

Can a Social Democratic Resolution Tackle Inequality and Support Growth for India?

Michael Walton¹

Introduction

Social democracy has been most successful, politically, economically and socially, in Europe, and most of all in Scandinavia. These are relatively equal societies. Scandinavia seemed homogenous and conflict-free for much of the second half of the 20th Century. Does it make sense to consider a social democratic resolution for India, that is much poorer, more unequal and more heterogeneous? And is social democracy consistent with sustaining rapid growth, especially as India is emerging into globalized capitalism at a much later stage than the European countries? This paper examines these questions with respect to the desirability of social democracy, its design, and its feasibility for India.

The paper is organized around three ideas.

First, the point of departure for the paper is the exact opposite of the view that social democracy is only feasible in homogeneous, equal and conflict-free societies. I argue that a social democratic resolution should be thought of as a political *response* to deep inequalities and distributional fights, and *not* a harmonious product of a relatively equal social order. Indeed Scandinavian societies were unusually conflict-ridden prior to the major moves to social democracy (Moene and Wallerstein, 2008b). In similar fashion, some of the most interesting contemporary exemplars of moves toward social democracy are in highly unequal societies in Latin America—especially Brazil and Chile—in response to the long-run pressures from the democratizations of the 1980s (Cardoso and Foxley, 2009). India's overall position is comparable: major inequalities alongside politically salient pressures for redistribution and broad-based social provisioning. A social democratic resolution is a desirable response for India, and, indeed, is arguably central to the management of future distributional conflicts and stability.

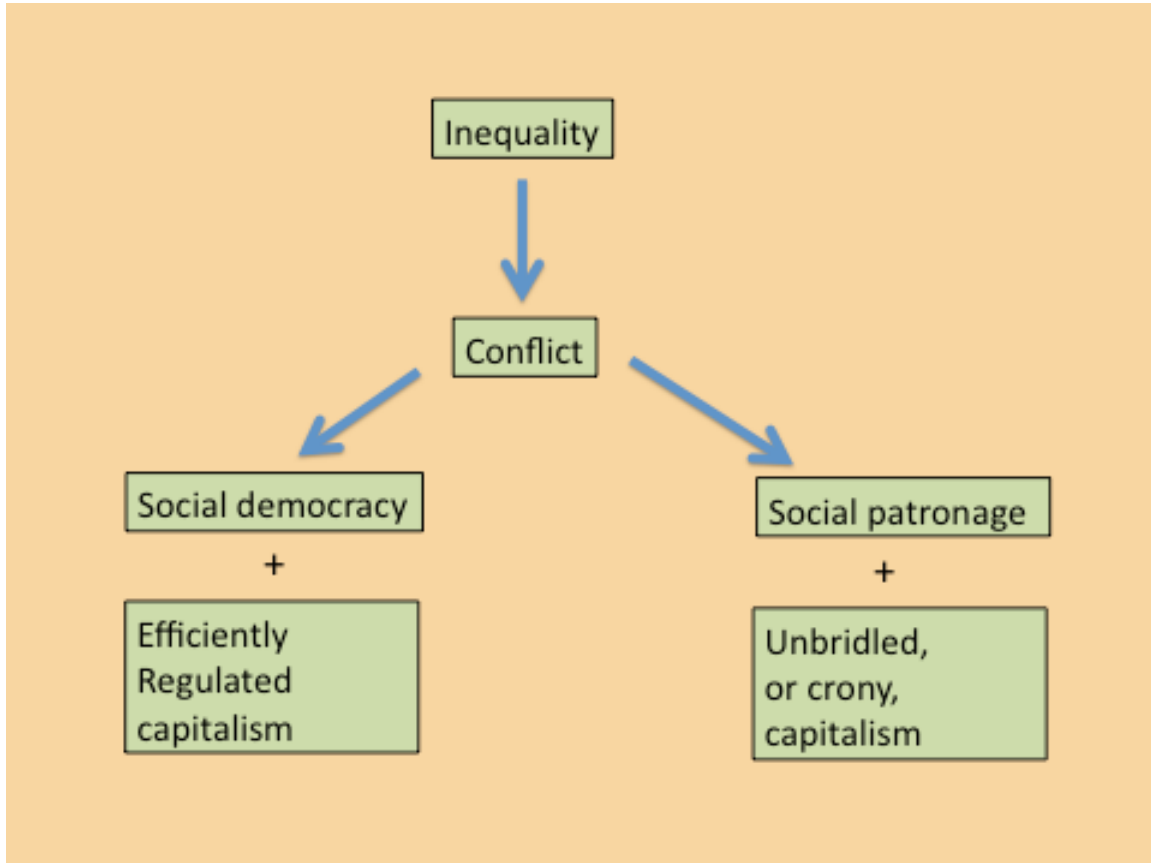
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Second, however, issues of design are of first-order importance, *both for equity and for growth*. It is obvious that design matters for the question of who is reached by social programmes and whether they are effective. But the more interesting question for India is whether a social democratic resolution can be consistent with the sustained, rapid growth that is necessary both for the expansion of private income (and so reduction of income poverty) and to provide the tax base for government-intermediated parts of a social democratic system. I argue that there are growth-supporting designs, and that these depend on crucially on three features: the form of finance; the incentives embedded in both provisioning and regulation; and the internal incentives for the state actors within the social democratic regulatory system. A social democratic resolution *can* be supportive of dynamic and innovative capitalism—both via greater integration of smaller existing and new firms into formal institutional structures (of regulation and taxation) and via continued catch-up of large-scale and globalizing firms toward the global technological frontier. *But* it is also really easy to get designs wrong, and to create a system that distorts micro-incentives for households, workers and firms, and becomes a source of growth-reducing sclerosis.

Third, a growth-supporting social democratic resolution is feasible in the abstract sense that India has the economic base and long-term organisational capabilities. But it is not at all clear that it is consistent with current trends. It is also possible to envisage a response to current distributive pressures and capitalist dynamics that takes the form of social patronage and unbridled or crony capitalism. I suggest that an effective social democratic resolution depends on three factors: politically salient pressures for broad-based social provisioning; a state that is “good-enough” at delivery of public goods (including of regulation); and a politically supportive capitalist class. It then depends on choices made by the political class in response to these conditions. India does have politically salient pressures for social provisioning. But the behaviour of the state is currently on a path of entrenching a patronage-corruption-political finance relation with society. And the position of large-scale capitalists, whose economic and political power will only rise in the coming years, is unclear. Furthermore, broad-based social provisioning is problematic at the “margins” of state-society interaction: most clearly in areas of Naxalite conflict, but also at the margins of legality in cities.

Figure 1 provides a schematic account of the storyline: in a democratic and capitalist country such as India, the distributive conflicts associated with inequality will politically demand some form of resolution. But this could either go the route of social democracy, including the efficient regulation of capitalism. Or it could go the route of patronage, populism and some combination of crony and unbridled capitalism. India’s trajectory is uncertain, but is currently closer to the second than first path. The big question is whether there is potential to shift to a more social democratic path.

Figure 1. Alternative pathways in response to distributive conflict



While I do not have an answer to this question, I suggest three sets of questions that will influence the future trajectory.

- First, do rights-based approaches offer a way of building both a sound design and a political transition? Or will they get captured and distorted by existing structures and associated design flaws?
- Second, will major capitalists become a force for pressuring the state for a more efficient system of social provisioning and a transparent, efficiently regulated capitalism? Or will they be a force for an essentially rent-sharing system between politicians, bureaucrats and business?
- Third, will major political parties support reforms that shift their support base from fundamentally patronage-based mechanisms to ones linked to effective state functioning?

