of persons receiving subsidized basic health facilities

E = number of persons receiving subsidized basic education

It is assumed that:

$$\frac{\partial P}{\partial S} > 0, \quad \frac{\partial P}{\partial H} > 0, \quad \frac{\partial P}{\partial E} > 0 \quad \dots(2)$$

Given that those in S are most unlikely to receive either subsidized health or education facilities, one can safely assume that the intersections $(S \cap H)$ and $(S \cap E)$ will be null sets. However, one cannot assume that the intersection of $(H \cap E)$ will be null: the same individual could receive subsidized health and education facilities. Where the subsidy is towards an adult education program, the same adult will be able to benefit from health subsidy, as well. Thus adding $(H+E)$ will involve double counting and overstate political support. On the other hand, some of the education subsidy may go to non-voting population, which will not translate into direct political support. Therefore, merely adding H and E will not yield an accurate measure of political support from the poor and proper care is required in its calculation.

It is further assumed that the government faces a hard budget constraint and that the constraint has to be satisfied every year and not over the electoral period. Thus

$$a_S S + a_H H + a_E E = B \quad \dots(3)$$

where,

a_S = average amount of interest group oriented subsidy available to each beneficiary

a_H = average amount of health subsidy available to each beneficiary

a_E = average amount of education subsidy available to each beneficiary

B = fixed amount available to the government for spending

Enforcing a hard budget constraint ensures that fiscal deficits do not emerge as a consequence of an increase in government spending. In any case, most reforming economies have to bring down their gross fiscal deficits; the hard budget constraint imposed here ensures that measures to lower gross fiscal deficits introduced elsewhere in government finances are not adversely affected by the changes being suggested here. It is, of course, obvious that to the extent that the government can raise expenditure directed towards H and E without reducing expenditure on S, its problems are made less acute.

The government will try to maximize its political support¹⁷ each year, subject to the budget constraint, which yields the usual first order conditions. In a status quo these conditions would imply that the government is optimizing its popularity level and there would be no incentive for it to change to a different strategy. Inducement to change could come either from international agencies which make aid conditional upon the government spending more on welfare-oriented activities; endogenously a change might come about by the ascendancy to power of more welfare-oriented politicians or bureaucrats (Grindle and Thomas, 1991). Whatever be the impetus that prompts a re-orientation of government expenditures, this re-orientation will have an effect on the popularity levels of the government.

Given (1) and a re-allocation of government expenditures towards welfare-oriented activities at the expense of subsidies to interest groups, a change in popularity can be decomposed into

$$dP = P_S dS + P_H dH + P_E dE \stackrel{>}{<} 0 \quad \dots(4)$$

If $dP = 0$, then the advantage of shifting from narrow interest group subsidies to broad-based health and education subsidies is zero-sum; if $dP > 0$, the loss in support due to a decline in interest group subsidies is more than compensated for by a gain in support from the beneficiaries of health and education subsidies. Finally, if $dP < 0$, the reallocation of funds from interest group subsidies to health and education subsidies leads to a loss of support. Therefore, if the government is to move to more broad-based pro-poor reforms process then $dP > 0$ is a necessary requirement.

Substituting from first order conditions into (4),

$$dP/\lambda = a_S dS + a_H dH + a_E dE \quad \dots(5)$$

Again, the sign of (5) will be sufficient to indicate whether government popularity will increase, remain the same or decrease as a consequence of reallocation of funds towards welfare enhancing activities. Essentially, for pro-poor reform to take place the following must hold:

$$a_H dH + a_E dE > -a_S dS \quad \dots(6)$$

The earlier comments about the overlapping of H and E are relevant here. It will generally be the case that health facilities will be targeted towards the young *and* the old

among the poor; education facilities, on the other hand, will be availed of, by and large, by the young. Thus one would expect E to be a subset of H. In view of this, (6) could be made stricter:

$$a_H dH > a_S dS \quad \dots(7)$$

If (7) is satisfied, the government could be sure that moving from interest group subsidies to welfare oriented subsidies will increase its political support. However, one should use the result (7) with caution; in particular, one should not invest it with a precision that it does not possess. The earlier caveat regarding the links between political support and votes bears emphasizing. It must be remembered that not every member of dH (equation 7) will be eligible to vote: some among dH will be the young who cannot vote. Let H' be a subset of H, where H' are those eligible to vote. Then,

$$dH' = \alpha dH \quad \dots(8)$$

where, $\alpha < 1$.

