Imagining India : ideas for the new century/ Nandan Nilekani; New Delhi: Allen Lane an imprint of Penguin Books, 2009. (38-61, 158-175, 256-282, 363-383 p.)

INDIA, BY ITS PEOPLE 39

INDIA, BY ITS PEOPLE

IN DELHI THIS Monday morning, it is chaos. Despite its pristine new metro and expanding highways, the city can barely contain the morning hubbub, the swarm of people all trying to get somewhere. By the time I reach Kaushik Basu's home—set a little apart from the highway, on a quiet street that is empty except for a single, lazy cow who stops in front of the car, in no hurry to move—I am very late, a little grimy, but exhilarated.

Kaushik and I chat about how the crowds in the city look completely different compared to, say, two decades ago. Then, you would see people lounging near tea shops, reading the morning paper late into the afternoon, puffing languorously at their beedis and generally shooting the breeze. But as India has changed—bursting forth as one of the world's fastest-growing countries—so has the scene on the street. And as Kaushik points out, it is this new restlessness, the hum and thrum of its people, that is the sound of India's economic engine today.

Kaushik is the author of a number of books on India and teaches economics at Cornell, and his take on India's growth—of a country driven by human capital—is now well accepted. India's position as the world's go-to destination for talent is hardly surprising; we may have been short on various things at various times, but we have always had plenty of people. The crowded tumult of our cities is something I experience every day as I navigate my way to our Bangalore office through a dense crowd that overflows from the footpaths and on to the road—of software engineers waiting at bus stops, groups of women in colourful saris, on their way to their jobs

at the garment factories that line the road, men in construction hats heading towards the semi-completed highway. And then there are the people milling around the cars, hawking magazines and pirated versions of the latest best-sellers.* Looking around, I think that if people are the engine of India's growth, our economy has only just begun to rev up.

But to the demographic experts of the nineteenth and twentieth centuries, India's population made the country quite simply a disaster of epic proportions. Paul Ehlrich's visit to Delhi in 1966 forms the opening of his book *The Population Bomb*, and his shock as he describes India's crowds is palpable: 'People eating, people washing, people sleeping . . . people visiting, arguing and screaming . . . people clinging to buses . . . people, people, people'.

But in the last two decades, this depressing vision of India's population as an 'overwhelming burden' has been turned on its head. With growth, our human capital has emerged as a vibrant source of workers and consumers not just for India, but also for the global economy. But this change in our attitudes has not come easily. Since independence, India struggled for decades with policies that tried to put the lid on its surging population. It is only recently that the country has been able to look its billion in the eye and consider its advantages.

'MILLIONS ON AN ANTHILL'

For most of the twentieth century, people both within and outside India viewed us through a lens that was distinctly Malthusian. As a poor and extremely crowded part of the world, we seemed to vindicate Thomas Malthus's uniquely despondent vision—that great population growth inevitably led to great famine and despair.

The time that Thomas Malthus, writer, amateur economist and clergyman (the enduring term history gave him would be 'the gloomy parson'), lived in may have greatly influenced his theory on population. Nineteenth-century England was seeing very high birth rates, with families having children by the baker's dozen. Malthus—who, as the second of eight children, was himself part of the population explosion he bemoaned—predicted in his *An Essay on*

The Alchemist, Liar's Poker and (Tom Friedman would be delighted) *The World Is Flat* have been perennial favourites for Indian pirates.

the Principle of Population that the unprecedented increases in population would lead to a cycle of famines, of 'epidemics, and sickly seasons'.

India in particular seemed to be speedily bearing down the path that Malthus predicted. On our shores, famine was a regular visitor. We endured thirty hunger famines* between 1770 and 1950—plagues during which entire provinces saw a third of their population disappear, and the countryside was covered 'with the bleached bones of the millions dead'.[1]

By the mid twentieth century, neo-Malthusian prophets were sounding the alarm on the 'disastrous' population growth in India and China, and predicted that the impact of such growth would be felt around the world. Their apocalyptic scenarios helped justify draconian approaches to birth control. Policies recommending 'sterilization of the unfit and the disabled', and the killing of 'defective' babies gained the air of respectable theory.[2] India's increasing dependence on food aid from the developed world due to domestic shortages also fuelled the panic around its population growth—in 1960 India had consumed one-eighth of the United States' total wheat production, and by 1966 this had grown to one-fourth.

Consequently, if you were an adult in the 1950s and 1960s and followed the news, it was entirely plausible to believe that the endgame for humanity was just round the corner; you may also have believed that this catastrophe was the making of some overly fecund Indians. Nehru, observing the hand-wringing, remarked that the Western world was 'getting frightened at the prospect of the masses of Asia becoming vaster and vaster, and swarming all over the place'.

And it is true that Indians of this generation had a cultural affinity for big families, even among the middle class—every long holiday during my childhood was spent at my grandparents' house with my cousins, and a family photo from that time has a hundred people crammed into the frame. Indian families were big enough to be your

*Amartya Sen and others have pointed out, however, that while these famines may have seemed to be the consequence of a country that was both poor and overpopulated, they were in fact triggered partly by trade policies and the lack of infrastructure. Lord Lytton exported wheat from India at the height of the 1876–78 famine, and the lack of connectivity across the country affected transportation of grain to affected areas.

main social circle—most people did not mingle extensively outside family weddings, celebrations and visits to each other's homes.

The growing global worries around our population growth created immense pressure on India to impose some sort of control on our birth rates, and we became the first developing country to initiate a family planning programme. But our early family planning policies had an unusual emphasis on 'self-control'.[3] In part this was influenced by leaders such as Gandhi, who preached abstinence; in an interesting departure from his usual policy of non-violence, he had said, 'Wives should fight off their husbands with force, if necessary.'

This focus on abstinence and self-restraint continued with independent India's first health minister, Rajkumari Amrit Kaur, who was in the odd position of being at the helm of a family planning programme while opposing family planning 'in principle'.[4] As a result Indian policy during this decade emphasized the rhythm method. Rural India was targeted for raising awareness of the method, and one villager remarked of its success, 'They talked of the rhythm method to people who didn't know the calendar. Then they gave us rosaries of coloured beads . . . at night, people couldn't tell the red bead for "don't" from the green for "go ahead".'[5]

Not surprisingly, India's population continued to grow through the 1950s and 1960s, as fertility remained stubbornly high even while infant mortality and death rates fell rapidly. This was despite the massive awareness-building efforts around family planning that the government undertook. I still remember the 'small family' songs on the radio and the walls of our cities, the sides of buses and trucks were papered with posters that featured happy (and small) cartoon families, and slogans like 'Us Two, Ours Two'. And yet, each census release made it clear that our population numbers continued to relentlessly soar, and we despaired over a graph that was climbing too high, too fast.

SNIP, SNIP

As the global panic around population growth surged, the Indian and Chinese governments began executing white-knuckle measures of family planning in the 1960s. 'Our house is on fire,' Dr S. Chandrasekhar, minister of health and family planning, said in 1968. If we focused more on sterilization, he added, 'We can get the blaze under control.'[6]

By the 1970s, programmes and targets for sterilization of citizens were set up for Indian states. There was even a vasectomy clinic set up at the Victoria Terminus rail station in Bombay, to cater to the passenger traffic flowing through.[7] But no matter how Indian governments tried to promote sterilization with incentives and sops, the number of people willing to undergo the procedure did not go up. India's poor wanted children—and especially sons—as economic security. State efforts to persuade citizens into sterilization backfired in unexpected ways—as when many people across rural India refused to have the anti-tuberculosis BCG, Bacillus Calmette-Guerin, injections because of a rumour that BCG stood for 'birth control government'.[8]

In 1975, however, Indira Gandhi announced the Emergency, which suspended democratic rights and elections and endowed her with new powers of persuasion, so to speak. The Indian government morphed into a frighteningly sycophantic group, there to do the bidding of the prime minister and her son Sanjay—the same hot-headed young man who had described the Cabinet ministers as 'ignorant buffoons', thought his mother a 'ditherer' and regarded the Philippines dictator Ferdinand Marcos his role model.[9]

In the winter of 1976, I, along with some of my fellow IIT Bombay students, had arrived on the 'festival circuit' in Delhi to participate in the student debates and quizzes (yes, I was an inveterate nerd). It meant going from college to college for competitions, from Hindu to St Stephen's to Miranda House to IIT Delhi. Most of us from the sylvan, secluded campus of IIT Bombay were not as politically aware as the Delhi students—the only elections we followed were those for the IIT hostels and student body. But in the Delhi of the Emergency years, sitting around campfires, one heard the whispered tales of Emergency-era atrocities, and of one particular outrage—'nasbandi'. Sanjay, who had discovered a taste and talent for authoritarianism with the Emergency, had made sterilization—specifically male sterilization or nasbandi—his pet project.

The sterilization measures that were introduced came to be known as the 'Sanjay Effect'—a combination, as the demographer Ashish Bose put it to me, of 'coercion, cruelty, corruption and cooked figures'. Ashish notes that 'incentives' to undergo the sterilization procedure included laws that required a sterilization certificate before government permits and rural credit could be granted. Children of parents with more than three children found that schools refused them admission, and prisoners did not get parole until they went under the knife. And some government departments 'persuaded' their more reluctant employees to undergo the procedure by threatening them with charges of embezzlement.*

The steep sterilization targets for state governments meant that people were often rounded up like sheep and taken to 'family planning' clinics. For instance, one journalist witnessed municipal police in the small town of Barsi, Maharashtra, 'dragging several hundred peasants visiting Barsi on market day off the streets'. They drove these men in two garbage trucks to the local family planning clinic, where beefy orderlies held them down while they were given vasectomies.[10] This scene repeated itself time and again, across the country.

