India’s Political Economy: What Can be Learnt from the US Progressive Era Response to the Gilded Age?

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Cornelius Vanderbilt’s Summer Home

Mukesh Ambani’s Mumbai Home

This essay explores India's political economy of development. It has two counterpoints.

The first is vividly illustrated by these two mansions. Cornelius Vanderbilt's house (one of many built by the Vanderbilt family) is an iconic product of the US Gilded Age of the late 19th century. This was a period famous for its 'robber barons', many of whom sought to preserve their fame through philanthropic ventures—extreme economic rents transformed into a resonant blend of private wealth and public-spirited foundations, which transformed the collective associations of their names. The second is the more recent house of Mukesh Ambani, India's richest man, still mainly known for his conglomerate company and private wealth, but also moving into the business of support for universities and other more public endeavours.

The second counterpoint is Pranab Bardhan’s seminal book on the political economy of India’s development (PEDI), written in 1984, to which this volume is dedicated. As Bardhan himself wrote in the 1998 epilogue to the expanded edition:

I had described a system of political gridlock in India, originating in the collective action problems of a large, heterogeneous coalition of dominant interest groups with multiple veto powers, and with no interest group powerful enough to hijack the state...the system thus settled for short-run particularistic compromises in the form of sharing the spoils through an elaborate network of subsidies and patronage distribution, to the detriment of long-run investment and economic growth. (Bardhan, 1998: 130)

PEDI’s central thesis was that there were three “dominant proprietary classes”—richer peasantry, business and the bureaucracy (with the bureaucracy an interest group rather than an autonomous agent of the state). Each benefited from “particularist” deals, but would have benefited more over the longer term—as would the broader society—with a more autonomous, developmental state. But this would have involved giving up their current “spoils”. The political leaders and various arms of the state lacked the coordinatory and enforcement capacity to effect such a restructuring of the complex “network of subsidies and patronage distribution”, even more so as many potentially faced genuine short-term losses. Even if political elites wanted to effect systemic change the state lacked credibility.

At first sight these two prisms look to be in opposition with each other. Even as Bardhan was writing, the beginnings of the shift to a pro-business policy and political orientation was starting under Prime Minister Rajiv Gandhi, along with an associated growth acceleration (Kohli, 2006; Rodrik and Subramanian, 2004). The Indian stock market was becoming active, spurred by the 1977 IPO of Reliance, by Mukesh Ambani’s father (McDonald, 2010). Dhirubhai Ambani had successfully
broken into the seemingly resilient License Raj system—a system that seemed to be the preservative of established businesses, and part of the broader gridlock PEDI described.

Since the mid-1980s the Indian economy has been transformed. National income per capita is now 3.5 times the mid-1980s level and the official poverty measure has fallen from 45 percent in 1993/94 to 22 percent in 2011/12 (Narayan and Murgai, 2016). Private investment rose from less than 5 percent of GDP in the early 1980s to 14 percent in 2015 and the number of Indian billionaires reported by Forbes rose from two or three in the mid-1990s to almost 90 in 2015.

This doesn’t look like gridlock. In the domain of business—one of the three dominant proprietary classes (DPCs) at the core of PEDI’s political economy—the two main themes of recent years have been India’s business dynamism and the increased intermingling of political and business elites. It is also true that there has been a major countervailing movement in the expansion of social provisioning, especially under the 2004-14 governments of the Congress-led UPA coalition. It as if Polanyi’s sequential double movement is happening simultaneously in India (Polanyi, 2001; Stewart, 2010). While there are different views on the drivers and impacts of this—rights-based social democracy or opportunistic populism?—it also speaks to substantial policy initiatives shaped by the unfolding political economy. (See Walton, 2013, other essays in Khilnani and Malhoutra, 2013, and Aiyar and Walton, 2014.)

There has also been striking action in electoral politics. The Indian electorate has shown its enthusiasm for kicking out poorly performing incumbents—in many state elections and in the national 2014 election—and increasingly in rewarding relatively good performance, for example in Bihar, Madhya Pradesh and Chhattisgarh in the past decade. The electoral victory of Narendra Modi, with the BJP, was, correctly or incorrectly, seen as a marking a sharp, collective demand for change, especially in the realm of government action, spurred by the blend of high-profile scams under the UPA and the daily frustrations of dealing with government. Some characterized this in the well-worn trope of the rise of aspirations amongst the Indian lower and middle classes, underpinned by the experience of rising incomes and increasing state presence.

This essay argues that an updated version of PEDI’s original insights remains relevant. It particularly explores the following ideas:

- The parallel between contemporary India and the US Gilded Age of the late 19th century is indeed striking and useful, both with respect to the manner in which wealth concentration has often gone hand in hand with extensive
state-business relations, and in the ‘two faces of capitalism’—both rent-extracting and formative of institutional change and productivity dynamics.

- While there has indeed been large-scale change in the domains of economic formation and public provisioning, to an important extent India continues to be stuck and resistant to systemic institutional change. However the nature of this has changed: the collective action problem holding back private investment was to varying degrees “solved” in the market reform era, at least in many states. But to a significant extent this involved restructuring of the “deals space” in rent-sharing relations. Collective action problems remain important both for a transition to a fully rules-based system and for broader issues of governance.

- An even more interesting parallel, or rather contrast, is with the US Progressive Era (generally dated from the 1890s to the 1920s). In the US a heterogeneous coalition of political and social movements, linked with executive and bureaucratic reforms, led to a transformation of US to what would now be called a functional social democracy, a ‘Grand Bargain’ that saved capitalism. However, in India, the continued prevalence of ‘particularist compromises’ renders similar collective action particularly hard. This is in spite of the apparent paradox that most of the Progressive Era’s ‘victories’ are legally on the books in India.