The power of interest groups, whose members constitute S, comes not only from the votes they cast for the government, but also the votes they are able to additionally commandeer via vote buying, publicity, etc. Then S will be a subset of S', the votes that interest groups can bring to the government. Thus,

$$dS' = \beta dS \quad \dots(9)$$

where, $\beta > 1$.

Therefore, in terms of actual votes cast, (7) must be modified to¹⁸:

$$a_H dH' > a_S dS' \quad \dots(10)$$

7. An Application Of The Model of Political Support

In this section I carry out some empirical exercises to illustrate the working of the model of political support in India. In 1997, the Government of India (GOI) published a Discussion Paper on “Government Subsidies in India” (GOI, 1997), which, for the first time, estimated explicit and implicit subsidies provided by the federal government and the state governments in India. The novel aspect of GOI (1997) was the emphasis on implicit subsidies since precise estimates of explicit subsidies were easily available from budget documents of the federal and state governments.

Apart from explicit subsidies, federal and state governments in India provide a large amount of public sector services at prices that do not cover the cost of production. Subsidy on a public sector service has been computed by GOI (1997) as the difference between the cost of providing the service and the revenues earned from its sale. Further, GOI (1997) makes a distinction between public sector services, which involve externalities and makes subsidization justifiable and those that do not involve externalities. The former are inappropriately called “merit goods” in the GOI publication; in the terminology employed here these would be welfare improving basic amenities. The latter, which do not involve externalities and whose benefits are captured by interest groups, are called “non-merit goods”. Table 1 provides estimates of some of the subsidies distributed by federal and state government in India. As a matter of definition the following are important:

1. Rate of subsidization is defined as the difference between the cost of providing the public sector service and revenue earned from the service as a proportion of the cost of provision.
2. Rate of Recovery is given by $(1 - \text{Rate of Subsidization})$

TABLE 1
Estimates Of Subsidies In India
(1994-95)

(million \$)

	Central Government	State Government
I. “Merit” Goods (Total)	1648 (2.41%)	4999 (1.07%)
1. Elementary Education	388 (1.45%)	2233 (0.94%)
2. Public Health	23 (0.21%)	237 (1.90%)
II. “Non-Merit” Goods (Total)	8601 (12.13%)	12205 (12.87%)
1. Agriculture and allied activities	1956 (4.53%)	1043 (32.86%)
2. Irrigation and Flood control	32 (3.83%)	2957 (4.23%)
3. Power	936 (36.77%)	1418 (14.99%)
<p>Note: Figures in brackets are recovery rates Exchange rate: \$1=Rs.42 The reasons for placing the words Merit and Non-Merit in quotes are explained in the text. Source: GOI (1997) Annex 1 and Annex 2</p>		

The choice of subsidized government services reported in Table 1 was governed by the following considerations:

1. Elementary education and public health represent two areas where the Indian state should play an active role. Unfortunately, its performance so far has been abysmal: budgetary allocations to the Department of Health, as a proportion of GDP, have been under 1%; allocations to the Department of Education have been around 2% of GDP (Karnik, 1997). Given the high levels of poverty and deprivation in India and the significant externalities attached to public health and elementary education, subsidized provision of these facilities seems inevitable. In spite of the recent moves towards market-led development, it seems inconceivable that there will be significant private sector participation in the provision of these welfare-improving facilities.
2. The farm lobby is, probably, the most clearly identified interest group in India (Karnik and Lalvani, 1996). The benefits of the three items listed under “non-merit”¹⁹

goods in Table 1 are, by and large, captured by this lobby. It may be noted that the “non-merit” subsidies considered in Table 1 account for only 33% of “non-merit” subsidies of the federal government and for 44% of “non-merit” subsidies of the state governments.

In the model of political support a hard budget constraint was imposed on government operations. In the empirical exercises, this would ensure that increases in welfare oriented activities would come only at the expense of subsidies given to interest groups; for instance, funds for primary health care (which is the only welfare oriented activity considered) would become available only through a reduction in subsidies to interest groups. In terms of Table 1, subsidies given to “non-merit” goods would decline while those given to “merit” goods would experience a compensating increase. The decrease in subsidies in the “non-merit” category is achieved by increasing the recovery rates as per the following scenarios:

- *Scenario One*, where the recovery rate rises 1 percentage point over current rates and
- *Scenario Two*, where the recovery rate rises 5 percentage points over current rates.