It was difficult to trust the sterilization figures the government released since there was so much pressure on the states for results. Nevertheless, the Emergency-era sterilization programme, Ashish notes, may have achieved nearly two-thirds of its target—eight million sterilizations. But democracy soon hit back with a stunning blow. When Indira Gandhi called for elections in 1977—ignoring Sanjay's protests, 'much to his ire'[11]—the Congress was immediately tossed out of power.

The nasbandi programme was the last gasp of coercive family planning in India on a large scale, and it became political suicide to implement similar policies. The Janata Party government that followed Indira even changed the label of the programme to avoid the stigma it carried, and 'family planning' became 'family welfare'. While sterilization programmes have occasionally reappeared across states, they have been mostly voluntary, with the focus on incentives to undergo the procedure.†

---

*Asoka Bandarage describes the target fever in India's sterilization programmes, which gave rise to 'speed doctors' who competed against each other to perform the most number of operations every day, often under ghastly, unhygienic conditions. One celebrated figure was the Indian gynaecologist P.V. Mehta, who entered the *Guinness Book of World Records* for sterilizing more than 350,000 people in a decade—he claimed that he could perform forty sterilizations in an hour.

†These sweeteners for the procedure have at times been very strange and a little suspect, such as Uttar Pradesh's 'guns for sterilisation' policy in 2004, under which scheme Indians purchasing firearms or seeking gun licences were told they would be fast-tracked if they could round up volunteers for sterilization. A district in Madhya Pradesh also made a similar 'guns for vasectomies' offer to its residents in 2008.

DIFFERENT DEMOGRAPHIC DESTINIES

A common grouse we have in India is how slow we are—to reform, adapt and change, especially compared to our neighbour China. But my belief is that while democracies may be slow, they are also more cautious than autocracies, and this makes them less prone to committing truly egregious errors. Standing and ruminating over voter considerations after all is much more preferable to dashing straight into a gorge.

For instance, during the Malthusian hysteria of the 1960s, both India and China were pushed—at times shoved—by international organizations to control their population growth. What stood in its way were India's voters: they did not like the idea of family planning and no amount of pretty slogans were going to make them change their minds. After the government that had brought in the cutting implements for nasbandi got tossed out of power, no Indian government would touch forcible family planning with a beanpole.

China, however, was marching to a very different tune. At first, stemming the flood of babies was the last thing on their minds. It was during Malthus's lifetime that socialism and communism came into their own, and their leaders took a very anti-Malthus view on population.[12]* Marxist writers even argued, throwing caution to the winds, that socialism could 'support any level of population'—the more the merrier.[13]

Echoing that ideological line, in the 1940s the Soviet Union had made abortion illegal and encouraged women to have several children; in China, Mao, in his enthusiasm to rev up the republic, championed larger families and talked up China's population growth. By 1970 China was averaging 5.8 births per woman. In fact when the president of Beijing University Dr Ma Yinchu made a proposal for a family planning programme in China in the 1950s, he was opposed quite strongly, publicly ridiculed and lost his university job.

But by the end of the 1970s, the Chinese government was also bitten by the population panic bug and began to emphasize population control to promote 'social harmony' and optimum growth. The government first launched the 'Later, Longer, Fewer' campaign, and then the one-child policy, which Deng Xiaoping implemented in 1981. Deng had a pretty unsparing approach to family planning, and told his officials to '"Just do it"—implement in any way and by any means possible'.[14] What followed in China was the 'technical policy on family planning', which required intrauterine devices for women in families with one child, and sterilization for couples with two children. 'Illegal' children born in the provinces affected job evaluations of bureaucrats and ministers. In addition to the strong-arm tactics, the government advertised birth control reminders at movie theatres, billboards and in a multitude of leaflets. By the mid 1980s, birth-control surgeries peaked at 'more than 30 million a year'.[15]

Under the wisdom of the 1970s and 1980s, the family planning programme in China was an enormous success. The argument in their defence is familiar dictator PR-speak—that it was 'coercion for a good cause'.[16] In 1983 Indira Gandhi and China's family planning minister, Qian Xinzhong, were jointly given the United Nations award for 'the most outstanding contribution to the awareness of population questions'.[17] However, even as these awards were being handed out, the view of population as a pestilence was beginning to shift.

FROM ALBATROSS TO ADVANTAGE

By the late 1970s, the Malthusian scientists had egg on their faces. They had predicted massive population-led catastrophes in India and China by the end of the 1970s; one scare-mongering book called *Famine1975!* by William and Paul Paddock had carried a list sorting which countries should be assisted during the imminent Great Famine. The list had read along the lines of 'Pakistan: should receive food; India: can't be saved'. These thinkers and writers had so much influence on popular culture that 1973 saw the release of the Hollywood movie *Soylent Green*, set in a future where an overpopulated earth struggles for food and resorts to cannibalism.

But the years passed—the doomsday year 1975 came and went, with much holding of breath, I am sure, by the Paddock brothers— and the moment of mass death failed to arrive. By the 1980s academics had begun to harrumph and shake their heads at the downer theorists and re-examine populations in terms of their

---

*Marx dismissed Malthus with some contempt, writing, 'If the reader reminds me of Malthus, whose essay on Population appeared in 1798, I remind him that this work . . . is nothing more than a schoolboyish, superficial plagiary . . . and does not contain a single sentence thought out by himself.'

impact on economic growth. The Indian economist (and later Nobel laureate) Amartya Sen pointed out that India had not seen a famine since it had become a democracy, even while its population had continued to grow. The economist Julian Simon argued that as population increased, so did the stock of creativity and innovation: 'The ultimate resource is human imagination.'[18]

Malthus's theory may appear in retrospect somewhat blinkered, but his ideas were a consequence of the times. He wrote his essay when the Industrial Revolution was just beginning to gain ground in Europe, and while he recognized the working capacity of more people, human capital did not possess the transformational role in the economy that it does now. The period was instead marked by the rise of a dark and sombre landscape across England—its cities were populated by huge numbers of rural migrants in crowded housing, and Charles Dickens described these teeming places as 'three families on the second [floor], starvation in the attics, Irishmen in the passage . . . a charwoman and five hungry children in the back room—filth everywhere'.[19] People came cheap and were without civil and welfare rights, providing factory owners with a resource they could freely abuse; one factory owner, insisting on his relative kindness, said that 'we beat only the younger . . . upto thirteen or fourteen, we use a strap'.[20] The value of labour was at its lowest, and labour's share of Europe's national income kept falling until the world wars.

But while Malthus could be excused for his gloomy predictions, his later Lemming-like followers, obsessed with how much people were eating and consuming, failed to take the changing world economy into account. Since 1900 the world had witnessed a period of rapid growth in labour productivity which, with the rise of the industrial economy, contributed to remarkable increases in overall growth. This became especially pronounced as Europe's GDP began to double every thirty-five years after 1900. And as labour became a powerful economic force, a large working population became more valuable.

This idea of population as an asset rather than a burden has especially gained currency with the rise of knowledge-based industries such as IT, telecommunications and biotechnology in the 1970s. In fact the information economy is the culmination of what the Industrial Revolution started—it has placed human capital front and centre as the main driver of productivity and growth.

I do shy away, however, from unbridled optimism—that would be almost as bad as the previous mood of relentless pessimism on population growth. The pressures of India's vast population are indeed humungous—our natural resources are no bottomless pool. A billion people may offer us a deep base of human capital, but it also signals a potentially massive, detrimental burden on our environment, food production and resources, as millions of people join the middle class, ramp up their consumption, and per capita energy intake grows. We will have to find solutions for these concerns.

Nevertheless, the impact of human capital in India has so far had large payoffs for the economy, especially since the 1991 reforms. Our skilled workers have been the nerve stem of the IT, biotechnology, pharmaceuticals and telecommunications industries in India. Globally as well, human creativity and economic competitiveness are now closely linked, and competition among countries is competition between their human capital. As Tom Friedman notes, these days rather than tell his children to finish their dinner because people are going hungry, 'I tell my daughters to finish their homework because people in China and India are starving for their jobs.'*

For a better idea of what has happened to our attitudes towards population, I spoke to the Harvard demographer David Bloom.† I met David for the first time at Davos in 2006, a decade after his paper titled 'Demographic Transitions and Economic Miracles in Emerging Asia' made him famous much beyond academic circles—he is now one of those enviable scientists who can have a cocktail party audience hang on to his every word.

David tells me that the key problem with early population theories was that 'they were obsessed with overall population growth as an indicator, while ignoring the trends that lurked inside those figures'. These trends, David notes, were uncovered when he and fellow demographer Jeffrey Williamson were puzzling over the growth in one particular region—East Asia.

Economists had found it difficult to explain what exactly had happened in East Asia between 1965 and 1990 to drive the region's

---

*Ironically enough, tutors for homework are now part of a niche ousourcing service that Indian companies such as TutorVista offer US parents.

†Bangalore has a personal claim on David—his father-in-law was the distinguished energy scientist Amulya K.N. Reddy.

impressive economic growth, which had clocked in at an average of almost 6 per cent a year during those decades. Terminology-wise, David says, they had already begun to shrug it off, like fatalistic believers, as the East Asian growth 'miracle'.

But when David and Jeffrey looked inside East Asia's magic hat, they discovered a remarkable population trend that happened to coincide with its rapid growth. Between 1950 and 2000, the chances that an infant would die in East Asia fell sharply from 181 per 1000 births to just thirty-four, and this caused fertility to fall from six children to two per woman.

'But there was a lag between these two drops,' David says. 'Infant deaths fell first while fertility remained high.' To put it, well, a little bluntly, it took some time for people to realize that fewer babies were dying. Only then, David says, did people adjust towards lower fertility. 'And the children who had unexpectedly survived formed a "boom generation".'