- Indeed, the very extent of these ‘victories’, and the associated reach of the state, has been a source of the channelling of social energies into particularist strategies, in which interest groups seek to negotiated a better deal from a more present and resource-rich state.

The rest of the paper is organized as follows. First, context is provided in terms of key features of India with the US circa 1900. Second, the Gilded Age comparison is explored, reviewing the comparative features of capitalism and the state. A third section turns to the Progressive Era response, in comparison with the contemporary India period. A fourth section provides a sketch of the current political economy equilibrium—a suggestive update of PEDI. A final section assesses the recent period in India in relation to movements to make improved ‘governance’ politically salient.

1. **Context: key facts in historical US and contemporary India comparison**

To set the stage for our comparison, we first compare contemporary India with the US at the turn of the last century. Figure 1 indicates the United States was already substantially richer than contemporary India. Only in 2012 had India caught up with the 1880 US income per capita. 40 percent of the US labor force still worked in agriculture in 1900, compared with 53 percent in India in 2009/10. However, India has been growing faster since the 1980s acceleration—and very much faster in the 2000s (Figure 2). Moreover, Indian growth has been much less volatile: it has had

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2 Data from Lebergot (1966) and Indian National Sample Survey (2009/10).
very few—monsoon-induced—years of negative growth, whereas US experienced substantial fluctuations, including several years of sharp contractions (Figure 3).

Figure 1 Income per capita in the US (1880-2022) and India (1970-2012)

US PPP$

![Graph showing income per capita in the US (1880-2022) and India (1970-2012) with American GDP per capita in blue and Indian GDP per capita in orange.]

Source: Maddison project and World Development Indicators

Figure 2. Average annual growth in the US and India over four decades (in percent per annum)

![Graph showing average annual growth in the US and India over four decades.]

Source: Maddison project and WDI.
So far this looks good for India: enjoying the potential for faster growth that catch-up allows, with much greater stability. But there is a shadow: very few developing countries have succeeded in sustaining rapid growth. The typical pattern of growth in developing countries is characterized by brief growth spurts followed by economic slowdown (Hausmann, Pritchett and Rodrik, 2005). Sustaining growth is a different challenge from achieving a growth spurt, requiring deeper institutional change (Rodrik, 2003). This is relevant to the thesis of this essay: a potential cause of such failures to sustain growth is the political economy of entrenchment, which prevents the creation of the institutional bases for dynamic and inclusive growth.

A major contrast between the US of this period and India now concerns the reach of the state. This has two dimensions relevant here. First, as we discuss below, the Indian state has had a full panoply of regulations of business activity since the early post-independence period. This was vividly the case in the License Raj period up to the 1991 liberalization, but remains pervasive today. By contrast, many of the business regulations in the US came in during the Progressive Era following the turn of the century. There is an apparent paradox here, discussed in Section 4.

Second, with the exception of education, the Indian state also has much greater reach in terms of social provisioning and associated interactions with citizens. Education is an important exception, of course. Here the US was a leader, driven by local education: by 1900, enrollment in public primary education was 88 percent with a further 6 percent in non-public schools (Lindert, 2004). Literacy amongst white adults was 92 percent and rising by 1890 (and even amongst non-whites was
43 percent, rising to 70 percent by 1990). By contrast, India’s adult literacy was still less than 70 percent in 2011, and close to universal primary enrolment was only achieved in the early 2000s. However, the US had little or nothing in the way of social insurance and transfers while India has a whole range of social programmes (often poorly targeted and of low quality—but that’s another story).

2. Capitalist parallels: on Indian and US Gilded Age business tycoons

Comparisons with the US Gilded Age started to emerge in Indian public discourse around 2011 or so. In an opinion piece for the Financial Times, Sinha and Varshney (2011) said: ‘Both in its rot and heady dynamism, India is beginning to resemble America’s Gilded Age.’ Corruption had long been a theme in India, both in the interactions between state actors and citizens and with business. It was a feature of the License Raj period, including in Dhirubhai Ambani’s successful incursion into that system. What is distinctive of the more recent period is the emergence of large numbers of super-wealthy individuals, many of whom built their wealth in activities involving connections with politicians and other state actors—in land, mining and construction for example.

Here we update earlier work by Gandhi and Walton (2012) using the global database by Forbes on billionaires as a proxy for the super-wealthy businessmen. This is, of course, only the tip of the iceberg of extreme wealth, and undoubtedly has measurement problems. But the Forbes team at least tries to apply a consistent method in assessing the net worth of the world’s super-rich, drawing on all publicly available information. Intuitively there is more likely to be a problem of under- than over-reporting, especially when wealth has questionable sources.