Table 2 looks at the savings in subsidies that will be available at, both, the federal and state governments levels under these two scenarios.

TABLE 2
Savings In Subsidies

(million \$)

	Increase In Recovery Rates Over Existing Rates By:	
	1 Percentage Point (Scenario 1)	5 Percentage Points (Scenario 2)
I. Central Government		
1.Agriculture and allied activities	20.38	102.33

2.Irrigation and flood control	0.31	1.64
3. Power	14.83	74.00
II. State Governments		
1.Agriculture and allied activities	15.57	77.74
2.Irrigation	30.91	154.29
3.Power	16.62	83.38
III. Total Savings (I+II)	98.62	493.38
Note: Computed from Annexes 1 and 2 of GOI (1997)		

The savings in subsidies that have been made by increasing recovery rates (Table 2) may be re-distributed by the government towards welfare enhancing activities, such as health. The dilemma that the government faces is that the increase in recovery rates hurts interest groups which are strong supporters of the government; on the other hand by re-allocating the savings in subsidies towards health, the government bestows benefits on a diffused mass of people that may not translate into votes. It is quite likely that the government will have to spend a substantial amount of money for publicizing its welfare-oriented activities to claim credit for it. This publicity will enable the government to translate the increase in welfare of the poor into votes at election times. The expenditure on publicity is assumed to be 10 per cent of the savings in subsidies. In order to be conservative in the estimates of *available* savings in subsidies a further 5 per cent of these savings is assumed to be consumed in leakages.

As stated earlier, the savings in subsidies are to be used for providing health care facilities to the poor. However, a particularly troublesome difficulty crops up while working in the area of health economics in India. To the best of my knowledge, there do not exist estimates of the cost of providing primary health care to a unit of population, where a unit may be understood as 100,000 persons. Karnik and Lalvani (1998) have

provided some crude estimates of the cost of providing a *primary health care set* to 100,000 persons and I use these estimates in the empirical exercises. A primary health care set is composed of the following (World Bank, 1995):

1. A *Community Health Center* (CHC) is expected to cater to 100,000 persons. A CHC is mainly a multi-dimensional outpatient facility though it is planned to include 30 inpatient beds and personnel comprising 4 doctors, 13 paramedical staff and 8 administrative staff
2. A *Public Health Center* (PHC) is expected to cater to between 20,000 and 30,000 persons. Its personnel include 2 doctors, 7 paramedical staff and 7 administrative staff. About 3.3 PHCs would be required for a population of 100,000 persons.
3. A *Sub-Center* (SUBC) is expected to cater to between 3,000 and 5,000 persons and its personnel include 2 paramedical staff. 20 SUBCs would be required for 100,000 persons.

Table 3 estimates the number of persons who will benefit by re-orienting *net* savings in subsidies to welfare-enhancing activities.

The results of Table 3 indicate that a 1 percentage point increase in recovery rates will release enough funds to provide primary health care for almost 12 million persons; a 5 percentage point increase releases enough funds to provide benefits for about 58 million persons. It is, however, important to bear in mind the qualifications that were introduced in section 7. In terms of the model of political support, the 12 million beneficiaries of primary health care correspond to dH in equation (7). However, not all of these beneficiaries are likely to be voters: health care would be available to those below the voting age as well. Consequently the adjustment suggested in equation (8) has

to be made. The true measure of political support to the government is $dH' = \alpha dH$, where $\alpha < 1$. Unfortunately, no precise estimates of α are available.

TABLE 3
Benefits From Re-Allocation Of Subsidies

	Increase In Recovery Rates Over Existing Rates By:	
	1 Percentage Point (Scenario 1)	5 Percentage Points (Scenario 2)
Total savings(million \$) ¹	98.62	493.38
Expenditure on publicity (million \$)	9.86	49.33
Other leakages (million \$)	4.93	24.67
Net savings (million \$)	83.83	419.38
Cost of primary health care set ² (million \$)	0.72	0.72
No. of primary health care sets available from net savings ³	116	583
Number of beneficiaries (million)	11.6	58.3
Notes:		
1.Total savings taken from Table 2		
2. Primary Health Care Set consists of 1 CHC, 3.3 PHCs and 20 SUBCs and the cost includes Capital + Recurrent Costs (See Karnik and Lalvani, 1998)		
3. After rounding off		