This generation created a large number of young, enterprising workers, who themselves had fewer children and therefore few dependants—in fact East Asia's working-age population at this time grew nearly four times faster than its dependent population. The economies in the region as a result had to spend a lower percentage of their incomes on the social costs of a dependent population. Lower costs meant that this generation could save more—we have seen this in India, where a larger working population has helped push the country's savings rate as a proportion of GDP to 34 per cent in 2008, and it is set to rise even higher to 40 per cent by 2015. Such savings create additional capital for investment across the economy.

This extra money is especially valuable during boom generations, when the cumulative energy and creativity of a young, unencumbered population frees people not just to spend and save, but also to invent and innovate. As Bloom and Williamson wrote, 'When you have lots of babies, you also have to take care of them. The resources that are normally put into building up the economy—in infrastructure, capital and savings—are being diverted to raise children . . . you are not building as many bridges, digging as many harbours, or creating as many ports.'

Additionally, as the number of children per woman in East Asia fell from six to two, women were able to join the workforce and contribute to GDP growth. This demographically rich generation

drove East Asia's rise as a manufacturing and technology power—including the growth of Singapore in manufacturing and retail, of Hong Kong in finance and of Taiwan in electronics.

In all, Bloom and Williamson discovered, this wave of young workers contributed to as much as one-third of East Asia's economic rise between 1965 and 1990.* 'We showed,' David tells me, 'that particular kinds of population growth could dramatically drive the country's growth, not impede it as economists used to believe.'

David called this effect the 'demographic dividend', a phrase that has quickly caught on. And with good reason. When demographers went back and looked at previous periods of sustained economic growth from Europe to the United States to Asia, they found that they coincided time and again with similar patterns of large numbers of young people, and fewer dependants.

Scientists have since been unearthing the hidden treasure of these dividends across history. The Industrial Revolution, for instance, had as its ballast a significant demographic boom—the boom Malthus had worried about. 'The triggers for these dividends across countries have not been uniform,' David tells me. 'Different factors can cause shifts in mortality and fertility. Improved health care, for instance, caused the early dividends in Europe and Britain, since this resulted in significant drops in infant deaths. This is also true for developing countries—in India, health progress has triggered its dividend.'†

In developed countries, with their already low mortality and fertility rates, a demographic dividend was rare, and indicated an unusual event. That event was usually a war. The Second World War—which forced people to postpone having children, and then have them all together in one big wave—led to a baby boom and demographic dividend in the United States. Here, the post-war dividends enabled rapid growth, and it contributed to an estimated 20 per cent of GDP growth between 1970 and 2000.

---

*Figuring out these contributions is not an exact science—Bloom and Williamson's numbers are estimates.

†This also explains why sub-Saharan Africa has so far failed to experience a demographic dividend—the region has seen little gains in health and increased life expectancy; with HIV/AIDS, life expectancy is actually falling in some of these countries and infant mortality remains quite high.

In Ireland it was the legalization of birth control that fuelled its demographics—there were few infant deaths, but when this deeply Catholic country finally legalized contraceptives in 1979, Ireland's high fertility rate began to fall rapidly. David writes, 'In 1970, the average Irishwoman had 3.9 children; by the mid-1990s, that number was less than two.' As the number of dependants plunged and Irish women joined the workforce, Ireland's dividend became a springboard for its economy and its growth rates averaged 5.8 per cent—higher than that of any other European country.

However, in all these examples, we are clearly talking of demographic bulges that are past—in David's words, 'of the pigs that have already passed through the python'. The populations of the United States, Europe and East Asia are now greying, growing older. Which brings us to the question—where are the young now? In the 1970s, two very large economies were yet to experience a demographic dividend: India and China.

THE DIVIDENDS OF AN AUTOCRACY, VERSUS A DEMOCRACY

As early as 1938, India's National Planning Commission had made a statement on population that was an echo of the idea China championed in the 1970s: 'The importance of deliberately controlled numbers [in population],' it said, 'cannot be exaggerated in a planned economy.'[21] As it turned out, this idea was unworkable in democratic India, even as it took off successfully in China. In terms of implementing polices that are good for you, whether you like it or not, autocratic regimes are far better than democracies. In the age of the demographic dividend, however, China's highly effective family planning policy has looked like a case of winning the battle, but perhaps losing the war.

In 1975 both India and China had similar shares of working age people—in both countries, for every one person that did not work, there were around 1.3 people who did. The one thing that made the population story of India and China finally so different was India's slow-moving, frustrating, yet highly reactive politics.

A sharp decline in China's fertility that began in the 1970s—thanks in large part to the one-child policy—created an early demographics bumper crop for China. There was a rapid rise in the proportion of working age to non-working age people in the

country from 1970, and by 2010 the number of working people will be two and a half times that of dependants.

China's birth control policies have thus created an especially fast-paced demographic shift in the country, a steep slope all the way down. A dividend that took a century to complete its arc in other countries has taken less than forty years here, and dependency is now set to explode. After 2010 China's working age population will start falling. The country 'is becoming grey before it has become rich'—by 2040, the world's second largest population after India will be Chinese pensioners, over 400 million people![22]

Across the border in India, however, there was a far more languorous shift. India's politics ensured that its coercive family planning programme failed spectacularly, and since the 1970s the demographic curves of these two once similar countries diverged rapidly. India's fertility rate fell slowly from 6.5 in the 1960s to 2.7 in 2006, brought down with rising literacy, improved health indicators and economic growth. Because of a more 'natural' curve, India's dividend will last longer—we have started to experience a demographic dividend since 1980, and it will take until 2035 to peak. By this time India will have added over 270 million people to the working population.

Democracy, in this context, has been a big pay-off for India. Population scientists are universally fond of noting that 'demographics is destiny', but in India's case, it is both demographics and democracy. Today, India's growth story is increasingly the story of its young population. Our economy is the most dynamic in terms of its human capital—India has one of the youngest populations in the world, with a median age of twenty-three, at a time when the rest of the globe is going grey.

China's young and unencumbered generation had come three decades earlier than India's, in the 1970s. It was the generation of the Great Leap, during which China shifted towards capitalism and rapid growth, and experienced massive social upheaval. China's one-child families also meant more focused investments in children, and this generation saw literacy and college completion rates explode. The one-child policy, however, has created the '4, 2, 1' population structure in China—four grandparents, two parents and one child, resulting in fewer young workers and below-replacement-level birth rates since the early 1990s.

These family structures in China have been far more disruptive than we immediately realize. The sociologist Dr André Béteille

makes an especially astute observation. 'Almost none of the Chinese have siblings,' he points out, 'which means no aunts, uncles or cousins. An incredibly alien notion for the rest of the world is the Chinese reality.' The single child family has also created the uniquely Chinese 'little emperor' syndrome—an only child has the undivided attention of the adults in his or her family, which is creating a 'me generation' of highly individualistic young.

Family planning has also intensified certain social challenges. Both China and India have a worrying but popular preference for sons— it is a feudal carry over, the consequence of a persistent, patriarchal mindset. A recent court case in India for a missing girl underlined the worst of this attitude. The presiding judge in the case, astonished on hearing the name of the girl, turned to the parents and asked them, 'Why did you name your daughter Nirasha [disappointment]?' Their lawyer responded, 'My Lord, it was their fifth daughter.'

Prosperity has not changed this preference completely—even as the status of women has improved and a rising emphasis on old-age security based on financial investments has dimmed the charms of the male child, factors such as ultrasound technology have made sex-selective births easier. Sex-selective abortions have dragged the sex ratio down to 925 girls for every 1000 boys, and this has fallen below 750 in some north Indian districts. In China the one-child policy has intensified the girl deficit even more—nationally it stands at 855 girls for every 1000 boys. This alarming 'disappearance' of women will lead to an estimated forty million Chinese men aged between fifteen and thirty-nine by 2026 who will be 'bare branches',[23] unlikely to have families or children of their own. In retrospect, India may have gained some economic and social advantages simply due to its reluctance, or perhaps inability, to fiddle with its demographic curve.* This also means that our dividend is now right before us, both as a potential and as an enormous challenge.

DEMOGRAPHICS AND DEMOCRACY: INDIA'S DESTINY

India is coming into its dividend as an unusually young country in an unusually ageing market—a young, fresh-faced nation in a greying world. Globally, more people than ever before are entering retirement. In fact, even by the 1980s, the heads of European countries had begun to worry out loud about Europe's falling population. 'Europe is vanishing . . . our countries will be empty,'[24] the French president Jacques Chirac had said—the continent was becoming a place of 'old people, living in old houses, ruminating about old ideas'.[25]

This trend of an ageing, shrinking population now visible across much of the developed world, is coinciding with India's experience of a demographic dividend that will last until 2050. This opens up interesting new opportunities for the country, as the challenge of maintaining wealth in ageing societies means that developed markets will have to increasingly outsource their labour requirements. In 2020 India is projected to have an additional forty-seven million workers, almost equal to the total world shortfall. The average Indian will be only twenty-nine years old, compared with the average age of thirty-seven in China and the United States, forty-five in Western Europe and forty-eight in Japan.

An early sign of the immense potential of our human capital has been the growth of India's IT/BPO sector and the rise of 'transformational outsourcing' by multinational firms across industries. The country has seen its global profile rise rapidly on the strength of its human capital—its entrepreneurs, scientists, engineers and management graduates.

India already has the second largest reservoir of skilled labour in the world. It produces two million English-speaking graduates, 15,000 law graduates and about 9000 PhDs every year. And the existing pool of 2.1 million engineering graduates increases by nearly 300,000 every year.