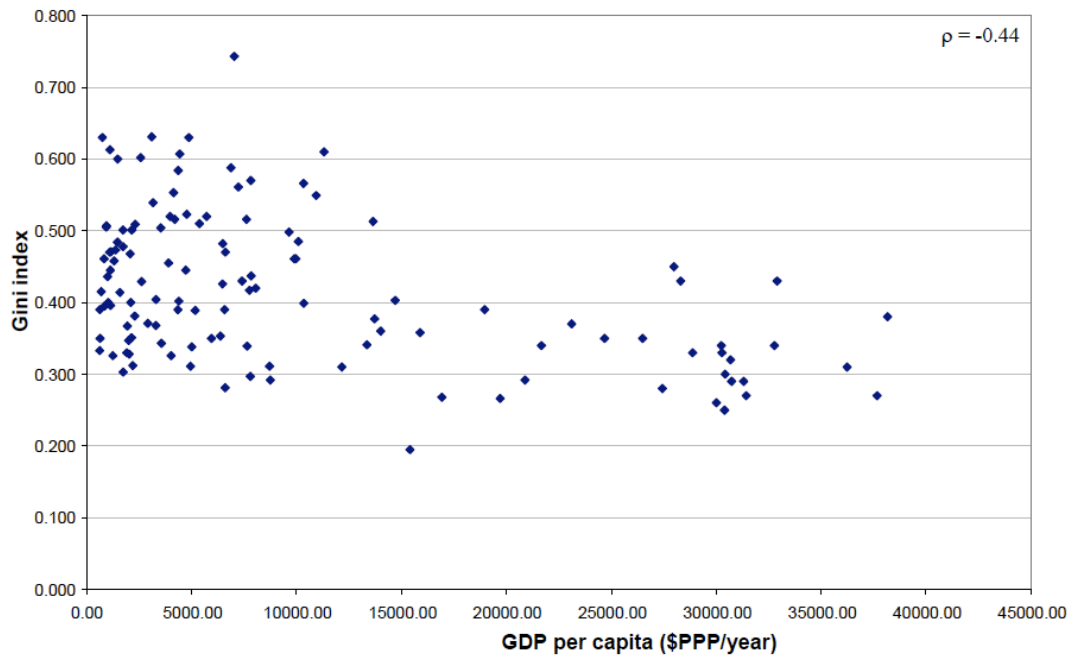
All three are deeply linked to the role of politics in the success or failure of the social democracy in India, and indeed the viability of India's long-run development path.

Inequalities, social democracy and long-term growth

The questions at stake concern the relationship between inequalities, the role of the state and growth dynamics. Inequalities matter in many dimensions: especially of citizenship, of security, of opportunity, as well as of income and wealth.

While a prism of income is limited, the issues can be motivated by the following stylized fact: there are no rich countries with very high levels of income inequality (Ferreira and Ravallion, 2008; see Figure 2). Above a level of GDP per capita (adjusted for purchasing power parity) of US\$20,000, all Gini coefficients fall in the range of 0.25 to 0.45. (The Gini coefficient is a synthetic index of patterns of inequality between all individuals; it ranges from 0 for perfect inequality to 1 for complete inequality). Sweden has an income Gini of 25; the USA of 41. By comparison, in 2008, Brazil had a GDP per capita of US\$10,000 and an income Gini of 55, and Chile a GDP per capita of US\$13,240 and an income Gini of 52. Both are well-known cases of very high inequality. India's 2008 GDP per capita was much lower, at US\$2900. India's level of inequality is controversial: according to the NSS 2004/05 survey—that is in consumption terms—the Gini was only 33—but the NCAER survey (Desair et al 2010) found an income Gini of 54, well into the high inequality and Latin American range. Even more important, measures of income inequality are a proxy for the deep inequalities of opportunity, status and power that pervade Indian society.

Figure 2. Inequality and income per capita around the world



Source: Ferreira and Ravallion (2008)

High levels of current wealth reflect past long-run growth. So how should we think about this? Here are three alternative perspectives.

(1) Long-run growth leads, eventually, to the reduction of extreme inequalities. An example of this view is the Kuznets curve. Simon Kuznets hypothesized that development involves a long-term rise and fall in income inequality, as societies are transformed from predominantly low productivity to predominantly high productivity activities. Along the way some households move to high productivity, and so high income, activities, leaving others behind. This may work, for example, through access to jobs or education. The problem is that the evidence does not support the existence of such a curve (Banerjee and Duflo, 2003). At one level this is bad news, since the Kuznets curve has a happy implication—inequality is benign for long-run growth.

(2) High inequality countries don't make it to high levels of prosperity, owing to the growth-sapping costs of inequality, manifest in specific economic inefficiencies (for example linked to the credit market), in the formation of institutions that further the interests of elites at the cost of long-term growth, and the accentuation of distributional fights. There is certainly evidence for this (see World Bank, 2005) though it is unclear if this is a permanent phenomenon, or if countervailing tendencies automatically emerge. This brings us to the third perspective.

(3) Now-rich countries experienced political and social changes that led to choices over policies and institutions that induced lower levels of inequality. A striking example of this is Denmark—now a paragon of Scandinavian egalitarianism—that had truly Latin American levels of inequality in the 19th Century. The United States is a less extreme example: with the important exception of black slaves, the US was historically more equal either than old Europe or Latin America (Engermann and Sokoloff, 2002). But it also went through major equalizing policy choices, especially in the late 19th and 20th Century, through curbing the power of the immense capitalist monopolies, known as trusts, the long-term expansion of access to education, and the big push on social provisioning in the New Deal in the 1930s and the Great Society of the 1960s.

This paper is organized around the third perspective.² Social democratic transitions were political projects that emerged in response to conditions of inequality and conflict. Even the seminal Scandinavian transitions occurred not in the context of harmonious and homogeneous societies, but from societies that had experienced high levels of conflict. As Moene and Wallerstein (2008b) argue, Norway and Sweden had unusually high levels of industrial conflict in the 1920s. Social democracy was a response. Moreover, it was an explicit political project, that evolved from ideological and policy debates—not least within social democratic parties—and from a variety of class and party compromises (Berman, 2006).

² See also Sandbrook et al (2007) for an overall discussion of social democracy in the developing countries.

Social democratic resolutions in rich countries have been neither complete, uncontested nor fully successful. Whether the criterion is inequality or growth there continues to be intense debate over both inequality and social democratic policy designs in rich countries. Income inequality has experienced a steep rise in the USA and the UK. At least some features of social democratic projects are hotly contested: think of recent debates over the affordability of established policies (e.g. fights over the pension age in France, the cutting back of universal child benefits in the UK), attempts to fill in of gaps in provisioning (health policy in the US) or concerns over incentive costs of current social policy designs (reflected in the re-election of a relatively right wing government in Sweden). Most striking is the highly polarized state of debate in the United States in the 2010-11: major parts of the Republican party have an explicit agenda of reducing the size of the state, including cutting into core social democratic elements of social security and health provisioning for the elderly and destitute. This is also closely linked to an agenda of reducing taxes, supporting the *rise* in inequality.

However, I'd suggest these debates are second-order to the issues at stake for India: that is whether an overall social democratic project is desirable for her stage of development, and whether it is a feasible political and institutional project, along the lines of social democratic resolutions in now-rich and middle income countries. It is here that the second perspective returns to relevance: even if a social democratic resolution is desirable—to support the reduction of inequalities in a design that supports long-term growth—the very structure and functioning of India's inequalities may effectively distort such a resolution

What does social democracy mean?

Before proceeding further, we need a statement of what is meant by social democracy. There are two ways into a characterization of social democracy: a deep interpretation of the social and political origins and ideological features of social democracy; and description of its policy and institutional elements. This paper is not the place to make a contribution to the first (see Sandbrook et al, 2007 for discussion). I confine commentary on this to a few contextual points. My main interest is in the specifics of design choices and how these interact with economic incentives and political functioning.