However, if one considered the age-wise distribution of population in India and assumed this distribution to be reflected in the beneficiaries of primary health facilities, one could arrive at an approximate value of α . According to the Indian census, the age group 0-14 years accounted for 37.25% of the population and the group 15+ years accounted for 62.5% of the population (Website: www.censusindia.net/glance.html, Table: India at a Glance – Broad Age Groups (1991 Census of India)). The empirical exercises, however, require the proportion of population in the voting age group, i.e. 18+

years. Since the census does not give this distribution, I assume that the age group 0-17 years is approximately 40% of the population; therefore the voting age group constitutes 60% of the population. Thus, the value that α can, *at most*, assume is 0.6. In terms of the results of Table 3, under Scenario 1, the highest value of $dH' = 0.6(12,000,000) = 7,200,000$. A similar computation for Scenario 2 yields $dH' = 34,800,000$.

The possible gain in political support from the beneficiaries of primary health care must be balanced against the loss of political support from members of interest groups who find their access to subsidies reduced. In terms of the model of political support, this loss of support corresponds to dS in equation (7). If one focuses on the farm lobby in India, then dS would correspond to the number of large farmers. It seems reasonable to focus on large farmers only since the benefit of subsidies on public sector output would be captured by this group. As per the estimates of the Center for Monitoring the Indian Economy (1995), there were 1.67 million large agricultural holdings in India. On the assumption that there are no multiple holdings by a large farmer, one can be sure that the reduction in subsidies to interest groups would cost the government *at least* 1.67 million votes. However, the importance of the farm lobby lies, not in the votes that its members cast, but in the number of votes that it can commandeer through vote buying, publicity, etc. The loss of support to the government as a consequence of reducing subsidies to large farmers is given by $dS' = \beta dS$, $\beta > 1$, as per equation (9). In terms of the results of Table 3, and assuming 1.67 million large farmers, $dS' = \beta(1,670,000)$. The difficulties in obtaining an estimate of β are even greater than in the case of estimating α .

From the point of view of the government, it is the quantification of equation (10) that is crucial. Only if (10) holds will a risk-averse government move from interest

groups oriented subsidies to welfare-oriented expenditures. However, our discussions regarding α and β has shown that quantifying (10) is likely to be problematic. Consequently, while it would be difficult to offer firm conclusions from the empirical exercises, some conjectures may be proposed:

1. For Scenario 1, with $\alpha = 0.6$, the value of $dH' = 7,200,000$. If equation (10) has to hold then dS' cannot exceed dH' . With $dS = 1,670,000$ (the number of large farmers), this implies that β cannot exceed 4.31. Similar computation for Scenario 2 indicates that β cannot exceed 20.83
2. The values of β derived above have implications for the maximum number of votes that each farmer belonging to the farmer's lobby may commandeer. In Scenario 1, a farmer can commandeer at most 4.31 votes; under Scenario 2, the farmer may commandeer at most 20.83 votes. Any greater value for number of votes commandeered would violate equation (10) and the government will not move to welfare-oriented subsidies. These numbers indicate that the power of interest group to provide political support to the government is probably underestimated under Scenarios 1 and 2²⁰.
3. There are two redeeming features in the conjectures stated above. First, the increases in the recovery rates assumed in the two scenarios were very modest. Further increases in the recovery rates can only make it more and more difficult for the farmer's lobby to build opposition to the government; in terms of equation (12) the value of β will have to be unrealistically high.
4. Second, the proportion of subsidies selected for re-allocation by the government is less than 50% of the subsidies given out by federal and state government. Hence, to a

committed government (Grindle and Thomas, 1991) substantial scope still remains for further re-allocation of subsidies.

8. Conclusions

Research in the political economy of economic reforms has generated a vast amount of literature in the last few years. Two ideas have recurred in much of the literature: (i) the need for the ruling party to stay in power to push forward the reforms process (“electoral politics” strand) and (ii) the appropriate role that the state must assume and which political decision makers must enact during the reforms process (“public interest” strand).