A talented pool of workers, along with abundant capital and investment, presents us with immense opportunities for creativity and innovation, which can in turn lead to rapid gains in productivity growth and GDP. This had once enabled Europe to emerge as a centre for manufacturing innovation in the nineteenth century; similarly, at the peak of its dividend between 1970 and 1990, the United States saw the birth of new technology-based industries that determined the direction of the global economy over the past few decades. Such an opportunity—to emerge as the new creative power and a centre for new knowledge and innovation—now lies with India.

India is also emerging as a rapidly growing consumer market for the world economy, with a middle class that is already larger than

---

*Admittedly, India also faces the challenge of these 'bare branches'—only not as severe as China.

the population of the United States and two-thirds the size of the European Union. Our demographic dividend is set to trigger a further explosion in middle-class consumers as the boom generation comes of age, and over the next two decades India's middle class will swell to over 580 million people. At the same time, the lack of dependants will enable a new phase of guilt-free consumption. It is these multiple forces that are expected to drive a growth rate of 5 per cent for India until 2050[26]—a trend, if it happens, that will be unique and unprecedented in economic history.

INDIA'S DOUBLE-HUMP:
THE CAMEL IN OUR DEMOGRAPHICS

'India's population growth is so different and disparate across its regions,' Ashish tells me, 'that looking at it as a single curve doesn't tell you very much.' The two of us are sitting in a coffee shop, in mid afternoon, with the light streaming in through glass walls. Around us, young people draw tables together, and form cheerful, noisy groups. Ashish is sipping cautiously at his cappuccino—the coffee is steaming hot.

Ashish had come up with the phrase BIMARU (meaning 'sick' in Hindi) back in the 1980s, to describe the personality of India's poorest states—*Bi*har, *Ma*dhya Pradesh, *Ra*jasthan and *U*ttar Pradesh. 'I coined the phrase while on a project for Rajiv Gandhi,' Ashish tells me. 'It was an effective way to describe the economic and social condition of these particular states—they were deeply "sick" in their poverty rates, education and health numbers.' Ashish also found that these states had very different population structures from the south, and their numbers were growing much faster. The BIMARU states now have as much as 40 per cent of India's population—in fact, as the economist Chris Wilson points out, if Uttar Pradesh were an independent country, it would be the world's fourth most populous one.

These northern states have been the major contributors to India's population growth. India's total fertility rate has dropped by just 40 per cent over the past three decades, despite south India having already reached 'replacement fertility' rates. As Ashish wrote, 'What pushes the national fertility up is India's north, the BIMARU states. Fertility levels for the roughly half-billion population in the north are almost twice as high as for the quarter-billion people of the south.'* As a result, as demographers such as Tim Dyson and P.N. Mari have shown, if we peel India's demographics like an onion, we end up with two very distinct areas within the country—a north that, thanks to its recent high fertility, stays remarkably young over the next two decades, and a south which faces rapid ageing.[27] By 2025 north India's population will still be very young, with a median age of just twenty-six. But the median age in the south would be about thirty-four—similar to Europe's in the late 1980s.[28]

This means that India's demographic dividend is actually a double hump, one of which is already nearly exhausted. The first hump of the dividend came from the south and has been 'expensed' in the economic growth that the south and the west of India experienced as early as the 1970s, when their infant mortality began to fall. In the northern states, however, infant mortality has only just started to trend down.[29]†

As a result it is the second, larger hump in India's dividend which is yet to peak, and which will come from the northern states—and primarily from the BIMARU regions. Ashish has estimated that the share of BIMARU states alone in our population growth between 2001 and 2026 will be around 50 per cent, while the share of the south will be only 12.6 per cent. As a result, over the next decade, the north should begin to ride the crest of its dividend, towards higher growth. We have to make sure, however, that this dividend does not turn out to be fool's gold.

---

*At the extremes of this, Uttar Pradesh's fertility rate stands at 4.7, while for Kerala it is 1.8.

†The reality of our double hump explains why India's debates on updating the share of elected seats in our Parliament (according to the latest census data) was so convoluted. The earlier roadmap, as the Constitution defined it, would have updated the shares of seats in the Parliament and state legislatures according to the 2001 population numbers. But southern states, ahead of the development and demographic curve and with low fertility rates, were reluctant to see states with burgeoning populations, such as Uttar Pradesh and Bihar, receive bigger seat shares at their expense. The final law—the Eighty-fourth Amendment in 2002—affected seat shares only *within* states, while the overall share of seats in the Parliament remains frozen till 2026.

BEFORE SUNSET

Our double hump dividend is a particular challenge—India has to ensure a fall in infant mortality, and a rise in the demographic dividend in the north that is rapid enough to coincide with the waning of the dividend in the south. A slow response could create a gap between these two humps, into which the Indian economy could fall through.

India has to consequently move with some urgency to secure the blessings that the seasons have brought. In particular, we must equip India's extraordinarily young population in the northern states with the skills to participate in growth. But as Ashish notes, 'These states are still in a terrible mess in their social indicators.' In Madhya Pradesh, for instance, the malnutrition rate for children under three is 55 per cent, more than double the rates in sub-Saharan Africa.

When it comes to dividends, what demographers say over and over until their voices go hoarse is: 'The chance is not a certainty.' Like people, countries are young once. The flip side of an enormous opportunity is the consequence of failing to take advantage of it. Demographic dividends bring with them the potential for rapid growth and innovation, but also, if we fail to take advantage of them, for dramatic social and cultural upheaval.

As David says, 'So far, the success of the dividend in driving growth has not been uniform at all.' He describes the countries that did not quite manage to cash in on their dividends—the window was open, but the sun did not come in. For instance, countries in Latin America including Brazil stumbled during the 1980s, despite possessing demographic trends that resembled East Asia's. For much of Latin America, this decade was a lost one, as a result of hyperinflation and weak economic policies. Similarly, Russia and Cuba have failed to gain from their demographic positives and a large supply of young workers.

The failure to meet the needs of a vast young population can lead to both instability and political rebellion against governments. The consequences of a failed dividend opportunity are clearly visible in large parts of Latin America, where a discontented population has turned to socialism and populist leaders, and is mired in stagnant growth.

The strength of a large pool of young workers can quickly turn into a weakness if India fails to implement effective policies in education and health, and create sufficient opportunities for work and income. Today, however, just 13 per cent of our young population enrol for higher education. As a result India is already experiencing constraints in its access to skilled labour, and companies have begun moving from B-class to C-class cities in search of lower employment costs.

India's challenges in creating enough jobs have also already begun—a large percentage of our labour force is now in the tenuous unorganized market, with its attendant frailties of seasonal employment and lack of social security. As more people join the workforce, the challenges of providing long-term employment will only grow. Our failure to create these opportunities can turn the dividend into a crisis. We have already experienced these problems through the 1970s and 1980s, when unemployment and the lack of income mobility for working-age Indians fed into criminality and extremist movements across India—such as the extreme-left Naxalite* and extreme right Bajrang Dal (the Saffron People) movements—as well as the rise of the underworld in major cities. Key players in Bombay's underworld, for instance, were people belonging to discriminated groups and the impoverished underclass—Chhota Rajan was the son of a Dalit sweeper, Abu Salem's mother rolled beedis for a living, Chhota Shakeel grew up in a Bombay slum and Arun Gawli's father was a textile worker laid off during the mill strikes of the 1970s. While these circumstances do not exonerate their actions in the least, these are signs of how economic bitterness can create high social costs.

India will also need policies that address the balance of power for women in the workforce. The economist Abhijit Banerjee, who works at the Poverty Action Lab at the Massachusetts Institute of Technology, has emphasized that educating women is a very effective means of improving our social indicators, particularly those related to fertility and health. An educated woman, for instance, insists on educating her children, which is why, as Abhijit notes, 'when you educate a woman, you typically educate a family'. He points out how education would greatly empower women in participating in the workforce, boosting a group that has long been under-represented

---

*The Naxalite movement was named after the village Naxalbari where in 1967 a peasant uprising broke out—one that represented, in the words of a Naxal leader, India's 'first authentic Maoist phenomenon'.

in the Indian economy. Participation among women right now still stands at a low 31 per cent, and their education would 'enable us to tap into our pool of workers much more effectively'.

Once India's 'double hump dividend' reaches its sunset years, social costs will soar. What we have right now is therefore a critical piggy-bank period for our economy; if we cannot increase incomes, education levels and output per capita for workers during the demographic window, any savings for our future ageing will be low. This is our biggest, but also our last chance.

A YOUNG, TURBULENT PEOPLE

'The difference between China and India,' Dr Béteille says, 'is that China can manoeuvre into sharp policy shifts in order to manage its demographics, and quell violence.' But India's coming demographic changes are complicated to control, thanks to its democracy. In addition, India has several demographically prominent religious and caste groups, who have been powerful in determining election outcomes. These groups can corner state resources, and often demand policies that give them unique access to markets, in the form of reservations in jobs and colleges.

This makes demographics in India not just one factor in politics, but the central factor. This gives critical importance to India's ability to manage political and cultural tensions, and ensure that this competition for resources between groups does not turn into outright fights, as demographics change across regions, and as people migrate and push outwards into the cities in search of opportunity.

India's tensions around its changing population are already evident in the strongly in-group rhetoric of parties in many Indian states. For instance, K.S. Sudarshan, the chief of the Hindu organization Rashtriya Swayamsevak Sangh (RSS), appeals to Hindu families to 'have a dozen sons'—a windfall of infants meant to ensure that Hindus remain dominant in India's demographics and elections.* The double hump of India's demographics is also worsening regional rivalries, as labour shortages in the south enable migrants from the north to take advantage of jobs. And as different communities

---

*Sudarshan often celebrates the *mata* in his speeches, the prolific woman who produces large numbers of children; his blessing for women followers who meet him is the alarming 'May you have a hundred sons.'

collide while competing for the same jobs and for seats in educational institutions, hostilities have soared—as in Maharashtra in the rhetoric against non-Marathi-speaking Indians, in Delhi in the debate over worker ID cards and in Karnataka in the efforts to make the local tongue, Kannada, the 'sole language'.