A central analytical concept here concerns that of economic rents—that is, returns to factors in excess of what would be obtained in fully competitive markets. Especially for wealth from corporate sources, this is an important source of private wealth. Economic rents can flow from different sources. We heuristically draw a distinction between ‘extractive’ rents and ‘productivity-based’ rents. Extractive rents involve distribution from the existing pie, achieved through favoured links with state-controlled resources, the exercise of monopolistic market power, exploitation of minority shareholders and so on. Productivity-based rents involve returns to innovation, to the creation or discovering new activities, before markets become fully competitive—Schumpeterian rents are a classic example. Both have been going on in India, at a heightened scale since the growth accelerations of the 1980s, and, especially, the 2000s. They can often be combined in the same business activity; we return to this idea below.
Let’s look at the India data first. The emergence of Indian billionaires is striking both over time and in international context. Between 1996 and 2003, there were between one and five billionaires in the database, and their aggregate wealth only exceeded one percent of GDP from 1999. By 2015 and 2016 there are between 82 and 88 Indian billionaires (with residence in India), and total billionaire wealth has fluctuated around 10 percent of GDP since 2010 (with 2008 an earlier high outlier of over 20 percent, Figure 4).3 The ups and downs have tended to mirror stock market valuations, since billionaire wealth is closely linked to the valuations of listed companies. India’s relative billionaire wealth is unusually high for a relatively poor country—comparable as a share of GDP to Thailand, Malaysia and the US, and greater than Brazil and Mexico (Figure 5).

Figure 4. Indian billionaire wealth in relation to GDP and Sensex, 1996-2016 (in percent)

Source: Forbes.com and WDI

3 This compares a stock (wealth) with a flow (GDP), in the absence of direct measures of aggregate wealth of India and other countries. The comparisons over time and across countries should not be interpreted as shares, but rather as indicators of the relative size of billionaire wealth.
Figure 5. India’s billionaire wealth in comparative context (in percent of GDP)

Note: billionaire net worth reported in March 2016 as a ratio of nominal GDP in 2014—the latest year with actual numbers in the World Development Indicators.
Source: Forbes.com and WDI

We then use *Forbes'* description of the primary source of wealth to categorize billionaires as primarily in ‘rent-thick’ sectors (by which we mean sectors with likely high levels of extractive rents, owing to dependence on links to the state), and others where wealth is more likely to be dependent primarily on entrepreneurial activity that generates productivity gains. This is the same methodology as *The Economist* uses for its ‘crony capitalism’ index.\(^4\) We here use *The Economist*'s list of such sectors, including mining, commodities, finance, infrastructure, real estate, steel, utilities and telecoms services. The index has a heuristic value, but comes with many caveats. Many billionaires expanded their wealth from diversified conglomerates—Mukesh Ambani of Reliance and Kumar Birla of the Birla group are examples. And in an Indian context all activities involve some degree of regulatory or other interaction with the state. The IT industry is a good example of productivity-based rents, yet has depended on (legal) support from state governments in land and tax favors, as well as having at least one infamous case of corporate corruption in the form of the Satyam scandal. Still, for what it is worth, there is an intriguing pattern (Figure 6). Until around 2013 over half, and in some years a much higher proportion, of billionaire wealth comes from those based in ‘rent-thick’ sectors. In 2014, and especially 2015, the balance has shifted, with

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\(^4\) This was itself based on our earlier work, as well as that of Ruchir Sharma; see *The Economist* (2014).
extensive entry into the list of individuals in 'other' sectors, such as pharmaceuticals, IT/software and consumer goods.

Figure 6. India’s billionaire wealth in “rent-thick” and other sectors

![Net Worth - in USD Billions](chart)

Source: Forbes.com and authors calculations.

While this is only illustrative, we see striking contrasts when looking at individuals. Vijay Mallya, in the list from 2006 to 2012, built his wealth from his father’s liquor business, diversified into airlines (amongst other sectors), succeeded in running up impressive debts, became a politician in the Rajya Sabha (India’s upper house), and, at the time of writing, was out of the country, facing charges of financial fraud and money laundering. By contrast, the IT billionaires, such as Azim Premji, Narayana Murthy and Nandan Nilekani (all from the same state as Mallya, Karnataka), obtained their wealth from one of India’s most dramatic, productivity-based success stories. A further contrast is the infrastructure billionaires. For example, GM Rao and GVK Reddy, both from Andhra Pradesh, built their wealth from the major growth in public spending in this sector, but their companies also ran up substantial debts, mainly from state banks, and both dropped out of the billionaire list in recent years. In the same sector Gautam Adani built his wealth (and high debts) on the back of Gujarat’s construction boom, as well as having close connections to then Chief Minister (now Prime Minister) Narendra Modi.

Let’s now look at the business tycoons of the US Gilded Age. Estimated wealth of the top 18 richest around 1900 or earlier is given in Table 1—this is adjusted for inflation between 1900 and the mid-2000s. Apart from the familiarity of several of the names (from their subsequent philanthropic incarnations) there are two striking features of this list. First, there is the sheer size of the wealth—even compared to the 2016 list. John D. Rockefeller of Standard Oil and Cornelius Vanderbilt of railroad fame dwarf Bill Gates and Carlos Slim. Second, using the same
categorization as above, the bulk of these tycoons were in ‘rent-thick’ sectors, in
sharp contrast to today’s global list, or even the more recent Indian list.