In the big picture, social democracy can be thought of as emerging as a shift in strategies in the first half of the 20th Century toward pursuit of social and distributive goals *within* the context of capitalist and democratic systems. This occurred both within parts of the socialist political movement, and also amongst non-socialist governing elites. Thus for those socialist parties that chose a social democratic option, it involved a strategic choice to use democracy rather than revolution to pursue their aims (Przeworski, 1985). Amongst most (but not all) it also involved acceptance of capitalism, as a pragmatic response to the economic and political resilience of the system, and in recognition that the capitalist game was not

zero-sum, but could generate new wealth and surpluses that could potentially be shared. In other words, the question became one of how to harness capitalism for the benefits of workers and other subordinate groups. As a political project, social democracy typically involved the forming of cross-class alliances—between workers, farmers and middle groups—that were necessary to achieve electoral majorities (Berman, 2006). With different features this mix was true of Scandinavia, the UK, the continental European core, and post-democracy Spain. It was also true of the social democratic elements of the United States, even though the term is rarely used there.

This strategic mix of working within democracy and with capitalism has also been true of important parts of the Latin American left since the return to democracy of the 1980s. It is especially the case for Brazil and Chile, both of whom have had almost 20 years of centre-left coalitions in power under democratic auspices, pursuing an evolving project that blended support for capitalist growth with social provisioning. There is also a different tradition amongst Latin American left governments, that is more confrontational with aspects of capitalism—with partial nationalizations in Bolivia, Ecuador and Venezuela—but even these do not involve wholesale shifts to socialism.

In both Europe and Latin America, it is also notable that governments clearly aligned with capitalists and economic elites have also maintained or furthered design features commonly associated with social democracy. Germany's post-war social democracy was initially shaped by parties of the right. Mexico has actively pursued the expansion of social provisioning both under the long period of semi-authoritarian rule of the *Partido Revolucionario Institucional* (PRI), and under the notionally right wing governments since the full transition to democracy in 2000. In the United Kingdom, even Mrs. Thatcher didn't seek to privatize the National Health Service.

There is room for debate as to whether social democracy is best conceived as a modification of a pro-market, liberal ideology—"embedded liberalism" in a classic formulation—or a distinct ideology, as Berman (2006) argues. Since the fall of the Berlin Wall, and China's embrace of a form of capitalism, it has rather lost its place as a "third way", though a major recent collection edited by an ex-Brazilian president and Chilean minister, entitled half way there (*A medio camino*) has some of that spirit (Cardoso and Foxley, 2009). I leave this debate to others.

So let's turn to the second issue: what are the key design elements of social democracy? This is what we want to assess for India. Here's a list, that can be treated both as a set of practical principles, and examined for the potential range of designs within each category.

(1) universal, state-guaranteed, provisioning to manage household risks—of health, old age, unemployment, disability;

- (2) universal, state-guaranteed, access to quality education;
- (3) a minimum level of material well-being;
- (4) state regulation of capitalism, including in particular the legal underpinnings for labour organization and capital-labour relations;
- (5) institutions of citizen participation, typically through a range of institutions, in addition to the electoral system.

Poverty reduction, in all its dimensions, is part of this, but social democracy goes way beyond poverty. It includes the management of risk, institutions to provide opportunity for all, the management of capitalism and participation.

An additional, important, feature of the Scandinavian social democratic design was a compressed, relatively egalitarian, wage distribution (see Moene and Wallerstein, 2008a in particular). But this has not been a feature elsewhere, and is not treated as an essential element here. It is hard to see it as feasible for the Latin American and Indian cases.

Now, in each area there is room for a range of approaches to design, with actual choices driven by ideology, pragmatism and the workings of politics. This can matter a lot. Alternative designs can make a large difference to both access and incentives. I postpone discussion of that to the next section; here I rather note some issues on the *range* of design choices.

“Universal, state-guaranteed” provisioning can be effected through a variety of means. One approach is to have universal, state-provided entitlements to all citizens, in the sense that the state raises taxes to provide the same entitlement (for example a child benefit, or pension) to all citizens. “Universal” is sometimes used in this sense in European discussion on the welfare state. But this is not the only way of achieving universality. It is also consistent with a mixed system of public-private provision—of pensions, health services or education, for example—but with a combination of state regulation of private provision and state-guaranteed access to all, including via state provision (as in a basic government pension and government schools). This is the actual policy in most schooling systems around the world, including for Brazil, Chile, India, the United States, the United Kingdom and Sweden. A mixed system raises questions of equity within the system, but in practice so does a pure government system: take, for example, the variation in the quality of state schools in most countries.

A related issue concerns whether a society chooses to use means testing: making access to social service or benefit conditional on an individual’s material “means”, typically measured by their current income or wealth. This is relevant both to the minimum floor for material living, and to access to risk-related social benefits. It is a hotly contested issue in rich countries: the UK and the US make use of much more

means testing than continental Europe. When a mild means test was proposed for child benefits in the UK In 2010 it was decried as an attack on the welfare state. In practice, most developing countries, including Brazil, Chile and India, make extensive use of means tests. Also common is the use of either categorical targeting (e.g. farmers pensions in Brazil) or self-targeting (as in workfare in India and Chile)

State regulation of capitalism can also extend to a range of distinct domains. I would highlight three:

- (i) relations between capital and labour, in terms of the legal support for collective bargaining, and a variety of state-regulated labour rights, especially around health and safety, child labour and protection from abuse, sometimes around job security;
- (ii) other specific “externalities” (the economic term for impacts of a firm’s activities that affect others outside the immediate, marketized transaction), including effects of a firm’s activities on local pollution, carbon emissions, or the social lives of citizens;
- (iii) the state direction of industrial choices, via ownership, subsidies or the provision of specific “public goods” of infrastructure that benefit a limited set of firms.

State support for innovation could fall in (ii) or (iii)

Finally, the participation of citizens via voting is intrinsic to electoral democracy. But beyond the vote, most democracies (and indeed non-democracies) use a variety of mechanisms for making action of both the state and capitalists accountable to citizens, from rights to information, to complaint procedures, all the way to participatory budgeting. See Avritzer (2009) for a discussion of the Brazilian experience.

The point here is that there is room for policy debate *within* all these areas. I suggest the five areas of principle listed above are core features of social democracy. Within each area, design choices can make a big difference to outcomes with respect to equity, poverty and growth incentives.

The centrality of design for both equity and growth

Consider the following proposition. A social democratic resolution, in terms of policy choices and institutions, can be *both* effective at social provisioning and supportive of long-term, capitalist growth.

Yet what of impacts on incentives? Won’t work effort, investment and innovation be hurt? And don’t the imperatives of globalisation render unaffordable the generosity of social provisioning that a social democracy entails? Isn’t a tradeoff between equity and efficiency a fundamental economic principle?

The answers to all these questions is: not necessarily. In particular, a social democratic resolution *can* be consistent with both: (a) a strong complementarity between greater equality of opportunity and a *more* efficient use of human resources; (b) a dynamic and innovative capitalism—both via greater integration of smaller existing and new firms into formal institutional structures (of regulation and taxation) and via continued catch-up of large-scale and globalizing firms toward the global technological frontier.