Governments can choose to either fan the flames for short-term votes or intelligently address the questions that are rising around hiring practices and admissions in educational institutions across states, the right to use one's language in the public sphere and cultural identity. Governments here will have to choose between reforms that improve access to jobs and education and short-term, divisive politics. This will be key to determining how much the country will gain from its emerging dividend.

The impact of our changing demographics will be a cycle in either effectiveness or disaster—harnessing it for growth will minimize our divides and dampen the demand for community-based benefits. But if we fail, our demographic curve will become a line to a powder keg.

'PEOPLE, PEOPLE, PEOPLE': OUR CHANGING IMPRESSIONS

Looking back, the common man and woman have been bit players in our histories, their role determined by statistics and crowds. It is only recently, particularly since the 1970s, with the rise of labour productivity and the knowledge economy, that the political power of people has been accompanied with greater economic power.

This shift in power has been especially significant in India. For a long time, governments regarded the country's population as its great liability. Vastly poor and illiterate, India's people were 'the great unwashed', a burden not just for the country but also a worry for the rest of the world. Today, however, India's growth is credited to its strength in human capital, and the rise of IT in India, for instance, is seen in terms of 'Indian talent',[30] as entrepreneurs and workers overcame the barriers that existed in the 1990s to drive growth.

Our human capital has thus transformed from an albatross into India's most significant advantage. There is a growing realization within our government that India's most critical reforms will be those that impact the quality of our upcoming demographic

dividend—and it is consequently policies in education, health and labour laws that are receiving the closest attention.

We can trace the change in sentiment to the topmost levels of India's governments. Indira Gandhi, referring to the country's crowds, had once said, 'We cannot afford to be a flabby nation.' But Manmohan Singh says, 'It is in India's superb human capital that our advantage lies.' The change in this idea of population as a 'burden' to population as an 'asset' is central to what is driving India today.

But the role of people as 'human capital' requires props that are still missing, or only half there. Our vast numbers of people can only participate in our growth story if we provide them 'access'—to the roads that take them to work, to lights that allow them to study at night and the English skills that enable them to tap into the benefits of our growth. .

In some ways, the rise of this boom generation is in itself paving the way towards the solutions it needs. The exuberance of this demographic, this pool of restless, ambitious, young workers not hamstrung by tradition and old habit, is a shot in the arm in terms of new ideas and opportunities. And democracy is ensuring that their voices are heard, and the state is beginning to respond.

For instance, the same day that the young Indian cricket captain Mahendra Singh Dhoni led his team of twenty-something players to victory in the Twenty/20 ICC World Cup, the Congress party announced Rajiv Gandhi's son, the thirty-eight-year-old Rahul, as the general secretary of the party. During the announcement, one party worker alluded to Rahul as Congress's Dhoni. This is not a token move—there has been a simultaneous push to induct other young leaders to senior positions in both the Congress and the Bharatiya Janata Party (BJP).

And at political rallies in even the most rural parts of India, there is a clear change in the tenor of the speeches. At one such rally in the small town of Bettiah in Bihar held in 2007, the air shimmered with heat and possibility. On a makeshift dais, the chief minister Nitish Kumar was promising more jobs and business investment for the state's young citizens. 'Our young people leave the state and go for jobs elsewhere . . . we need to make such opportunities happen here. Only then will the young stay.' His words were met with roars of approval. It is a sound that gives me hope.

INDIA, BY ITS PEOPLE

1. B.M. Bhatia, *Famines in India*, Konark Publishers, 1985.
2. Asoka Bandarage, *Women, Population and Global Crisis*, Zed Books, 1997.
3. Savitri Thapar, 'Family Planning in India', *Population Studies* 17(1), 1963.
4. Ashish Bose, 'The Population Puzzle in India', *Economic Development and Cultural Change* 7(3), 1959.
5. Clark D. Moore and David Eldridge, *India: Yesterday and Today*, Bantam Books, 1970;
6. S. Chandrasekhar, 'How India Is Tackling Her Population Problem', *Foreign Affairs* 5(2), 1968.
7. Indu Agnihotri, 'Endurance of a Malthusian Discourse', Review of *From Population Control to Reproductive Health: Malthusian Arithmetic* by Mohan Rao, *Economic and Political Weekly*, December 2005.
8. Clark D. Moore and David Eldridge, *India: Yesterday and Today*, Bantam Books, 1970.
9. P.N. Dhar, *Indira Gandhi, the 'Emergency' and Indian Democracy*, Oxford University Press, 2001.
10. Kai Bird, 'Sterilisation in India: Indira Gandhi Uses Force', *The Nation*, June 1976.
11. P.N. Dhar, *Indira Gandhi, the 'Emergency' and Indian Democracy*, Oxford University Press, 2001.
12. Margaret Sanger and H.G. Wells, *The Pivot of Civilization in Historical Perspective*, edited by Michael Perry, Inkling Books, 2001.
13. Ibid.
14. Steven Mosher, 'China's 25 Year One-child Policy', *The Human Life Review*, Winter, 2006.
15. Ibid.
16. Asoka Bandarage, *Women, Population and Global Crisis*, Zed Books, 1997.
17. Ibid.
18. Julian Simon, *The Ultimate Resource* 2, Princeton University Press, 1998.
19. Charles Dickens, *Sketches by Boz*, Penguin Classics, 1995.
20. S. Pollard, *The Genesis of Modern Management*, 1965, cited in Keith Grint, *The Sociology of Work*, Polity Publishers, 2005.
21. Sunil Amrith, 'Political Culture of Health in India: A Historical Perspective', *Economic and Political Weekly*, January 2007.
22. Helen (Hong) Qiao, 'Will China Grow Old Before Getting Rich?', in *Goldman Sachs BRICs Report*, 2006.

23. Valerie Hudson and Andrea den Boer, *Bare Branches: The Security Implications of Asia's Surplus Male Population*. BCSIA Studies in International Security, MIT Press, 2004.
24. Myron Weiner and Michael S. Teitelbaum, *Political Demography, Demographic Engineering*, Berghahn Books, 2001.
25. Ibid.
26. Dominic Wilson and Roopa Purushothaman, 'Dreaming with BRICs: The Path to 2050', Global Economics Paper No. 99, Goldman Sachs, October 2003.
27. P.N. Mari Bhat, 'Demographic Scenario, 2025', Study #S-15, Research Projects on India—2025 conducted by Centre for Policy Research, New Delhi, July 2003.
28. Tim Dyson, 'India's Population: The Future', in *Twenty-First Century India: Population, Economy, Human Development, and the Environment*, edited by Tim Dyson, Robert Cassen and Leela Visaria, Oxford University Press, 2004.
29. P.N. Mari Bhat, 'Demographic Scenario, 2025', Study #S-15, Research Projects on India—2025 conducted by Centre for Policy Research, New Delhi, July 2003.
30. Dr R.A. Mashelkar, 'Opening Avenues for Growth of IT, i.e. Indian Talent', *Indian Express*, September 2005.

THE DEEPENING OF OUR DEMOCRACY

THE UNEXPECTED COUNTRY

Leo Tolstoy once wrote about India, 'What does it mean that thirty thousand people, not athletes, but rather weak and ordinary . . . have enslaved millions of freedom loving people? . . . Do not the figures make it clear that not the English, but the Indians have enslaved themselves?'

The Indian subcontinent was indeed a region that the British captured and dominated with surprising ease. The historian Tarinicharan Chattopadhyay remarked in 1858 of the humiliation that British rule implied—that a region of such size had fallen under the sway of a tiny island.[1] But in reality, the unity of the Indian subcontinent was a tenuous one: it comprised mostly small, battling kingdoms that, absorbed as they were with their rivalries and resentments, fell piece by piece to the British.[2] Even when there was resistance against British rule, it remained small and localized, especially through the nineteenth century—such as the rebellions in Chota Nagpur among the tribals, or in the early 1850s in Bihar and parts of western India. The largest of these resistances, the 1857 mutiny, emerged within a relatively cohesive community—the Indian army.

So we could not easily dismiss the British claim of having 'invented India'—the British shaped the country's boundaries from a deeply divided region. There was no dearth of economists and writers who suggested at the time of India's independence that this 'artificial' nation, so intensely fractured along so many fault lines, would not be able to hold itself together for long.[3]

After all, the very concept of the nation state, that post-Renaissance ideal, had its roots in liberalism and the rise of an educated middle class. But India, like the many 'new democracies' that emerged in the 1940s and 1950s, was a largely poor and illiterate country that had little history of a widespread, liberal movement. We were a country that underneath the surface was what it had always been—a region riven by factionalism, whose caste and religious divisions seemed to be written in stone.

But the sum of India, as it were, remained greater than its parts. As it crossed its sixtieth year of independence in August 2007, India was praised around the world as a rare and heartening example of an Asian country where democracy has thrived, and as a nation that has managed both political unity and high rates of growth.

But our commitment to democracy has been neither natural nor easy—it has been hard-won. Since independence, India's leaders were careful to frame our economic and political policies primarily around our commitments to unity and democracy. Secular principles were paramount across our laws, and early governments unrelentingly opposed ideas that specifically threatened India's young, democratic institutions. Nehru, for instance, despite his strong belief in a socialist economy, rejected 'full-blooded socialism' because it undermined democracy—'The price paid,' he wrote, 'is heavy.'[4] As the sociologist Atul Kohli tells me, 'Considering our history, India's leaders could have chosen a system that was half-hearted in terms of democratic and civil rights. Many of us didn't recognize how exceptional the untrammelled democracy we got instead was. It was a gift.'