Table 1. The wealth of the richest Gilded Age business tycoons circa 1900
(in 2007 US$)

<table>
<thead>
<tr>
<th>&quot;Rent-thick&quot; sectors</th>
<th></th>
<th></th>
</tr>
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<tbody>
<tr>
<td>Rockefeller</td>
<td>Oil</td>
<td>192</td>
</tr>
<tr>
<td>Rogers</td>
<td>Oil</td>
<td>39</td>
</tr>
<tr>
<td>Payne</td>
<td>Oil</td>
<td>37</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td><strong>268</strong></td>
</tr>
<tr>
<td>Vanderbilt</td>
<td>Railroads</td>
<td>143</td>
</tr>
<tr>
<td>Blair</td>
<td>Railroads</td>
<td>43</td>
</tr>
<tr>
<td>Huntingdon</td>
<td>Railroads</td>
<td>33</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td><strong>219</strong></td>
</tr>
<tr>
<td>Gould</td>
<td>Finance</td>
<td>67</td>
</tr>
<tr>
<td>Sage</td>
<td>Finance</td>
<td>43</td>
</tr>
<tr>
<td>Harriman</td>
<td>Finance</td>
<td>39</td>
</tr>
<tr>
<td>Morgan</td>
<td>Finance</td>
<td>38</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td><strong>187</strong></td>
</tr>
<tr>
<td>Weyerhauser</td>
<td>Lumber and land</td>
<td>68</td>
</tr>
<tr>
<td>Fair</td>
<td>Silver and land</td>
<td>45</td>
</tr>
<tr>
<td>Frick</td>
<td>Coke</td>
<td>36</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td><strong>149</strong></td>
</tr>
<tr>
<td>Carnegie</td>
<td>Steel</td>
<td>75</td>
</tr>
<tr>
<td>Widener</td>
<td>Urban transit</td>
<td>32</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>&quot;Other&quot; sectors</th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Field</td>
<td>Retail</td>
<td>61</td>
</tr>
<tr>
<td>Ford</td>
<td>Autos</td>
<td>54</td>
</tr>
<tr>
<td>Weightman</td>
<td>Pharma</td>
<td>44</td>
</tr>
</tbody>
</table>

*Source: Klepper and Gunther (1996), updated by the New York Times, July 15, 2007*

This view is not just in retrospect. Gilded Age tycoons were frequently seen as
wealthy because of ‘extractive’ rents, as superbly captured by contemporary
cartoons. Figure 7 depicts the common view of Standard Oil as an octopus, with
tentacles around all aspects of US life. And Figure 8 is a vivid representation of
William Vanderbilt (the son of Cornelius) dominating railroad traffic.
Figure 7 A contemporary view of Standard Oil

Figure 8 ...and of William Vanderbilt and railroad monopolies
What is really interesting is the comparison between the processes at work. For the US history we particularly draw on the wonderful history of the transcontinental railroads by Richard White (2011).

Sources of wealth and economic efficiency. In both the US and India, there was massive private wealth accumulation on the back of corporate expansion. While many—in the second generation of US tycoons, and in India—inherited significant wealth, the real driver was corporate activity, not aristocratic landed wealth. Moreover, they were often highly efficient at extracting private wealth from their corporations: in the US, railroad companies would suffer financial crises, but the individuals who owned them (mostly) protected their private wealth. In India the typically pyramidal family-controlled conglomerates have ‘tunnelled’ resources to controlling firms, implicitly expropriating minority shareholders (Bertrand, Mehta and Mullainathan, 2000). These companies have also done very well at getting debt from the state banking system, even if most, unlike Mallya, have not sought to avoid paying. In the US, debt crises, and bondholders losing their shirts, were common (and related to the volatility seen in Figure 3). In India concern over non-performing assets in the banking system has been high and rising in recent years. We have already seen that much of the corporate activity has been in rent-thick sectors, where connections matter. This has often been linked to substantial market power. And a major theme of White’s assessment of the transcontinentals is their economic inefficiency, even more so if the environmental destruction and social costs are accounted for (notably for the native American population and exploitation of labor, especially Chinese). In India, there have been comparable concerns in many sectors—notably mining—over environmental and social costs.

Business and politics. Relations between businessmen and politicians is central to both stories. In the US, this was at the core of the approvals that railroad companies obtained for rights of way, with land deals along the railways an essential part. This involved systematic trusted networks—the railroad tycoons referred to ‘friends’ as a technical term for the many politicians in the state who could be relied upon (White, 2011). Some businessmen moved in and out of politics, including Leland Stanford, who reaped substantial private wealth from his partnership in the Pacific Railway despite being considered not too bright by his partners, and then, ironically, was the initial source of Stanford University's endowment! The railroads also effectively created the lobby system. Connections pervaded many sectors. For example, Menes (2006) cites cases of city-level political bosses investing in construction firms, or channeling contracts to firms held by family members, in early 20th-century Philadelphia and New York.
This is all too familiar from contemporary India. Dealings with state actors are crucial to a whole range of business transactions. There are increasing overlaps, with businessmen going into politics (Mallya is just one example) and politicians going into business. This came vividly into the public discourse with a sequence of high-level scams that unfolded in the latter years of the Congress-led UPA government, in the allocation of the telecoms spectrum, the Commonwealth Games and coal mining rights (we discuss the social and political reaction to these in the final section of this paper). Political finance is an important part of this relationship, especially as elections have become increasingly expensive. The tight legal restrictions on such finance only shifts the channels outside the law.

Two faces of capitalism. A further intriguing parallel concerns what might be called the two faces of capitalism, in which rent extraction has been, to a substantial degree, aligned with productivity advances. While in both cases there has clearly been substantial rent creation and its private appropriation, there has also been significant asset creation. In the US, strategic infrastructure did get built, as the country consolidated its position of global industrial leadership. Cities became the most dynamic part of the economy in spite of entrenched corruption (Menes, 2006). In India, rent-thick connected capitalism has lived alongside a major rise in private corporate investment that has fueled unprecedented growth (albeit in the context of an unusual ‘sweet spot’ in international and domestic conditions; Mody and Walton, 2012). In an analysis of overall private firm dynamics Mody, Nath and Walton (2011) found little evidence of concentration affecting the profit behaviour of enterprises in the post-1990 period. However a surge in firm entry in 1990s tailed off in the 2000s boom, especially in manufacturing. Concentration then rose, and major family-controlled business houses and state enterprises continue to dominate the enterprise landscape.