However, such a growth-supporting, or “incentive-compatible” social democratic resolution is contingent on design, and in particular on the choices within the design ranges outlined in the previous section. Key elements of an efficient design are as follows:

- (i) *Social benefits.* Social provisioning can support human investment, effort, risk-taking and the mobility of workers and households. Many areas of intervention can actually compensate for efficiency-hurting market failures. Free or subsidized access to quality education can offset the absence of credit markets, that lead to premature school-leaving. A safety net, of unemployment insurance and social assistance, can encourage workers and households to move between jobs and locations. There are areas of tradeoffs, of course, for example in the high marginal tax rates implicit on making benefits conditional on means or being out of work, but these can be reduced by design, as for example in the US and UK’s earned income tax credit.
- (ii) *Labour policy.* Labour policies and institutions are worth highlighting, since labour protection is frequently characterized as a natural enemy of dynamic capitalism—not least by “pro-market” commentators in Latin America and India. Yet, some forms of collective bargaining can lead to incentives for firms to increase productivity (an important argument in the case of Scandinavia, see Moene and Wallerstein, 2008a). More broadly, labour policies that provide protections for health and safety, or against abuse, are at least in part responses to market failures. They may add costs to firms, but economic welfare is improved even in a narrow economic sense. And active labour polices that support re-training and re-insertion into work can also be efficiency-improving (even though evidence on actual effects is mixed). Finally, design specifics again matter: monopolistic unions working in protected sectors can be a source of inefficient work practices and production processes; but unions working in competitive sectors have much less adverse efficiency effects alongside positive benefits for workers.
- (iii) *Risk and globalisation.* More broadly, an overall structure of risk management can provide the societal underpinning for political support for globalisation. Rodrik (1999) found that countries with more open economies have higher levels of social spending. He interprets this as a complementary relationship, with the greater exposure to the risks

associated with open economies leading to greater political demands for social risk management.

- (iv) *Regulation of firms.* A form of regulation of capitalism that is focused on the effective management of externalities and market failures is also intrinsically efficiency-improving—especially with respect to impacts on the environment, in inclusion of adverse external social impacts, in countervailing monopoly power, in providing the legal basis for protecting minority shareholders, in supporting innovation and in efficient risk-management (including reducing excessive risk-taking) in the financial system. A particular dimension of this concerns the mix of regulatory, tax and labour policies that provide incentives of firms to become formal entities.

The above list refers to the design of what state *does*, in terms of provisioning or regulation. Then there are two cross-cutting areas that are necessary *supports* for state action:

- (v) *Finance.* Taxes are almost always distortionary, but broad-based taxes (especially on consumption and wealth, also on income) are much less distortionary than systems that have narrower coverage with high tax rates, especially those that influence effort and investment.
- (vi) *The behaviour of state actors.* All the areas of social provisioning and regulation involve an interface between actors in the state and households, workers or firms. Incentives for effective behaviour of actors in the state are necessary conditions for the implementation of an efficient social democracy.

Let's illustrate with the most extreme example: the high tax, high benefit countries of Scandinavia. Lindert (2004) in his major historical review of the long-term expansion of public spending in now-rich countries, devotes a chapter to the apparent Swedish puzzle. If taxes are as distortionary as economists argue (and the standard view is that distortions rise to a power of tax rates), then Sweden's tax effort should be a first order issue, inconsistent with the achievement of very high levels of productivity. Yet Sweden's PPP per capita income was some US\$39,000 in 2008. This is less than the US's US\$48,000, but is still extraordinarily high by historical or global standards. Lindert argues that the design of both benefits and taxes pay actually much more attention to potential efficiency-reducing effects on effort than in the United States. This includes lower effective marginal tax rates in Sweden (in part driven by more use of universal benefits) at the bottom and top of the income distribution, major reliance on value-added taxes, and only moderate corporate tax rates.

A different, and complementary, argument comes from the important area of labour-capital interactions. Moene and Wallerstein (2008a, b) argue that a compressed wage schedule, supported by *both* employer associations and an encompassing union movement, provided rewards to more productive firms, and

incentives for less productive firms to increase productivity or close. The union movement was also a supporter of the value added tax in the post-war years, viewing this as a means to broad-based social provisioning—in stark contrast to the often vehement social protest to VATs in Latin America. As already noted, a compressed wage schedule is unlikely to be feasible, at least for a long time, in India (or Latin America), but there is at least the potential for a broader role of unions in pressing for more efficient tax policy, and as a countervailing political force against crony capitalism.

A more speculative issue is that the benefits and costs of social democracy may depend on where a country is with respect to the global technology frontier. It may be that the United States is key to pushing out this global frontier, and this is related to the US being a more free-wheeling, innovative society, with intrinsically lower tax rates and the possibility of really high rewards to effort and innovation. In this case, European countries that have been growing through catching up, as one tradition of growth theory suggest (Aghion and Howitt, 2006), have been partly free-riding. However, it is not clear that the US's undoubted innovative, frontier-expanding role *also* requires her less well-developed social democracy. This is an issue worth exploring in the global context, and for countries that will be pushing the frontier in the future. However, it is not an issue for current emerging countries in the medium term, such as Brazil, Chile and India, who are well within the global frontier—provided they have sufficient capacity to innovate to catch up, and push the frontier in specific areas.

If anything, the 2010-11 reaction, especially by the Republican party, to push back the role of the state in the United State could undercut competitive dynamics. If successful, the push to reduce taxes to remarkably low levels for a rich country (while preserving tax loopholes created under the influence of various lobbies), will undercut government support for education, infrastructure and innovation, threatening important aspects of economic dynamisms. The United State does not look like a good model for an emerging market economy in the early 21st Century.

Thus the message is not that social democracy is intrinsically pro-growth, it is that design matters. It is also easy to imagine design options that are bad for dynamism and efficiency across households and workers, and bad for the dynamism of small and large capitalist firms in both these areas. Latin America has suffered from its historical creation of a “truncated welfare state”, with Bismarckian type social provisioning for the minority of households connected to formal work (De Ferranti et al, 2004). This was bad for both equity and for efficiency. Similarly, the renewed interest in industrial policy in the sense of state-direction of economic activities—notably in Brazil—is, at least according to some observers, potentially problematic

This section has been framed in terms of technical design issues. But they are a deeply a function of politics, and this is where inequality, institutions and histories comes back in. This brings us to the next question.

Is a growth-supporting social democratic resolution feasible for India?

So if the design is right, a country can move toward a social democratic resolution without sacrificing growth: indeed “incentive-compatible” designs can actually be supportive of capitalist dynamics, including deeper integration into the global economy. But is this feasible for India? This gets deeply into the political and institutional system that shapes possibilities over design choices and sources of support and resistance. Here I first suggest some stylized lessons in the political and institutional arena from both the history of now-rich countries and contemporary Latin America, and then assess India’s conditions in relation to these lessons.

Comparative lessons: Europe, the United States and Latin America

This paper started with a comparative question. Surely India is not like Sweden, nor ever will be? I suggested, following authors such as Moene and Wallerstein, that at least along some dimensions this question is badly formulated. Sweden’s famously egalitarian social democracy was not a product of a homogeneous, harmonious society, but a response to a society in conflict.

In this section, I go further, and propose some general conditions that both make a transition to a social democracy feasible, and shape its design.³ In particular, I suggest that both the historical and contemporary Latin American experience suggests three aspects of relatively successful social democratic transitions: the political salience of reasonably encompassing coalitions of middle and poorer social groups; support from capitalists; and a reasonably effective, or “good enough” state. These three aspects underpin the feasibility of a transition, but are not enough to preclude distortionary designs, whether in terms of equity or growth-related incentives.