These two strands of the literature have progressed independently of one another in the belief that what was strategic from the point of view of electoral politics could not be appropriate from the public interest point of view. I have already commented upon the dangers involved in emphasizing electoral politics to the exclusion of public interest point of view. On the other hand, it is extremely naïve to emphasize the public interest point view without allowing for electoral considerations. The approach proposed in this paper seeks to marry the two strands of the political economy literature.

This paper has sought to look at the electoral consequences for a ruling party that tries to take decisions from a public interest point of view. Specifically, the ruling party re-allocates government expenditures from subsidies to interest groups towards subsidies for welfare improvement. In the context of a model of political support, the conditions under which such a re-allocation will not lead to a loss of political support for the ruling party were set out. The ideas explored in the model were tested empirically for Indian data.

The empirical results indicated that small reductions in the rate of subsidization of the farm lobby in India could have great welfare consequences. Under Scenario 1, this would provide health facilities to about 12 million persons; the number of beneficiaries under Scenario 2 would be 58 million. From a public interest point of view, these numbers would be compelling enough for the ruling party to re-allocate government expenditures towards welfare improvement. However, a ruling party, concerned about elections, would want to be sure about the net change in political support for it. This would depend on the possible gain in support from the beneficiaries of health facilities and the possible loss of support from the farm lobby. While precise measurements would be hazardous, the empirical exercises indicated the conditions under which there could be a net increase in support for a ruling party that acts in the public interest.

The empirical exercises in the paper should be not be viewed as precise quantification of changes in political support. Rather the importance of the exercises is to offer a way of operationalising the model of political support. The model itself offered an alternative way of looking at the problem of introducing welfare enhancing measures in the context of electoral politics. It has sought to bring together issues which are currently very important in developing countries: economic reforms, electoral politics and welfare.

Endnotes:

¹ Professor Oliver Williamson was kind enough to read an earlier draft of this paper and suggest improvements. I would also like to thank Ashok Bardhan, Vandana Date, Murali Patibandla and Banu Subramaniam for reading the paper and offering suggestions. This paper was written while on a Fulbright Fellowship at the Haas School of Business, University of California at Berkeley. Financial support from the Fulbright Foundation and USEFI is gratefully acknowledged. I would like to thank the Haas School of Business for the facilities provided to me. Needless to add, I alone remain responsible for any deficiencies that remain in the paper.

² Gibson (1997) writes of populism as "...a revolutionary force, incorporating labor in its fold and promoting a new class of domestically oriented entrepreneurs as carriers of new state-led strategies of economic development".

³ In Argentina Juan Peron won over the peripheral coalition by recruiting local conservative leaders, who controlled electoral machines in rural areas, into his alliance. In Mexico, President Lazaro Cardenas carried

out sweeping land reforms during 1934-40. Where the land reforms were successful, the large captive rural electorate was available to the ruling party; in other regions the guardians of the pre-revolutionary order were given free rein to perpetuate local power arrangements in exchange for delivering massive victories at election times (See Gibson, 1997 for details).

⁴ The more concentrated and internationally competitive sectors of business and labor linked to these sectors were able to gain economic and political benefits of the reforms. Domestically oriented industrialists and non-diversified single-sector forms were weakened and were excluded from the re-aligned metropolitan coalition (Gibson, 1997).

⁵ 43.2% of Congress Members of Indian Parliament (1957-62) indicated "land-ownership" as their basic source of income. Only 29% of Congress Members of Parliament (MP) reported that they owned no land at all. Thus over 2/3 of Congress MPs were in one way or another connected with land; of these 60% owned more than 20 acres of land and 16% owned more than 100% acres (Chicherov, 1985; see also Kothari, 1970, Chapter 5).

⁶ See Rodrik (1996) for the distinction between microeconomic distortions and macroeconomic stability and the confusion that often arises between the two.

⁷ Indian society is divided along numerous fault lines: caste, class and religion being the most important. Nowhere is the religious divide as sharp as between Hindus and Muslims. The distrust between the two communities is centuries old and modern India has seen innumerable instances of communal strife between the Hindus and Muslims. The BJP, in its earlier avatar as Jan Sangh (JS) was part of the United Opposition that for the first time defeated the Congress party in the elections of 1977. When this non-Congress government collapsed, the BJP was completely eclipsed in the polls of 1980. From this time on the BJP decided to carve its own niche in Indian politics and its main constituency was to be the Hindus. Its main program was to build on the distrust that Hindus felt for Muslims and to attack the Congress for "appeasing" Muslims and neglecting Hindus. Even more importantly, its agenda for building a temple for the Hindu god, Rama at the exact spot where a Muslim mosque stood galvanized the Hindu community. The mosque was destroyed by the members of the BJP and other Hindu organizations in December, 1992 plunging the country into a maelstrom of religious violence. This undoubtedly a very simple account of the appeal of the BJP; for a more detailed and studied account the reader is referred to Vanaik (1997).