The regulatory contrast. There is one important contrast between Gilded Age US and contemporary India. In India the regulatory state has been a pervasive feature of the institutional context since (and before) independence. This was dramatically true of the License Raj period, and remains substantially true for many license requirements, despite the genuine liberalization and deregulation of 1991 and later. This is a theme we pick up in the next section. Here we suggest that, while the specific fields of interaction between politics and business are different, the underlying structural relationship, of rent creation and systematic rent-sharing underpinned by political-business connections, has strong parallels. This is not least because in India there is a significant overlap between rules and (informal) deals-based decision-making. (As a further parallel, which goes way beyond this essay, there are structural similarities over interpretations of the contemporary United
States, with explicit or implicit support for economic rent creation, underpinned by political finance and the lobby system, in sectors ranging from finance, oil and gas, to agriculture. An important contrast is that these relationships have been largely institutionalized in formally rules-based processes.)


For India, even more interesting than the Gilded Age comparison is that with the Progressive Era and its sequel in the New Deal. This was a multi-decade period of reform, which can be seen as an important manifestation of the second part of Polanyi’s ‘double movement.’ While Polanyi characterized this as a response to ‘unregulated capitalism’ we have seen that the preceding period was more complicated, especially with respect to the tight links between the state and business. The outcome was the formation of a combination of regulated capitalism and the core trappings of a 20th-century social state.

This is especially interesting for India since it occurred in the context of a vigorous democracy, which had in turn emerged from a ‘clientelistic’ polity, with a political economy dependent on reciprocal favours, whether with respect to social groups or business. Fukuyama (2014) has recently argued that this is a particularly difficult political transition, with the US a rare exception. Here we outline an interpretation of the US transition, and then turn to describing and explaining an apparent Indian paradox.

*The US transition.* How could change occur? A simple contemporary view is captured in Figure 9: that electoral processes would be more powerful against the ‘trusts’ (monopolies) than the ‘old’ method of strikes. The Australian (secret) ballot was introduced soon after the presidential election of 1884. However, of equal importance was an effective alliance between a heterogeneous range of popular movements and political parties—Grangers, Populists, Progressives, the reform movement in cities—that provided impetus to action by the executive (from Teddy Roosevelt on), the legislature and judiciary. This was underpinned by the ‘muckraking’ journalism that brought out the dark side of the system. Robinson (2009) argues that the link to political movements was central to the effectiveness of state action. A particular strand of interest was the confluence of moral movements with reformist action (Morone, 2003), which in later decades tended to

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split, reducing the effectiveness with respect to political economic reforms. The role of ‘morality’ in social movements is highly relevant to contemporary India.

Figure 9. The vote against the monopolies—a contemporary view

Source: historical cartoon via Robinson (2009)

The result in state action was a series of measures that preserved capitalism whilst managing its excesses—often conceptually correcting market failures in the system. Some major examples are:

- Sherman Antitrust Act (1890)
- Clayton Antitrust Act (1914)
- Pure Food and Drug Act (1906)
- State-level minimum wages (from 1912)

The sources of public action were typically heterogeneous. For example, in a fascinating analysis of the Pure Food and Drug Act, Law and Libecap (2009) argue that action flowed from three sources: reformist motives to correct market failures;  

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6 An early split—with a parallel with contemporary India—was the focus on the prohibition of alcohol. In more recent decades, there have been moral movements of a ‘progressive’ character (civil rights, women’s rights), as well as ‘conservative’ (moral majority, culture wars).
rent-seeking and regulatory influence from business groups who would relatively gain; and rent-seeking (for work, not bribes) from bureaucrats interested in extending their regulatory reach. The role of the bureaucracy is of particular interest to contemporary India. The key legal change was in the federal Pendleton Act Civil Service Reform Act, of 1883, which overturned the ‘spoils system’ in which winning political parties awarded government jobs to its supporters, instead requiring that government jobs be awarded on merit. While a necessary condition, Carpenter (2001) argues that genuine bureaucratic autonomy evolved in some, but not all, agencies as a product of agency leadership, internal organizational change and, crucially, the development of support from external interest groups that gave a degree of countervailing power to politicians.

The second reform phase occurred in the New Deal in response to the Great Depression and its underlying distributive fights. This can again be seen as capitalism-preserving resolution, in a form of social democracy, paralleling developments in Scandinavia and the UK, as an alternative political resolution to European fascism (see Walton, 2013). Key actions included:

- The Glass-Steagall Act (1933)
- National Labor Relations Act (1935)
- Unemployment insurance (1935)
- Social Security (1935)

It is interesting that the US was ahead of Scandinavia in important respects—and also that some of the more established capitalists were an important part of the support for social democratic transition in both the US and Sweden, as this provided protection from entry of competing firms who could undercut them through weaker provisioning for labour (Swenson, 2004).

The Indian paradox. As we turn to India, there is a striking contrast. Since independence, there has been an apparent leapfrogging compared with the history of now-rich countries. This, indeed, looks like a Polanyian double movement occurring simultaneously, as capitalist change occurs in parallel with the range of regulatory and social provisioning measures that were institutional ‘victories’ of the Progressive movement. This includes:

- A bureaucracy that is formally meritocratic, vividly so in the elite Indian Administrative Service (IAS) and other national services, but also, in principle, in state-level services.
- A wide range of business regulation, including anti-monopoly/competition commissions, and, especially since 1991, the institution of a range of capitalism-supporting regulatory structures, notably the Securities and Exchange Board (SEBI).
• Substantially greater social provisioning than in late 19th- or early 20th-century United States (with the important exception of basic education noted above), with a wide range of poverty programs, union rights, and, more recently, rights to work, food and education.