The political salience of an encompassing social coalition. This is perhaps the most obvious condition. It is sometimes framed in terms of the relative power of left-wing, worker-based parties, though that is be misleading. In Swedish, and more broadly European, histories, a central part of the political basis for social democracy was a coalition that went beyond the traditional industrial proletariat, to include farmers and middle groups. This became particularly important in the reaction to the social costs of untrammled market forces, in what Karl Polanyi characterized as a double movement (Polanyi, 2001/1944; see also Stewart, 2010). In the first part of the 20th Century the reaction took different forms. In some countries, the tensions were reconciled in authoritarian and corporatist political structures, as in the rise of fascism in Germany, Italy and Spain in Europe. This had echoes in corporatist

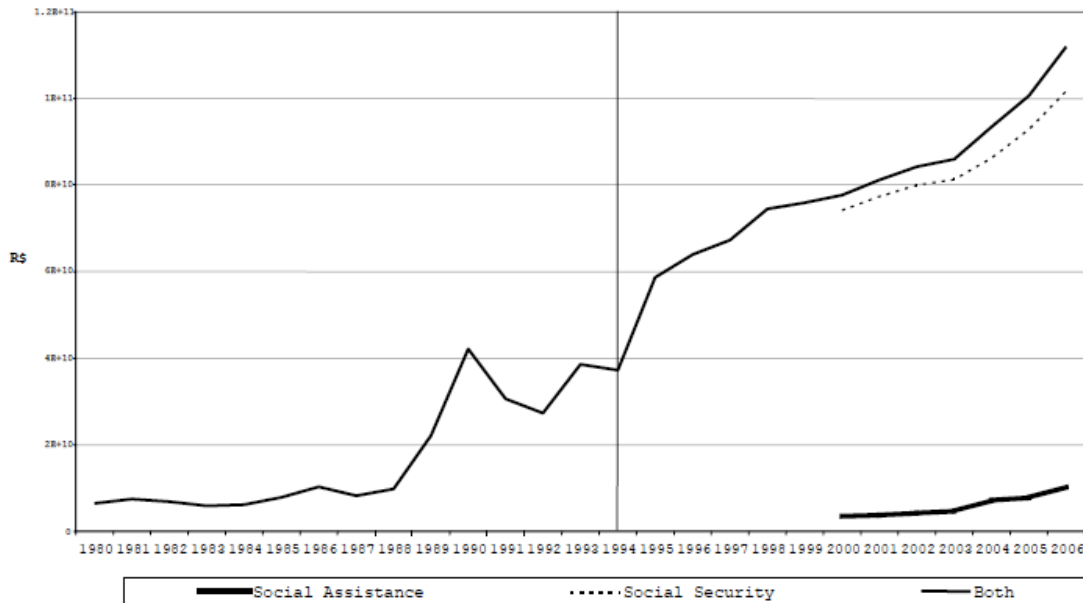
³Sandbrook et al (2007) reach broadly similar conclusions, based on a more extensive review, with case studies of Chile, Costa Rica, Kerala and Mauritius.

political structures in Latin America, notably in Mexico. But the most successful, and durable, resolution occurred under democratic auspices, creating the mix of social provisioning and capitalist production that is the essence of social democracy (Berman, 2006). In the US the major initial move toward social democracy occurred in the New Deal of the 1930s, itself a response to the deep economic crisis of the Great Depression.

Of particular interest to India are the parallels with the contemporary experience of Latin America—a region of high inequality, with heterogeneous populations, histories of conflict, and now politically salient pressures from poor and middle groups. The classic early path to industrialization in the first two-thirds of the 20th century involved importing a Bismarckian system of social security, with a range of social benefits, including pensions, health, and sometimes housing and childcare, that was linked to the labour contract in formal work. This was often backed by job security and severance pay, that was a response to the large informal and agricultural workforce, that made loss of a formal job very costly for workers, and an generalized unemployment scheme infeasible. This led to a highly inequitable, and distortionary, system of social provisioning: a “truncated welfare state” (de Ferranti et al. 2004) in almost all cases this only reached a minority of the workforce, creating protected, and vigorously defended, rents, as well as strong incentives for informality. Actual provisioning of services to these favoured groups were typically inefficient to boot (Levy, 2008).

What really changed things was the return to democracy that swept through the continent in the 1980s, creating political pressures for broader social provisioning. This was particularly successful in Brazil and Chile, both of whom had developed a broad coalition in the resistance to military dictatorship, encompassing a range of worker groups, social organizations of informal and urban neighbourhoods, and middle groups. (By contrast, Mexico’s main union movement was more tightly embedded in rent-sharing arrangements and links to the dominant party). Figure 3 illustrates for Brazil: the return to democracy was in 1985 and a new constitution with a range of social rights (including pensions and health) was finalized in 1988. This laid the basis for a substantial rise in both social security and social assistance, with the real takeoff under the centre-left administration of President Cardoso, extended under that of President Lula da Silva of the left-wing Workers Party. An important feature of the Brazilian process was the role of a variety of participatory institutions (including participatory budgeting and policy councils), that have played a significant role in opening access to disadvantaged actors to put pressure on the state, and creating space for distributional fights (Avritzer, 2009). It can be argued that Brazil is on a path to satisfying all five of the features of a social democracy listed above, albeit with distortionary effects of a continued dualistic system of social provisioning.

Figure 3. The rise of social security and social assistance in democratic Brazil



Note: the vertical line marks the election that brought President Cardoso to power and the consolidation of the transition to democracy and pursuit of a social democratic agenda.

Source: Ferreira, Leite and Ravallion, 2010

A similar story can be told on Chile. Sandbrook et al. (2007) argue that Chile is an exemplar of what they call a “Third Way” form of social democracy, since the return to electoral democracy in 1990. Alongside a strong support for market-based growth and the persistence of wide income inequalities, has been political and policy commitments for universal social provisioning, guarantees of labour rights and extensive action to lift households out of absolute poverty. One additional comment is relevant: while a right wing government was elected for the first time in 20 years in 2010, there is little evidence of plans to roll back the extensions in social provisioning of the previous two decades. Indeed, in the wake of the dramatic rescue of trapped, mineworkers in October 2010, billionaire President Piñera promised a “new deal” for Chile’s workers, including in particular more effective safety regulations in mining.

More broadly, the expansion of social provisioning to “fill out” the truncated welfare state has become a phenomenon throughout Latin America, with considerable innovation in social instruments (Ribe, Robalino and Walker, 2010). However, the most common pattern (with the partial exception of Chile) has been the introduction of complementary social benefits for the households of workers outside formal work, as opposed to fundamental reform of the whole system.

Santiago Levy has argued that this is consolidating distortions in the social system, leading to continued incentives for informality (Levy, 2008)

Finally, the nature of the coalitions in all cases was not solely amongst political parties: active civil society organizations, themselves part of linked, or encompassing movements rather than narrowly defined groups, helped underpin the overall political coalition. A relatively thick civil society may be necessary for social democratic transitions (Sandbrook et al, 2007).

Support from capitalists. The second condition may be less obvious, but of keen interest to India. In an in-depth historical analysis of formative episodes in social democratic policies in Sweden and the New Deal in United States, Swenson argues that the support of capitalists was critical to the politics of the project (Swenson, 2002, 2004). In other words, these transitions should not be interpreted as primarily consequences of the relative rise in power of left, or middle-lower coalitions—of their triumph over capitalist interests. Rather major groups of capitalists had an interest in the expansion of state-mediated provisioning of social benefits. Reform would have probably not occurred in the absence of support from capitalists.

Two features of the historical experience are worth highlighting from Swenson's account. First, the US, typically considered a welfare state laggard or even ideologically against social democracy, was actually substantially *ahead* of Sweden in the New Deal reforms, especially in the creation of Social Security; this despite the rise to political power of the Swedish Social Democrats. Second, while support of capitalist interests was central to both transitions, the form of interactions between capitalists, reformers and workers differed between the two countries, as did actual designs.