BUILDING TOWARDS A DEMOCRACY

India's path to democracy—from an outright feudal, chaotic region to Britain's jewel among its colonies and finally to its independence in 1947—was not an evolution that encouraged liberal and secular ideas to take root. In the 200 years that India transitioned from a patchwork of kingdoms to a democracy, the essence of its society changed very little. Under the British government, the region remained both divided and feudal.[5]

The British viewed India more as an economic possession than as a political entity—India was one part of the broader Empire, and the administration even celebrated 'Empire Day' in the colony, which fell on 24 May, Queen Victoria's birthday.[6] Their attention to India's social divisions was unapologetic, partly because they never really envisioned India as a single community, but as a hotchpotch of disparate groups and regions they had stitched together into a colony. The Empire's governors and census officers emphasized the country's hierarchies, particularly caste, in its imperial surveys, and district gazetteers used caste identities to classify Indian populations.[7]

Elections in India under the Empire only hardened the caste, religious and class divides that already existed. Some form of elections had taken root as early as 1882, through Lord Ripon's resolution that allowed privileged Indians such as zamindars, princes and the wealthy merchant classes to elect candidates into municipal councils.[8] Caste lines came into sharp relief in voter eligibility—during the 1920s' elections in Bombay, for instance, 'a Brahmin was a hundred times more likely to possess the vote than a Mahar', the caste that Dr B.R. Ambedkar belonged to.[9] A report by Montagu and Chelmsford on these early Indian elections worried that this voting model was teaching Indians to 'think as partisans and not citizens'.

So much then for the 'civilizing effects' the British claimed to have brought to India. It turned out that instead of the occupiers transforming Indian attitudes, it was the British officers who absorbed the caste and regional distinctions within Indian society, and they tended to stereotype Indians accordingly—into the 'bigoted julaha', the 'brave Sikh', and so on.[10]

෴

It was the Indian leaders who brought real passion towards the idea of remaking India into a democracy. The leaders who emerged through the early twentieth century emphasized national unity above everything else, an approach that they hoped transcended the distinctions of the region's communities. For Indians, this focus on unity was a necessary choice if they were to mount a coherent dialogue with (or if it came to it, a unified resistance against) British rule.

For these Indian leaders, the provincial elections of 1937 were an important mobilizer and unifying force for the Indian electorate.

Lord Erskine, Governor of Madras, commented in the 1930s that the Congress leaders were 'panting for office'.* But it was the impassioned, involved campaigning these Congress leaders did for the elections that enabled a nascent, nation-wide political awakening.[11] Nehru in particular, although he did not contest the elections, focused on getting as many people to vote as possible—he travelled 80,000 kilometres and spoke to ten million people, addressing in some places gatherings of over a hundred thousand.[12] He later described how the headquarters of the provincial governments attracted hundreds of curious viewers: 'hordes of people, from the city and the village, entered these sacred precincts and roamed almost at will . . . they went into the Assembly Chamber . . . even peeped into the Ministers' rooms.'[13] Perhaps this was an effort to evoke the sense of a radical beginning, a parallel to the entry of the peasant revolutionaries into the palace of Versailles in 1789 and into Russia's Winter Palace in 1917.

The focus among Indian leaders on building a national electorate meant that they strongly protested against the British characterization of caste and religion as core parts of the Indian identity, and especially objected to any kind of religion- or caste-based privileges. For instance, when Ambedkar reached an agreement with the British government in 1932 to create separate electorates for scheduled castes under the Ramsey McDonald Communal Award, Gandhi vehemently opposed it. He eventually forced the Dalit† leader (by going on a fast, which Ambedkar called 'moral blackmail') to sign the Poona Pact, which maintained general seats with reservations for scheduled castes.

But it was difficult for India's independence leaders to knit together a truly unified front against the British. Large parts of the middle class—so critical to an effective freedom movement—remained ambivalent in its support for independence. India's business class, for instance, was concentrated among the Bania caste who had expanded into large-scale industry, trade and banking under the British. The propertied classes had also flourished under British rule

---

*This snark was unfair—Nehru, for instance, refused to stand for these elections, stating that they were not fully democratic.

†Dalit was a self-adopted title of the 'scheduled castes' and means 'a broken people'.

through the zamindari-style revenue systems, and the arrangement the British had with the princely states had preserved the wealth of much of India's royalty.[14] The zamindars formed the British Indian Association as early as 1851, and the British secretary of state E.S. Montagu wrote of its head in his *Indian Diary*, 'He has a fierce love of the British connection . . . a firm belief in it.' Among these groups, loyalties were divided, and fence-sitters numerous.

∝

But Indian leaders eventually managed to garner some support from these communities for the independence movement; the slogan of swadeshi, for instance, was at its heart a protectionist policy and found immense favour with Indian business. But the need to build bridges between various groups meant a lot of pussy-footing around the country's very worrying social challenges.

The strategies that Congress leaders championed sometimes unintentionally strengthened the very structures—caste and religious divisions and exploitative rural systems—that would later conflict with independent India's democratic vision. Gandhi, for instance, mobilized farmers into the national freedom movement, but his emphasis on non-violence emasculated them in their ability to fight predatory groups such as moneylenders and zamindars.[15] Similarly, Congress leaders often resorted to religious analogies and symbols while drumming up support for the independence struggle;[16] they would compare the independence movement versus the British as support for 'Ram or Ravan', and the red colour of Holi with the blood of national sacrifice.[17] In one Congress poster, the rape of Draupadi was reimagined with India as Draupadi, her attacker as the British and Lord Krishna as Gandhi.[18] The intensive use of such Hindu symbolism resulted in Muslims complaining of feeling shut out.

But for Indian leaders it was imperialism that was the enemy, not feudalism. Nehru even wrote in an article for *Foreign Affairs* magazine in 1937, 'No one [in India], whatever his political views or religious persuasion, thinks in terms other than those of national unity.' But as independence neared, these divides grew more apparent, and religious party leaders became especially vocal and provocative. For instance, there was the Muslim League's demand that they represent every Muslim political candidate in India, which alienated

the League and the Congress even further. At the same time, Hindu leaders such as M.S. Gowalkar were demanding that India's minority religions ought to 'remain wholly subordinated to the Hindu nation', and even Congress leaders such as Abul Kalam Azad suggested that 'there will be nothing left with us if we separate politics from religion'.[19]

There was clearly a tug of war emerging in defining the Indian state—whether India would be ruled by its divisions or by a still-foreign secular ideal. The educated leaders made their case for India in the language of secularism and equality, which was very different from the 'language of blood and sacrifice . . . of ancient, God-given status and attributes' that the rest of the country spoke.[20] Indian leaders worked so hard to deny these social realities that they considered the country's major ethnic fractures—its religious, regional and especially caste divisions—far less critical than its class divide. This allowed socialist policies, focused as they were on class and poverty, to gain traction.

But in defining our class divides entirely separately from these other cleavages, Indian leaders ignored the particular nature of our poverty. The sociologist Ashutosh Varshney has noted that India's class divides were a 'ranked ethnic system' that combined both caste and class, similar to the apartheid systems in South Africa in that bloodlines would be a fair predictor of where you stood in the society in terms of income, respect and authority. As Varshney tells me, 'The poor in India were not just poor, they were overwhelmingly low caste.'

This relationship between class and caste held strong across Indian communities. As the writer and journalist Harish Damodaran observed when I put this question to him, 'the business classes in India were dominated by the "Vaishya castes", and the business networks they built were around family and informal caste connections. These were tremendously difficult for an outsider to penetrate.'

Harish himself is an interesting example of our past and present attitudes on caste. Harish, who recently published a book titled *India's New Capitalists*, has intensively studied the dominance of certain castes across Indian industry. He is the grandson of E.M.S. Namboodiripad—the leader of the CPI(M) in Kerala, who like many in his generation had dismissed the relevance of caste in India.

APRON STRINGS: THE MONOLITHIC STATE

It is remarkable how much India's political and economic policy was shaped not just by the dreams of our leaders, but also by their fears. In trying to kill India's divisions by denying that they existed, our leaders, post-independence, created secular policies that erred on the side of control, sometimes to the point of being undemocratic. It showed quite decisively that being secular and being democratic were not always the same thing. 'The secular ideas that the government embraced were not necessarily popular ones,' Atul Kohli says, 'and the government had to take on a top-down structure to implement them.'

The central government also refused to recognize uprisings that went against its core beliefs, and popular demands for preferences based on caste and religion got a sharp rap on the knuckles. In the 1950s, for instance, the government initially ignored the clamour for language-based boundaries in the Bombay and Hyderabad provinces, and gave in only when pushed into a corner as violence and protests escalated. Popularly elected governments at the state level were dismissed by the centre if they were not secular or liberal enough. As early as 1953, the Delhi government imposed President's Rule in Punjab, dismissing a government it saw as sympathetic to secessionism, and did it again in 1959 when the communists came to power in Kerala.[21] And in Kashmir the government made anti-democratic decisions in the name of unity and secular identity, which have come back to haunt it: beginning with the arrest of the state's chief minister, Sheikh Abdullah, in 1952, and his replacement with sycophants. This was a leadership that was obviously uncomfortable with stirrings at the grassroots.

In fact, for a long time, Congress leaders in Delhi saw their party as the lone bulwark against India's feudal urges—Congress was the sole 'agent of destiny'[22] that could fulfil India's vision of a democratic nation.* To ensure this, the government in Delhi created a culture of centre-driven, top-down governance that may indeed have protected the ideas of secularism and liberalism from popular erosion. But this

---

*Even much later, the Congress party continued to hold on to this idea, and viewed opposition movements as a betrayal of national interest—as when, in the 1980s, Rajiv Gandhi made frequent insinuations about the loyalties of political parties opposing Congress policies.

also allowed bad ideas to stand longer than they should have—such as the quasi-socialist policies that by the late 1960s had already proved to be weak and ineffective.