• Last, but not least, electorates more than willing to ‘throw the rascals out’ ever since the dominance of the Congress party disappeared after the early post-independence decades.

Yet we have argued that despite the more extensive range of state action and associated rights, India still has many of the characteristics of the Gilded Age business-state links, has weak protections for many groups, and an often ineffective and problematic state. While this may seem familiar to students of contemporary developing countries—the Indian paradox surely has parallels elsewhere—the point of this essay is to step back. Here are four India-specific reasons as to why.

First, the extensive state has become a fertile domain of both capture and effective rent-creation and rent-sharing. This has risen as the stakes from access to the state have increased in the post-liberalization and high-growth period. This is evident in the rising price of elections at all levels, the associated importance of political finance, the centrality of land deals in the currency of business-politician exchanges, and the increasing movement of businessmen into politics, and politicians into business—with criminals in politics an extreme manifestation of this (Vaishnav, 2014).

Second, while formally Weberian, the bureaucracy has largely failed to become an autonomous, social-welfare maximizing instrument of the state. Bureaucrats are often subservient or complicit with the deals of politicians, with the power of politicians to move obstructionist bureaucrats around a key part of the equation. More broadly, few parts of the bureaucracy have experienced the US transition to bureaucratic autonomy documented by Carpenter (2001). Pritchett (2009) characterized India as a “flailing” state—with extensive state presence, but ineffective capacity to respond to the intentions of its top echelons. Exceptions, such as the Election Commission, the Comptroller and Auditor General, the Reserve Bank of India, only provide a vivid contrast to the more common practice and culture of the Indian state. More profoundly the development of a bureaucratic culture of solving societal or citizen problems is rare, with most services being rule-bound, with an admixture of daily administrative corruption.7 Finally, there is a sheer lack

7 See Akshay Mangla’s fascinating account of the contrast between Himachal Pradesh’ ‘deliberative’ problem solving in Himachal Pradesh, with the much more typical cases of Uttarakhand and Uttar Pradesh (Mangla, 2014).
of capacity—India actually has an extensive state in terms of citizen contact, but a relatively small civil service.

Third, social and political mobilization in India has been dominated by particularist interests, in contrast to the admittedly complex set of alliances in the US. This is evident in farmer movements seeking the sustaining of multiple subsidies or loan forgiveness, and the resistance to evictions or specific areas of exploitation, whether in forests or slums. It is particularly manifest in the deeply institutionalized demand for various forms of group-based reservations—originally conceived by Ambedkar as a temporary measure for Dalits and Scheduled Tribes—but extended to increasing identity-based groups in the wake of the Mandal Commission. Somanathan (2010) termed this the ‘demand for disadvantage’. Add to this the fact that the most effective ‘moral’ movement has been that of Hindutva, or Hindu nationalism. Meanwhile the media is largely owned by business. The result is the absence of a coordinated alliance to reconstruct the state. The 2011 and 2012 anti-corruption movement looks like an exception, but this was a product of a highly contingent middle-class alliance, in which ‘neo-Gandhians conferred legitimacy; India Shining provided energy and finances; and Legal Activists helped navigate the legislative path’ (Sitapati, 2011). This is not easy to replicate.

Fourth, and very much a reflection of these other factors, electoral strategies that emphasize populist or clientelistic approaches are both dominant and largely successful—within a competitive political environment—provided governments have sufficient credibility to deliver, and do not commit egregious acts of corruption.

These factors interact, and tend to support a self-enforcing political equilibrium. The next section sketches this.

4. Updating the political economy equilibrium

PEDI argued in 1984 that India was stuck in a political economy equilibrium that resisted the systemic change necessary for dynamic growth. There has since between dramatically more dynamism than then anticipated, albeit a dynamism that created Gilded Age-style private wealth accumulation and high-level corruption. Yet we have argued that the reaction has not coalesced into Progressive Era-style systemic reform for a set of structural reasons. Here we suggest an update of PEDI in the form of a sketch of a self-enforcing political economy equilibrium that is consistent both with episodes of dynamism and resilience to systemic change.

First, we need a re-interpretation of PEDI in light of the private investment acceleration, from the 1980s through the 2000s. As noted in the introduction, is inconsistent with a central part of the PEDI’s thesis. We would argue that there was
indeed a restructuring of state-business relations, initially as a new overall deal: with business gaining from domestic deregulation, and (to varying degrees) having to face increased foreign competition. How did the shift from the old equilibrium occur? At a systemic level there was an important shift in dominant narratives around economic growth favoring greater reliance on markets—both globally and in some domestic arenas. This coincided with the emergence of new business elites at a subnational level, allied with local political elites. Then an unfolding macroeconomic crisis (centred on 1991) provided a moment of state autonomy to a group that embraced or at least tolerated the market-oriented narrative. Arguably, the collective action problems that had prevented a systemic shift earlier now impeded coordinated resistance (see also discussion in McCartney, 2009).

While there was a real shift in this core relationship, the “new” set of state-business relations remained a hybrid of rules and deals, with rent-sharing between political elites and business a central feature. Business has indeed consolidated its position as a “dominant proprietary class”, while the state’s relationship with other groups remained one of complex particularist measures. However, in terms of the broader society the major rise in living conditions, has led to the rising political salience of additional groups, from lower caster mobilization to an emergent, urban middle class.