Sweden is famous for its “solidaristic” approach: this included support from employers associations and an encompassing labour movement for centralized wage bargaining that led to an unusually compressed, egalitarian wage schedule. The beneficiaries of this were lower-wage workers, capitalist profits and especially more efficient firms in tradable goods sectors. This induced more rapid creative-destruction, with less efficient firms or activities forced to close (Moene and Wallerstein, 2008a). It was complemented by widespread state-mediated support for high employment, universal social benefits and active labour market policies. This specific form of social democracy passed as the capacity of worker organizations to sustain a compressed wage schedule declined and macroeconomic shocks led to open unemployment (ibid). Other features of social democracy remain, of course.

By contrast, the US never had national collective bargaining. Support for social democratic reforms was based in the interests of large-scale firms in key sectors, supported by a cross-class alliance with unions: for these firms regulation of a high productivity, high wage and benefit system was a form of protection from

competitors operating with lower overheads and benefits. State-mediated social security consolidated a level playing field. However, the legacy of firm-linked benefits has persisted, most importantly for company pensions and health insurance. The latter has been a source of the peculiar (by international standards) resistance to any form of national health insurance, despite the efficiency costs for firms of the link between social benefits and the labour contract (efficiency costs echoed in debates in developing countries—see Levy, 2008, on Mexico).

The lesson for India is not the particular form of social democratic resolutions and social democratic designs, but rather that the interests and behaviour of capitalists can be critical to both support and design.

A “good enough” state. The third condition concerns the capacity of the state. Social democracy involves extensive social provisioning and regulation. The question is whether state actors have both the organisational capacities to deliver on these functions, and, of equal importance, to do so in ways that support the universality and (in many areas), market-failure-compensating fashion that are key aspects of the achievement of both equity, and growth-supporting, incentive compatibility.

Now no state is innocent of problems of incentives for effort, capture, or corruption. But there is a plausible case that the states of Scandinavia, of other successful European social democracies (from Germany to Spain), the United States, Brazil and Chile, all had a combination of core competencies to manage the organisational requisites and autonomy to delivery on social democratic policies. This is not at all clear for other countries in Latin America—Bolivia, Ecuador, Venezuela for example. Even Mexico is a mixed story, of effective management of some social programs, but substantial capture by corporate interests, and effective resistance to the tax effort that even a basic social democracy would require (Levy and Walton, 2009).

Where the state apparatus lacks either sufficient capacity or a degree of autonomy, both political incentives and the behaviour of state actors are more likely to drive resolutions in the direction of populist or clientelist social resolutions, as opposed to both the programmatic approach to social provisioning and efficient regulation of capitalism that is intrinsic to social democracy. Table 1 provides an interpretive summary of the conditions prevailing in the four cases reviewed here.

Table 1. Underlying conditions in four social democratic transitions

	Encompassing coalition?	Capitalist interests?	Effective state?
Sweden	Yes	Supportive	Yes
US New Deal	Yes	Supportive	Yes
Brazil	Yes	Low resistance	Good enough
Chile	Yes	Low resistance	Yes

Source: author

So is social democracy feasible for India?

The historical and contemporary experience would suggest that a social democratic resolution *could* be feasible for India in the coming decade and beyond. High levels of inequality and heterogeneity strengthen the case for change. It is possible to imagine economic dynamics that would support the tax base for social provisioning. India already has relatively high organisational capacities for its level of development, including in the public sector: think of the impressive management of elections, or even the railways as an example of “good enough” administration. And while European social democracy is traditionally associated with provisioning for formal sector workers and their households, the Latin American experience shows that social democratic principles can be pursued with programmes for informal and rural households. Finally, at an ideological and policy level, India already has a, sometimes uneasy, blend of support for both capitalism and social provisioning.

So far so good, but then comes the bad news. While a growth-supporting social democracy looks feasible in these abstract terms, it is not at all clear that current political-institutional structures and dynamics are supportive of India’s transition in this direction. It is true that the long period of democracy—indeed with a much shorter authoritarian interlude than Brazil and Chile suffered—has led to salient political pressures from middle and poorer groups. But there are big uncertainties, that make it more likely that India will traverse the path of social patronage and unbridled or crony capitalism of Figure 1, as opposed to that of an efficient social democracy. First, the social pressures get distorted in design, and even more so in implementation, by the nature of state-society interactions. And second, it is unclear whether the rising economic power of capitalists will translate into support for a social democratic resolution. A third uncertainty may or may not be of systemic importance, but can certainly affect the distribution of social provisioning, concerns state-society interactions at what might be called the “margins”—especially in Maoist areas, but also in the cities. For these reasons

Each of these three areas relate to structural features of inequality in India—in terms of the nature of state functioning, the effects of concentration of economic power in the corporate sector, and the severe inequalities at the “margins”. While deep inequalities, and associated conflicts, strengthen the case for a social democratic resolution, their particular form can lead to either resistance, or a half-baked resolution, that would be distortionary and inequitable. These issues matter for the Union (Central) Government, for both relatively dynamic and lagging states, and for major city governments.

These uncertainties over the practical feasibility of a successful transition apply to the broader conception of social democracy described above, involving comprehensive social provisioning and the “efficient” regulation of capitalism. I do not even consider the possibility of a generating a compressed wage schedule, that was important in Scandinavia, but is highly unlikely to be achievable in India, given

the lack of encompassing organizations of workers and capitalists, and geographic diversity.

In the following paragraphs, I outline why each of the three areas is problematic for a successful social democratic resolution.

The patronage-corruption-political finance nexus. The problems of India's state are well-known. Large parts of state functioning are embedded in various forms of a patronage-corruption-political finance nexus. This flows from many sources. In many ways patronage and clientelism is a natural form of state behaviour, in which political loyalty (including, but not limited to, votes in an election) are provided in return for the delivery, or at least the promise of delivery, of specific goods, jobs or services to individuals or groups. It is pervasive throughout the developing world and in the historical experience of now-rich countries (including of city governments, as in the well-known US political machines). In the Indian case, it is amplified by divisions within lower and middle groups—the primary potential beneficiaries of social provisioning—of religion, especially between Hindus, and Moslems, of caste and of geography. This has biased the form of the compact between state actors and their various constituents/votebanks into fights over access to what economists would call static “rents”—the distribution of jobs, subsidies, or specific services that divert resources from other groups, rather than supporting investment in people or capital, or efficiently managing resources.⁴ These distortions get biased further when the direction of state activities are further driven by the workings of corruption—where, for example, local contractors are also competing for the rents and bribing to get them.

Now this already antithetical to a genuine social democratic resolution, for which specific rights to risk-management instruments, decent education and minimum standard of living are intrinsic to an efficient resolution. This applies with or without means testing—since almost all provisioning in a social democracy is conditional on *something*—on old age, on being unemployed and willing to work, being a child or being sick. The exact mix between means-testing and such categorical targeting is an issue of specific design, closely linked to the design of the tax system. A non-patronage and corruption-free state is only more important if a means test is part of the system.

The distortion is further compounded by the *ineffectiveness* of state actors in many areas of social provisioning (not to mention state regulation of capitalism). Education is a vivid example. It is now well-documented that the quality of education in government schools is typically dismal and has shown very little progress in the past few years, not only in the North India status (PROBE, 1999) but also in many states considered to have relatively good governments, such as Gujarat and Tamil Nadu (ASER, various years). This is a product of a *system* of government

⁴ See Walton (2011) for a discussion of the differences between and functioning of “static” and “dynamic” rents in an Indian context.

education that provides little or no incentives for teachers to actually deliver quality teaching (Pritchett and Murgai, 2007), nor for local education administrators to support them. The Right to Education Bill has fine aspirations, but is also problematic in being effectively silent on the quality of outcomes.