Ambedkar had observed that democracy in India was a mere 'topsoil' that lacked any deep roots, and the one advantage, perhaps, of this was that the Indian government did not face many challenges in the early years of democratic rule—the majority of Indians were politically illiterate and unaware of their rights.[23] This gave the Congress, Atul notes, plenty of elbow room and decisive majorities to enact secular, democratic policies in a country not necessarily committed to these notions.

But the prescriptive state that came into being also allowed a large number of weaknesses to creep into India's democracy. It allowed the government, for example, to ignore the realities of Indian society far longer than it should have. The first Indian government went to the extent of eliminating the caste factor from the 1951 census, and the writer Christophe Jaffrelot notes that when it was compelled to categorize the backward castes besides the scheduled castes and tribes, it termed them the backward 'classes', pointedly avoiding the word caste. In 1953, when the Backward Classes Commission estimated that the lower castes dominated the numbers among India's poorest communities, the government, alarmed at these implications, rejected its findings.[24]

Through these years, the Indian government swept these ethnic issues under the carpet, in favour of unity and nationalism. But they remained intact and resilient nevertheless. Ambedkar—who was the most perceptive of India's leaders of how vicious our fractures really were, having personally suffered from them—had predicted that democracy would not be the bed of roses that the Indian government envisioned. Instead, he said, 'In political life we will have equality and in social and economic life we will have inequality.' And, as it turned out, he was depressingly on target.

In part, India's fractures were not overcome because the government too fell victim to them. Even as the Congress at the centre rejected the relevance of caste and community privileges, its formidable organization rapidly adjusted itself and its election strategies to local realities. So we would find that in canvassing for and recruiting candidates the party was aggressive about courting groups such as the upper agricultural castes, who could assure block votes from the tenant and peasant communities.[25] And by aligning with these caste

elites to win elections, the Congress created governments that allowed dominant castes to 'colonize state systems with their kin',[26] keep governance all in the family and distribute public resources on the basis of bloodlines.

As Kanchan Chandra notes, this resulted in schools and wells built only where the dominant castes of the village lived, the segregation of election booths for 'upper' and 'lower' castes and the marginalization of Muslim communities in Hindu dominant areas. When the other backward castes (OBCs) and Dalits demanded land rights and access to state resources, they often faced violence—sometimes aided by the local government. In many ways, this was a heartbreaking letdown after the early promise and possibility of the democratic vision.

THE GROUND HEAVING UPWARDS

The top-down style of Congress governments and the party's unchallenged hold at the centre through the 1950s and 1960s would eventually be its own prison. Despite the government's ineffective policies, the Congress party got re-elected to power in each election, and this meant that economic growth—which would have had the most powerful, scouring effect on India's feudal structures—did not take place. And without broad-based growth, India's various communities only grew angrier at the ineffectual state and clamoured harder for special privileges, state benefits and patronage.

The Congress's struggle to maintain a secular stance in a feudal country also chipped away its popularity. The writer Baldev Raj Nayar traces how the party tied itself up in knots in Punjab in its efforts to alternately pander to the state's Sikhs and then the Hindus. The Congress in Punjab had initially opposed the formation of a Punjabi Suba (a state for Punjabis), but in 1957 it changed its mind and the pro-Suba Akali Dal aligned with the Congress party to form the government. But in 1962 the Congress again opposed the Punjabi Suba demand.[27] The compulsive flip-flopping of a secular, ineffective party angered pretty much everyone, and allowed other niche parties willing to mine these ethnic fractures to gain popularity. In Maharashtra, in 1965, Bal Thackeray's magazine *Marmik* began to publish statistics of the Marathi population in Bombay and, for easy comparison, the lists of top officers in the city's businesses and

bureaucracy, most of whom were south Indian. The paper bemoaned the 'spectacle of Marathi *manus . . .* relegated to the job of coolie or peon while the clerical and management job went to others.'[28] The party that Thackeray went on to found has since then been unequivocal in its position of keeping the state's jobs and education seats for ethnic Maharashtrians.

Even parties ideologically devoted to the notion of class war were aware of how India's other divisions dominated the country's consciousness. The Communist Party of India (CPI), for instance, made the claim that its symbol, the ear of corn and the sickle, was 'the image of Goddess Lakshmi'.[29] And when the CPI(M) came to power in Kerala in 1957, it was buoyed mainly by the support of the Ezhava caste, rather than any broad-based, working-class appeal.

The year 1957 also saw the Indian sociologist M.N. Srinivas make a speech at the Indian Science Congress, which predicted that democracy in India would not fulfil the great hope of a 'casteless society'. Srinivas, who in this speech contradicted much of the popular wisdom of the time, noted that caste in India was far from dead. He observed that the Indian Constitution notwithstanding, castes in states like Gujarat had printed their own 'constitutions', and the country was witnessing a growing 'manipulation of the processes . . . of democratic politics by caste lobbies'. He coined the phrase 'vote bank' to describe how this was playing out in villages—people were coalescing together around politicians of their own castes in return for public goods and services.[30]

By the mid 1960s, caste was becoming firmly established in Indian democracy. There was an emerging consciousness during these years among India's lower castes and a growing prominence for regional politicians. The green revolution had come to India and turned many mid-level peasant castes into prosperous communities, who aspired for a political voice that matched their new economic strength.[31] These changes were accompanied by a rising tide of frustration with Congress governments, who after two decades had little to show in either economic or social progress.

The spreading dissatisfaction also turned democracy from a light touch into something akin to a forest fire. The 1967 elections indicated that Congress support was beginning to crumble at the state level, when the DMK won for the first time in a Congress state on an anti-Brahmin platform, while in the north the Jan Sangh was making inroads into urban areas and key states.

The clamour soon reached the centre's ears, and unsettled them in their chairs. Indira Gandhi responded by fashioning herself as an anti-business populist, trying to appeal to the electorate as one mass—the poor—even while she did little policy-wise to fix their problems. The dismal economy, meanwhile, only hardened local movements. Radicalism took off, triggering violence, stand-offs with police, blood on the streets. The differing concerns of the All Assam Students' Union (AASU), the Naxalite insurgents and the Dalit Panthers indicated discontent that was widespread across regions and castes.[32*] The platforms of these movements revealed an anger that would not be denied, anger at being relegated to the sidelines economically and politically; their language was of 'total revolution', 'liberation' and of 'becoming rulers'.

Indira Gandhi resorted to coalescing power at the centre, demoting the authority of state Congress leaders and governments and violently suppressing these emerging movements. The Emergency that the government finally declared in 1974 was in many ways the last gasp of a centre trying to force India's regional, religious, class and caste divides back into the bottle—Indira herself justified the Emergency as a means to 'preserve and safeguard our democracy'.

In retrospect, the 1970s was a red-letter decade for India, a time when democracy was virulently attacked from all sides, was upended dramatically by the prime minister, and yet proved itself resilient. These years saw Indian democracy truly come into its own—the post-Emergency elections in 1977 marked the beginning of the end of a long era of Congress-led, one-party rule. From then on, Atul notes, the decline of India's once-dominant Congress party, while drawn out, would also be decisive.

Since then, it is politics aligned around India's divides that has emerged triumphant. The government that followed Indira's was a defiant medley of peasant-based parties—the socialists, the Swatantra Party and the Jan Sangh. And this government brought the issue of caste-based policies and rights to the centre of the debate for the first time with the appointment of the 1978 Mandal Commission.

---

*The major cause of the AASU was against immigrants from Nepal and Bangladesh taking up jobs in Assam. The Dalit Panthers was mainly a Tamil group fighting for greater social and welfare rights for the Dalit community.

OUR NEW POLYCENTRIC STATE

'The endurance of its democracy,' Atul tells me, 'is what makes India stand apart. It's a given, and completely unquestioned in the country.'

For a long time, Indian leaders saw the rejection of our divisions as essential to the survival of our democracy. But the truth has turned out to be the opposite—Indian democracy has had to absorb its divides to survive. The coalition style governments that have dominated since the late 1980s, and the regional and caste parties that have emerged at the state level have directly contradicted fears that these parties would threaten secular rule. These movements in fact have shown a respect for democracy—as the social scientist Sudipta Kaviraj notes, they have only 'wished to enter, not to shake the structures to dust'. Suppressing such movements and Indira's attempts at 'government by wilfulness' were the real threats to Indian democracy. Such repression only encouraged more violent groups, as in Punjab, where militancy flared up around the demands for an independent state. This escalated rapidly in 1984 when Indira's government initiated Operation Bluestar to flush out militants from their hideout within the Golden Temple in Amritsar. The operation came to an appalling end, with more civilian worshippers than militants killed, and less than six months later Indira's Sikh bodyguards assassinated her.

While Indian democracy has progressed a great deal since the 1980s, the tendency of our governments towards repression still exists, and it has contributed to a drawn-out struggle against terrorism in India. Governments in India have made it a habit to respond to breakouts in violence with a heavy and indiscriminate hand—both Indian and international media have covered the many abuses of the Indian army in Kashmir and in Assam in their fight against militants. Laws such as the Terrorist and Disruptive Activities (Prevention) Act (TADA) that the Rajiv Gandhi government passed in 1985 to handle violence in Punjab and the Prevention of Terrorism Act (POTA) that the NDA government introduced after the 9/11 attacks in the United States also massively scaled back civil rights for terror suspects. These laws, now repealed, allowed forced confessions in court, phone tapping and censoring mail, and gave prosecutors significant powers when it came to detaining and questioning people. Such draconian responses, and the abuse that civilians in terrorist-hit regions have suffered, only helped create sympathy (and recruits) for militant movements.