To extend the analysis, it is useful to focus on the subnational state. The system can be conceptualized as an interlocking set of rent creating and rent-sharing mechanisms. A sketch is presented diagrammatically in Figure 10. This was developed with a particular state in mind—Andhra Pradesh. This is of particular interest both because India’s subnational states are the core locus of political economy, and because Andhra Pradesh has been one of the more dynamic Indian states. It is suggested that similar structures prevail in other states and at the national level.

Two sets of relationship are central: between political and economic elites and between politicians and the electorate. Bureaucrats intermediate both.

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8 This was originally developed for presentations on the political economy of Andhra Pradesh in Kings College, London and the Centre for Policy Research, on the basis of discussion with informed observers of the state.
The first set of relations are familiar from the discussion above. The past 25 years has been a period of major rent creation in India—both extractive and productivity-based rents. These rents were shared systematically between politicians and business families—with an important subplot of political support for emerging new regional business elites (Damodaran, 2008). In the case of Andhra Pradesh, a big story was the development of the local construction industry, initially on the basis of state-level infrastructure, for example in irrigation and then in major national programs, often in public-private partnerships. This nurtured genuine capabilities, in major firms such as GVK and GMR that have since become international players. This formed the basis of the wealth of their owners, who became billionaires for a while, as noted above) There is also a range of smaller construction firms that are linked into the more local political hierarchy.

This relationship is supported by a wide network or relations between politicians and businessmen, with the growing phenomenon of overlapping activities. For example, in the case of Andhra Pradesh, 14 of the state’s 61 MPs (in the national parliament) were rich individuals whose wealth was based on infrastructure and
construction contracts. For local construction contracts, the overlap was typically with state level Members of the Legislative Assembly (MLAs).

Bureaucrats are an important part of the implementation of any government-related action. India remains highly rule- and procedure-bound, so without the implicit or explicit complicity of bureaucrats the exercise of influence would not work. Some bureaucrats are honest and some dishonest. The fact that powerful politicians can transfer them means this part of the system can be made to work in the interests of rent-sharing deals, for most of the time.

Politicians then have to be re-elected in India’s vigorous democracy, and there are often changes in the party in power. Two mechanisms are particularly important for obtaining support: populist programs and political finance. Both are used competitively by all parties. India is rife with populist programs—some good, some bad, in terms of their development impact. Particularly inventive from a political economy perspective were two programs developed in Andhra Pradesh for tertiary health care (Aarogyasri) and college education. These have a common overall structure. The state provides bursaries for individuals with Below Poverty Line certificates to make use of (mainly private) hospitals and colleges, for example in engineering and medicine. So far so good. This is highly effective politically because many of these organizations have links to politicians, and, even better, some 80 percent of the state’s households have been granted a BPL certificate. (This is substantially higher than the poverty rate as measured by the National Sample Survey). So this nicely closes the loop, creating a highly popular programme that generates rents for connected individuals, and is financed by the state budget.

The second mechanism concerns political finance. Legal limits to political finance are very low in India, which means that virtually all the finance is illegal. Indian elections are becoming more expensive at all levels, so finance is critical to electoral success. There are many mechanisms.9 One that helps solve the legality challenge is said to work through liquor licenses: since there is great scope for overcharging for liquor and appropriating the surplus, such licenses can become an excellent source of black (illegal) money. Unlike the usual challenge of converting black to white money, the electoral challenge in India is to have stashes of black money. (This was alleged to be one of the reasons behind Prime Minister Modi’s 2016 demonetization—see Mody and Walton, 2017.)

There is of course much greater complexity to such a system. The point of this sketch is to take the spirit of PEDI’s seminal abstraction and update it. It is also to

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9 For example, Kapur and Vaishnav (2011) suggest a link with the construction industry, with evidence of a political cement cycle.
outline a system that is good at extracting and sharing rents, is self-enforcing and, at least for certain periods, can also generate particular types of economic and development dynamism.

5. Recent pro-governance social and political action: not (yet) a critical juncture?

The account so far has explored why the Indian political economy is likely to resist the kind of systemic changes that typified the Progressive Era. And yet movements to improve governance have a longstanding history in India. The ‘anti-corruption’ theme has been periodically used by politicians for decades, just as the ‘anti-monopoly’ theme was so present in the Progressive Era United States. In recent years there have been a variety of social movements, state action and electoral successes that have seemed, at least from some angles, to herald a more profound shift. We interpret three categories here: the response to scams and the anti-corruption movement; the right to public service; and the election and initial performance of Narendra Modi’s BJP, including the 2016 demonetization.

From scams to auctions
Consider first the fallout from the anti-corruption mobilization of 2011 and 2012. As discussed above, this was an unusual coalition of disparate social groupings, as opposed to a qualitative shift from India’s largely particularist and group-based social action. However, it did have consequences. Major scams were one of the spurs to social action. What is interesting is that in some domains of government resource allocation there was then focused institutional reform, specifically in shifting from administrative to auction-based allocations of telecoms spectrum and coal mining blocks. The sequence is schematically illustrated in Figure 11. The public documentation of scams by the Comptroller and Auditor General (CAG) helped fuel the anti-corruption movement (along with many other factors). This made the scams and associated questions of institutional design salient within the executive, legislative and judiciary. Individuals were convicted, and in due course auctions became designated as the required method for selling the spectrum and coal mining blocks to private actors. The details are not the issue here, so much as the overall shape of this change: of interactions between autonomous checks-and-balance institutions, social movements and action by different parts of the state. This echoes the mix of changes in the Progressive Era.
In principle this was a good change in institutional design. But it is not clear that it heralds a broader systemic shift. Rent extraction and sharing remain central in many other domains, even assuming the auctions are genuinely run as fully competitive and efficient affairs.