The health system is, if anything, worse, with evidence of extraordinarily low quality of service in rural areas (Banerjee et al, 2008) and amongst urban government doctors (Das and Hammer, 2007). The unusually bad performance in child malnutrition is, at least in part, associated with government failures in the broader health-supporting system, and specifically in the early childhood, though here Tamil Nadu does much better owing to a longstanding tradition of provisioning of nutrition and other services for pre-school children in that state (FOCUS, 2006 Walton, 2009)

However, the real problem is that the nexus—or, to be more precise, varieties of nexuses—may well not be self-correcting. There are some positive pressures on making politicians more accountable through better information: the Right to Information Act is a potentially important instrument for this. Better information can lead to changes in voter behaviour, e.g. toward less caste-base voting, and greater likelihood of punishing politicians with criminal records (Banerjee et al, 2009). But this has to be set against the increasing monetization of the political process, the murkiness of political finance (Mehta, 2009) and patterns of ownership of the media. Even if incentives for politicians improved, their capacity to deliver is in turn weakened by the ineffectiveness of the state, making a patronage-based resolution more attractive to them.

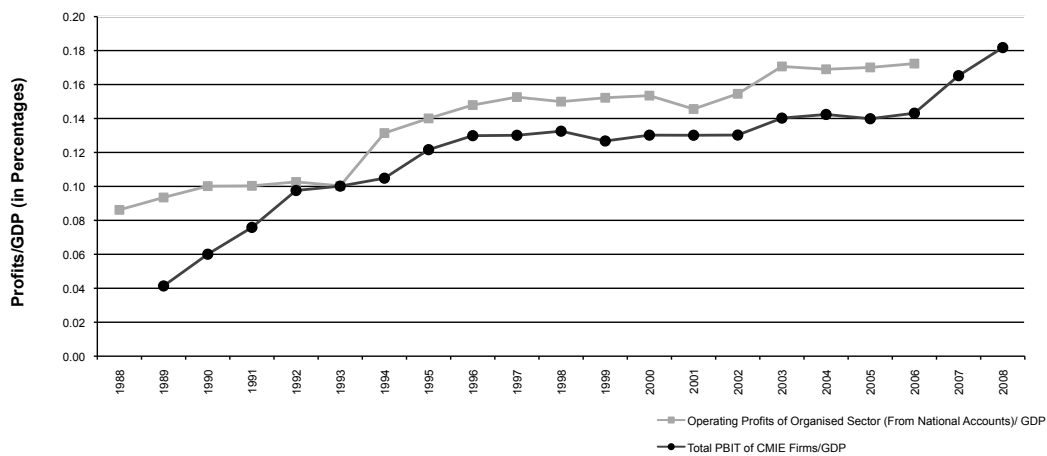
Thus the patronage-corruption-political finance nexus, and the associated weakness in state actors, makes less credible, and less politically desirable, a resolution in favour of universal social provisioning, and more likely the continuance of inefficient, distorting and exclusionary resolutions—that at best may take the form of half-baked populist social provisioning, on the worst Latin American paths (as opposed to the more moderately distortionary Brazilian path). The big difference from Latin America is India's tradition of reasonable macroeconomic prudence—thus patronage and populist pressures manifest themselves in “micro-populism” not “macro-populism”.

The position of capitalists. What of the growing economic power of capitalists, especially in the formal corporate sector? Can this group be both a general force for a more accountable state, and—as in the Swedish and US cases—for moves toward an effective social democracy? It is again highly uncertain, with current trends showing few signs of moves in this direction.

By way of context, the expansion of corporate incomes and associated private wealth has indeed been a marked feature of the post-liberalisation period. Two indicators illustrate. There has been a large rise in the share of profits in GDP, whether we use data from the national accounts, or from publicly listed companies.

This share doubled between the 1989 and the late 1990s according to the first source, and rose from 4 to 18 percent of GDP for listed companies (Figure 4). A large proportion of this is associated with often still family-controlled conglomerates, known as business houses in India. Even more dramatic has been the rise of private wealth: if we confine attention to the extremely wealthy, the ratio of billionaire wealth rose from less than one percent of GDP in the mid-1990s to 22 percent in 2008, and was still almost 13 percent in early 2011, after a fall and partial recovery in tandem with movements in the Bombay Stock Exchange.

Figure 4. The Ratio of Profits to GDP, for the overall corporate sector and listed firms 1988-2008 (in percent of GDP)



Source: National Accounts, and the Centre for the Monitoring of the Indian Economy

The corporate sector seems to present two faces. On the one hand there is the face of dynamic, creative capitalism, liberated from the license raj, that is not only rapidly expanding on a broad, diversified front, but is increasingly represented by firms of global reach, investing in Australia, the UK and the US, in Africa and in China. On the other, there are the frequent accounts of corruption, political finance and malfeasance in the sector, from the Satyam accounting scandal, to the Reddy brothers' political influence in Karnataka, the scam over issuance of the 3G spectrum and widespread tales of influence and corruption in the infrastructure sector.

Both faces of Indian capitalism appear to be true, and may often be true of the same firm. Here lies the question for this paper. Whichever face is relevant, it is not clear why large-scale capitalist firms should have an interest in social democratic reforms. Smaller-scale firms have insufficient influence, and probably even less interest. The current institutional resolution works reasonably well for the purposes of Indian capitalists. The suffocating features of the license raj have been lifted, and have been replaced by reasonably well-functioning market-supporting

capitalist institutions (the stock exchange, finance etc). These will undoubtedly be gradually improved over time. By contrast, where firms have to interact with the state, they have learnt to work in a privately effective, if socially inefficient, way, whether through corruption, political finance or other forms of political influence. Indeed, both corporate finance for politicians, and the increased involvement of politicians in private firms are likely to consolidate and deepen the existing equilibrium. At the same time, globally efficient and ambitious firms can expand effectively on the international margin—further reducing their interest in domestic transformation.

The mix of engagement with an inefficient, rent-seeking state, and efficient global expansion has parallels elsewhere. Mexican capitalism is a vivid example: major family controlled-conglomerates use their market power and political influence to preserve rents at home (Levy and Walton, 2009). Yet firms such as the TELMEX in telecoms (a major source of billionaire Carlos Slim's wealth) and the cement giant SEMEX, are also globally efficient firms that are expanding internationally.

The one major area in which Indian capitalism does have an interest is in a more effective state is infrastructure. Great hopes are being placed on public-private partnerships as a means of solving problems. These may or may not reduce the infrastructure gap, and are highly likely to involve major new rents. But they have little to do with motivating support for social democracy.

State-society interactions on the "margins". A final part of the political-institutional mix concerns the interaction between state and society in what might be termed the "margins". The obvious example concerns conflict in areas of Maoist presence. Maoist groups have not made the classic accommodation of social movements to work within democracy, but are pursuing violent or extra-legal means against the state. However, this is also product of a resolution in which the Indian state is both failing and typically adopting violent means, both legal and illegal, to manage resistance. What is really troubling is that this looks like a bad equilibrium with self-sustaining properties, that is the direct opposite of a social democratic resolution. This often overlaps with questions of social identity, where the conflict and mobilization is in *adivasi* ("tribal") areas. To quote Ramachandra Guha, "The first tragedy is that the state has treated its *adivasi* citizens with contempt and condescension. The second tragedy is that their presumed protectors, the Naxalites, offer no long-term solution either." (Guha 2007, p. 3305). And a further element concerns the interface with capitalist expansion, since there is frequently an overlap with some of the richest areas of mineral deposits. The combination of mining interests and institutionally "weak" state governments is a recipe for corruption and exclusion.