⁸ The BJP actually ruled the country for a fortnight but was unable to prove its majority in the the Parliament,

⁹ The decline of the Congress party as a dominating force has coincided with the rise of regional parties in India. These regional parties can be categorized as follows: (1) Those which are anti-Congress (especially in the states of Maharashtra and Andhra Pradesh) (2) Those which are breakaway factions of the United Front which ruled from 1996-1998 and which are anti-Congress as well (3) Finally, those which are opportunistic and willing to align with the party having the best chance of forming a government at the federal level (notably AIDMK in the state of Tamil Nadu).

¹⁰ The dependence on the peripheral coalition continued after the introduction of economic reforms and members of this coalition were given inducements to continue supporting the ruling party. In Argentina, this was accomplished by allocating key ministries to leaders of the peripheral coalition (Gibson, 1997); similarly, in Sri Lanka new support bases were created by distributing cabinet posts which had the most possibilities for rent-seeking to members of the peripheral coalition (Moore, 1997).

¹¹ Democracy according to Vilas (1997) must involve the participation of all citizens in a polis that is seen to belong to all. But the polis can hardly belong to all when the principle of citizenship and the underlying idea of equality coexist with inequalities and large numbers of citizens who fall below the poverty line as a result of development policies being implemented, whether state-led or market-led.

¹² According to Grindle (1996) the capacity of states to provide for basic services and investment in human resource development declined substantially between 1980 and 1991. In Bolivia, Chile, Kenya, Mexico and Zambia, proportions of budgets expended on education, health and other social welfare services generally decreased while proportions spent on interest payments increased (Table 2.9, p.38).

¹³ Even though much work has been done by non-governmental organizations (NGOs) in the provision of welfare-enhancing goods and services, the magnitude of the problem in most developing countries makes it impossible for the accomplishment of certain objectives without government involvement.

¹⁴ In the terminology of Alesina et al (1997), in the partisan models of political cycles, political parties would act according to their ideological predilections but they would be concerned about electoral outcomes.

¹⁵ The following matrix has been adapted from Williamson (1998):

		ECONOMY	
		Developed	Developing
POLITY	Above Threshold: Polities are de jure and de facto democratic	<i>Irremediable:</i> no prospect for general reforms. Economic and political institutions are deemed to be acceptable	<i>Remediable:</i> under some circumstances (external pressure of international aid organizations) superior feasible alternative can be described and implemented.
	Below Threshold: Polities lack the capacity to deliver de facto democratic outcomes	<i>Irremediable:</i> no prospect of major reform. Authoritarian regimes can thwart internal and external pressure for reform	<i>Irremediable:</i> no major prospect of reform. External economic aid may be limited to humanitarian relief.

¹⁶ In its application to Indian data, the model will be located in rural India. This leaves out of consideration urban voters who also may be indirectly affected by the policy changes suggested for government expenditures. Note 20 discusses this further.

¹⁷ This is in the nature of what Alesina et al (1997) call opportunistic models of political cycles

¹⁸ There is an assumption here that voter participation rate is 100%, which is clearly unrealistic. In order to make it realistic it may be necessary to build in more parameters into equations (8) and (9). Thus is $\delta =$ voter participation rate among H', then $dH' = \delta \alpha dH$; similarly if $\gamma =$ voter participation rate among S', then $dS' = \gamma \beta dS$.

¹⁹ Even though I disagree with the terminology of GOI (1997), I shall occasionally use it.

²⁰ As stated in Note 16, the application of the model of political support is located in rural India and voters in urban India were ignored. However, it is possible that the re-allocation of government expenditures to rural areas might affect voting in urban areas as well. To the extent that there is approval for the steps taken by the government to distance itself from interest groups and improve the welfare of the poor, government popularity may be bolstered by urban voters. Quantification of this support is very difficult and has been ignored in this paper.