**The Right to Public Service**

From within the executive, and this especially at the level of states, has come a sequence of so-called Right to Public Services (RTS) legislations. Madhya Pradesh was the first to introduce such a law in 2010, followed by Bihar in 2011, and some 10 other states since. The pattern is to guarantee delivery of particular services within a specific time, with failure leading to punishment of, usually frontline, civil servants. At one level, it is an achievement of the broader accountability movement that such RTS acts are becoming an increasingly common, indeed politically required, part of state level bureaucracies. However, they only make sense for a very specific class of measurable deliverables of an administration, and arguably divert attention from the administrative failures that caused problems in the first place (Aiyar and Walton, 2015). Robinson (2012) finds from field studies that fears of penalties cause bureaucrats to prioritize the affected activities over others that may be of equal importance, while Hassan and Narayana (2013) suggest that officials in Karnataka adjust the rules such that there is ‘legal’ but not substantive delivery. This
approach is the opposite of the shift to a more problem-solving bureaucracy that will respond to the real problems that citizens face.

**Governance under Modi**

Governance has been an important theme in recent electoral politics, both in a series of state elections and dramatically in the 2014 national election won by the Narendra Modi-led BJP party. After less than three years in power, at the time of writing, it remains too early to assess the Modi government. Alongside the good governance and development discourse, there has been significant activism in Delhi, there appear to be boundaries on high-level corruption at the national level (that was revealed to be politically toxic), and there is a popular discourse amongst technical elites on reforming poverty and social programs, with shifts to a cash-plus-universal ID-based approaches. But the overall strategy appears to be politically constrained, with limited major reforms, for example with only selective shifts on subsidy regimes and the continued centrality of state banks in the lending domain. Indeed, a symptom of the history of favoured relations between the state and business is the substantial levels of non-performing assets in the state banks. (not least for major businesses).

The government also has the shadow of its close links to Hindu nationalist organizations, that mobilize around a national Hindu identity. While Modi campaigned on a development platform, the BJP periodically mobilizes on sectarian lines, and “patriotism” around Hindu (and implicitly anti-Muslim) themes has been a frequent dimension of government action. This both reinforces particularist formations, and, unlike US moral movements in the Progressive Era, is not aligned with cleaning up the system.

One area of emphasis has been of ‘cooperative federalism’ with greater fiscal decentralization to states, implementing a recommendation of the 14th Finance Commission. However, this only shifts more of the action to the domain of state-business rent-sharing, patronage and populist measures that lie in the states—as schematized in Section 4. And unlike the United States, Indian cities are not domains for effective political and social movements and contestation, as they are largely subservient to the states. While city governments and local urban politicians are often dispensers of patronage, they have not even gone through a phase of machine politics that preceded the city reform movements in the United States.

A final example concerns the Modi’s remarkable decision to “demonetize” the economy in November 2016, taking 500 and 1000 rupee notes—accounting for 86%

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10 For discussion of India’s urban regime as a rent-sharing “cabal” see Heller, Mukhopadhyay and Walton, 2016.
percent of the total money supply. This was portrayed (by Modi) variously as an attack on black money, a spur to cashless transactions, and as part of a strategy to take from the undeserving rich and give to deserving groups. This was an absurd move in economic terms, and caused major economic and social damage—at least in the short run. We interpret it as essentially political, and as part of a populist strategy that, if successful, will undermine rather than deepen democracy (see Mody and Walton, 2017). If it strengthens a narrative of direct political connection between a strongman leader and middle and poorer groups that could lead to a further restructuring in the political processes with respect to “dominant classes”. But this is far too early to assess.

6. Conclusion

This essay sought to bring a comparison with the United States Gilded Age and Progressive Era to bear on contemporary India. We have argued that Gilded Age dynamics are indeed at work in state-business relations in 21st-century India. This occurs in the more extensive domains of state regulatory action compared with the historical US, but with structural similarities around rent creation, rent-sharing, political finance and networks of relations between businessmen and politicians. This has also been consistent with much greater dynamism—and specifically investment—than anticipated in PEDI’s 1984 account. However the overall political equilibrium, including the state’s relations with other social groups, can be conceptualized in ways that parallel PEDI’s assessment.

We also reviewed the potential for change, and in particular for the kind of alliance of political and social movements and parts of the state that generated the multi-decade sets of reforms that built a system of regulated capitalism and the beginnings of a social state in the US. Here there was an apparent paradox: India already has many of the legislative victories that characterized the Progressive Era and New Deal. But the political economy remains stuck, owing to the predominance of particularist social demands and associated political and bureaucratic strategies. The electorate often appears to be seeking an alternative equilibrium, and there are a number of ‘pro-governance’ initiatives. But neither social movements or political elites have the broad coalition and cognitive maps to effect systemic change. There may well be short-run growth surges and expanded service delivery, when rent-sharing is aligned with private investment or public action, but longer-term development remains problematic. At the time of writing, there is concern that India under Modi is sharing in what seems to be widespread global move to authoritarian populism. Yet in a democracy as competitive and vigorous as India’s there is always hope that there will be an eventual coalescence around a Progressive Era-style political coalition, even if the paths for getting there are unclear.
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