While areas of Maoist conflict are mainly in remote rural areas, important areas of urban living are also enshrouded in illegality. Slum-dwellers systematically lack legal title—even if *de facto* rights vary substantially. There are ongoing disputes over the rights of hawkers to working spaces on streets. The homeless are often

particularly vulnerable. Each of these areas are domains of worthy policy, but with often conflicting legal judgments and ineffective implementation, a common pattern for India. In the meantime the consequence is that a significant group of urban dwellers suffer from a lower degree of citizenship, that manifest itself in deep failures of public good provision. This is an issue of major importance, both now and in the future, since the coming decades will see a massive increase in urbanization in India.

In both cases, living at the “margins” has resonance in terms of marginal citizenship, but does not mean marginal interactions with the state. The problem is that the nature of the presence of the state is not as a provider of public goods, but as an often rent-extracting or abusive presence. What does this imply for thinking about an Indian social democracy? At a minimum, failure to transform state functioning and state-society interactions in these “marginal” domains would constitute a large gap in any social democratic resolution—for some of the most deprived in Indian society for which social democracy should be particularly precious. There may be further pernicious systemic consequences, if these margins affect the broader functioning of the state.

Potential pressures for change and the question of design

India has social democratic aspirations, but currently seems to be on the alternative path of social patronage and unbridled and crony capitalism. Is there potential to shift on to a more social democratic path, in the sense used here, with substantial benefits for equitable social provisioning and efficient growth? I believe the verdict is out on this, but that there is scope for agency in the system. Here I suggest three areas where there is the potential for change. In each issues of design are central, and in all there are questions both over whether an alternative course will be chosen, and whether it will successfully avoid being captured by features of the existing system. This is framed in terms of three questions.

First, do rights-based approaches, often supported by significant civil society mobilization constitute a means of building both sound design and an institutionally supportive context? The combination of rights over social areas and participation invested in the 1988 Brazilian constitution was instrumental in subsequent social democratic moves. The reform of the Chilean health system in the early 2000s also had a strong base in the right to decent and affordable health care, both with respect to design and political positioning (World Bank, 2008). A rights-based approach has some intuitive attractions as an alternative to a discretionary governmental system, that would seem to be much more prone to patronage. And, as commented earlier, most, perhaps all, of the relatively successful shifts to social democratic resolutions involved the underpinning of civil society.

However, a rights-based approach is only as good as its design and implementation. India had a constitutional right to education for decades alongside dismal access.

Legislating multiple rights can be actually counterproductive if unimplemented, since it will further reduce the credibility of the state and devalue the very notion of a citizen's right.

This underlines the theme of the centrality of the design, and of the interaction of design within political and institutional context. Take as an example the National Rural Employment Guarantee Act (NREGA), that provided a limited "right to work" in the form of up to 100 days of unskilled labour in rural areas for anyone willing to work at the prevailing wage (and on the designated physical activities). Many features of the scheme were explicitly designed to counteract the existing patronage and corruption nexus typical of public works schemes, between local politicians, bureaucrats and contractors. The very principle of a right, transparency in allocations, the exclusion of contractors and social audit mechanisms all fall into this category. In aspiration and in some of its core design features this is indeed a social democratic instrument for poor rural areas. But it remains unclear whether local mechanisms will subvert these designs—with mixed evidence from the field, often depending on the strength of local civil society and the extent to which the state is embedded in local structures of power and corruption. Social activists have sought to maintain pressure on the implementation, often running into conflict, with some tragic deaths. And one design area is intrinsically problematic: the Centre (Union Government) pays, while the states set the minimum wage. This creates political incentives for populist wage policy at the state level—and if wages are pushed above market levels the guarantee becomes harder to support and the incentives for patronage become greater.

This is not intended as a critique or evaluation of NREGA, but rather to illustrate the general point. The principle of selective social rights, supported by practical governmental designs, judicial and other sanctions, and complemented by civil society action is potentially an important path. The fact that design choices are being made, and can make a difference, illustrates the potential for agency, but also the uncertainty over success.

Second, is there potential for, and likelihood of, major groups of capitalists becoming a force for at least supporting, and potentially pressuring, the state for social democratic designs? Recall that we mean both a more efficient and universalistic system of social provisioning and effective regulation to manage market and social externalities of business activities. With the spate of scandals over corruption and influence of the recent past, it may seem odd to suggest the business class could have an interest in these types of policies. Social democracy. This is in addition to the typical antipathy of business sectors to extensive social spending by the government and high taxes.

However, sound social democratic designs are almost certainly in Indian capitalism's long-term interest. There are direct business reasons for this: a skilled workforce is a key input to private sector production in the industrial and service sectors. As India's working and middle classes increase in prosperity there will be

rising, and political salient, demands for protection against risks, and an effective government-mediated system (that may well include both public and private delivery for some risks) is also at least indirectly in business interests. Business also has an interest in effective management of underlying distributional and violent conflict, and in a more effective state—that is part and parcel of a social democratic resolution. Finally, consistent regulation of business in areas that are either market-supporting, or designed to manage market imperfections—is in the collective interest of capitalists.

The challenge is that that business pressures on the state in these directions would involve a degree of long-sightedness and resolution of collective action problems that is not apparent now. Whether this will change—as Indian firms become more global, or in reaction to the current publicity to scams—is a major question. Note that here too design matters. Even in Mexico—in many dimensions a country dominated by powerful oligopolistic businesses (many controlled by Mexican billionaires), the design of a competition authority in the 1990s, that gave it substantial autonomy. This was often undermined by the courts (Levy and Walton, 2009). But the its genuine independence has been a positive force, and has even had recent successes in fining the powerful telecoms firm. It is too early to assess the performance of India’s competition authority, but limitations in design, and the many years of delay in implementation are not good signs.

Third, will major Indian political parties—not least the Congress in this period—be able to undertake internal reforms to change the incentives for politicians toward the provisioning of public goods, as opposed to private interest and patronage? While societal pressure can play a role—from citizens or (potentially) firms—changing the behaviour of politicians, and parties, are a crucial complement, if social democratic designs are to be adopted and implemented. Here too the history of other countries suggest this will be a challenge: shifts from patronage-based to programmatic parties rarely occur within established parties in power. This is perhaps one of the biggest uncertainties.

An optimistic assessment would look to the rising sophistication of the Indian electorate, the growing middle class, and increasing information over politician behaviour. It is possible to imagine a scenario in which this makes a political strategy based around programmatic offers to citizens attractive. India’s federal structure could also be an advantage, if some states successful shift in this direction, providing models for sound political strategies. Recent elections have shown increasing evidence of state electorates rewarding relatively good performance, and punishing bad, as opposed to either a generalized anti-incumbency or group-based loyalties. But such a shift in political strategy is by no means given, and faces the range of obstacles, especially of a relatively weak state, discussed above.

Conclusion

In this paper I have argued that a social democratic resolution is desirable for India and is consistent with, and possibly necessary for, a long-term growth dynamic. India's deep inequalities of wealth, social status and citizenship make this more, not less desirable. By social democracy I mean comprehensive provisioning for household risks, a floor on basic living standards, and efficient regulation of capitalism, including of capital-labour relations, backed by a full, and participatory, conception of citizenship for all. I have also argued that design choices are fundamental to success, and that there are real questions of whether an equitable and growth-supporting social democracy will develop. This is not because of India's overall stage of economic, organisational and social development, but because of current political-institutional dynamics around the functioning of the state and the interests of Indian capitalism. The very inequalities that make a social democratic resolution desirable also make it challenging, and may continue to push India on a path of social patronage and unbridled or crony capitalism. However, there are pressures for change, there is scope for agency and design choices can make a substantive difference both to short-run outcomes and future paths.

These questions are deeply linked to the role of politics in the success or failure of social democracy in India, that is in turn of first order significance both for the well-being of all India's citizens and for the viability India's long-term transition to prosperity.

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