What is worrying is that the recent spasms of terrorist attacks across India have revived calls to bring back POTA and similar laws. But what we truly need to end such attacks is still missing—reforms in the systems of our police and judiciary, and in our intelligence agencies, which are now damaged and deeply politicized. Laws such as POTA are a weak substitute for this and inevitably capture civilians along with terrorists into their net thanks to the vast powers they give police and prosecutors to detain and interrogate—and they have a much higher chance of backfiring with more violence than catching the real terrorists.

⊷

The years since the 1980s, however, did see progress elsewhere. We began to see the two conditions for a true and effective democracy—voter mobilization and political rivalry—emerge, especially with the rise of regionally powerful parties. This transition from top-down to a bottom-up politics has rapidly reshaped the face of Indian democracy. For instance, the 1989 Janata Dal-led coalition government, had an explosive effect on caste politics, when it gave a new lease of life to caste-based reservations and implemented the 1978 Mandal Commission recommendations. Such caste-based demands for economic rights have since then become an effective way to bring the backward classes together into a reliable voter base.

The parties that have come into prominence across India ever since have been based on outright caste, regional and religious appeals—for instance, the Shiv Sena with its 'sons of soil' rhetoric and also a strongly religious tilt, the Telugu Desam Party (TDP) with the support of the Kamma caste and the Rashtriya Janata Dal (RJD), a party split away from the Janata Dal, supported by the Yadav caste and the Muslims.[33] The sloganeering of these parties has been highly confrontational—the RJD campaigned with pitches like 'Rome belongs to the Pope and Madhepura to the Gopes' (Gopes being another name for the Yadavs). The TDP in Andhra Pradesh also capitalized strongly on regional sentiments during the 1980s and 1990s—the state's film-star chief minister N.T. Rama Rao fashioned himself as a wounded lion by complaining of snubs by the Congress at the centre and declaring that New Delhi's leaders had insulted 'the honour of the Telugu people'.[34]

This in-groupism has also shown its ugly side in discrimination and backlash against specific castes and communities. In Ahmedabad, for instance, after the Mandal Commission riots, around 300 'only-Dalit' residential societies came up as other cooperatives refused to rent or sell to Dalits. Such caste- and religion-defined ghettos are pervasive in towns and cities across north India, even in Delhi and Bombay. While riding on Bombay's suburban rails, it does not take more than a fleeting glimpse to know—from the crowds and the lingo (especially within the older parts of the city, towards Dadar and Haji Ali)—which areas are dominated by Hindus and which by Muslims. The landscape of these ghettos is a sobering reminder of the ugly possibilities of our divides.

And who can forget Qutubuddin Ansari, the Muslim man who was caught on a journalist's camera during the Gujarat riots, pleading for his life in front of a Hindu mob? The photograph captured the zeitgeist of the 1990s and early 2000s, a time that saw the rise of religious politics as a significant challenge to the secular state. During these years, the Ayodhya issue and the 'we shall build the Mandir' slogan of the BJP turned the party into the most prominent national challenger to the Congress for the first time since independence. Religious parties have managed to tap a deep vein of partisan religious sentiment through such rhetoric and ordinary Indians have paid the price for it—with the Bombay riots in 1992 and 1993, followed by the bomb blasts months later, and the Gujarat riots in 2002.

Parties such as the BJP have employed a form of religion-based politics familiar to conservatives in many parts of the world—a blend of religion and reform-friendly policies which enables them to whip up mass support and retain a populist appeal, while also promoting development. But Indian democracy itself has played a critical role here in tamping down extremist grassroots sentiments. The mainstream press and politicians have been unsympathetic in describing the people involved in religious riots as 'miscreants', and even those who support such movements have to do so covertly. India's secular identity thus fortunately forces even communal politics to play by certain rules. The writer and professor Mahesh Rangarajan pointed out to me that when the BJP came to power at the centre in 1999 with the support of regional parties it could not make radical moves on the Babri Masjid issue that it had promised earlier, and insisted instead on the need for a court decision.

Nevertheless, the rise of rath yatras,* the Ayodhya issue and the Gujarat riots are signs that religion-based politics in India has significant momentum. 'Religious themes work quite successfully in the politics of the west and the north,' Varshney says. 'It's something we must still work through.'

OUR NEW FREEDOMS AND DISCONTENTS

If we look back for signs of when our more spontaneous, bottom-up politics took off, we see a remarkable surge from 1985. Atul notes that it was from that year, as the first phase of reforms gave more autonomy to states in economic decision-making and power, that our politics began to see real churn.[35] States fell one by one away from Congress rule and regional parties were on the ascent. Maharashtra was the last state to leave the old era and the Congress behind, when the Shiv Sena emerged as the second largest party in 1990 and formed a government in 1995.[36]

In fact, looking at India's trends of political fragmentation and reforms, cause and effect are pretty difficult to separate. A big problem for central governments through the 1960s and 1970s was the growing resentment of the states, which lacked authority over revenues and taxes. Of course, without economic power, there was also little responsibility—states were fighting with what money they did get from the centre, giving it away as freebies. Political competition between the centre and the state only worsened this dynamic; rival parties at the state level which emerged in Tamil Nadu, West Bengal and Uttar Pradesh could blame the centre for underdevelopment, killing local support for the Congress party. The central government was recognizing the political price it paid for being solely responsible for the country's growth.

There may have been another, more direct link between fragmentation and reform. The need to control an internally fractious country, along with concerns around Pakistan, compelled the Indian government to double its defence budget during the 1980s. The 1989–90 budget froze defence spending at $8.5 billion, though the actual figure has been calculated to be as high as $11 billion. The imports of defence capital equipment and aircraft contributed to the balance of payments crisis in 1991—a high price to pay for control.* And in this sense, India's political fragmentation influenced the shift to reforms both indirectly, to limit the damage of low growth to the centre's political credibility, and more directly, by aiding the rise of the fiscal crisis.

We have seen different things unite India at different times and these forces brought the country different orders of stability. Our early, monolithic state managed to create both unity and a slow-moving economy where little changed, and little was expected to. But in the last quarter century, the things that have come to unite India—a rising aspiration, connected with our rapid growth—while potentially more sustainable, are also shaping a more turbulent nation.

India's particular challenge, as Varshney tells me, may be one of sequence. 'Capitalism came to Europe before democracy,' he says, 'but in India it's the reverse. So the private sector faces political pressures that Europe and the US didn't experience.'

As a result economics is clashing somewhat messily with politics in India, and it has come up against regional, religious and caste loyalties. But even as India's political turbulence is impacting the rise of our markets, the growth we have already seen is realigning India's political equations. Across countries, the disappearance of feudal feelings has tended to emerge as trade and business bring people from diverse groups into contact and bind them into large-scale, interconnected social and economic networks. In this sense, secularism and capitalism are woven of the same thread.

The need for social capital and mutual trust in India's market economy—to form working networks, supply chains and non-family business relationships—is reshaping India's divisions across religious, caste and regional lines. The penetration of the supply chains of big retailers into the countryside is taking farmers away from the old, informal and often caste-dominated networks of middlemen and commission agents and connecting to them to more organized and 'caste-neutral' relationships.

And as capital and talent became widely available in India's free

---

*The rath yatra or chariot festival became a powerful tool for L.K. Advani, president of the BJP, as he went on his own cross-country chariot tour to mobilize support around the Ayodhya issue.

*It is not surprising that the biggest scandal of this decade was the Bofors scandal—when the government was accused of receiving bribes to award army supply contracts to the Swiss company Bofors AB.

markets, the family firm has also become less ideal—after all, if you were stuck in a family business with your clueless cousin, you lacked the conveniences of a contract-based relationship and the freedom to appoint the talent you needed. And indeed, post-reform many family firms began to untangle—the Ambani brothers have divvied the company up between themselves and parted ways; the Mirchandani family, which owns the firm MIRC Electronics, and the Mafatlal family group of companies, found themselves in the midst of bitter feuds; the Birla conglomerate and the DCM group, both of which had built up massive enterprises in the decades before 1980, also broke up. The ties of blood in business—among both family and caste—are rapidly thinning.

Improved education and social indicators are also affecting perceptions on the importance of caste and religion in politics. Even some minimal effects of growth have had significant social impacts. For example, during the 1980s the new affordability of synthetic shirts and trousers made them popular across castes and classes, eliminating the earlier dress differences—'the coarser khadis, sometimes shirtless outfits'—that had marked backward castes.[37] This has only grown more intense since the 2000s. Across the cities of Delhi and Bombay, you find tailors whose shops carry denim material in every shade and texture. At a fraction of the price of a Levi's, they stitch you a replica, difficult to tell apart down to the rivets on the label.

This trend was already visible in the south, where improved access to the economy and higher levels of growth—combined with better education and health achievements—has impacted political trends. 'You tend to see a greater level of caste consolidation in the southern states,' Kanchan says. 'Castes are willing to partner with each other behind particular political parties, giving a lot more coherence to the region's politics and its economic policies.' As a bonus, Varshney points out to me, this consolidation of castes has given the south more power at the centre. 'In the 1950s and 1960s Tamil Nadu was something of an outsider in Indian politics, at the periphery of the centre's concerns,' he says. 'But today, Tamil Nadu parties are a powerful force in every coalition at the centre.'

Such shifts are now gradually making inroads in the north—the rise of development focused governments in Bihar and Orissa, and more recently with the rise of Mayawati in Uttar Pradesh, who came to power on the back of an alliance between upper castes and Dalits. Additionally, as Kanchan notes, 'The Seventy-third and Seventy-

fourth Amendments* are bringing in grassroots power and influence, which can enlarge the role of local development concerns in politics.' This can potentially not just shift electoral concerns towards development issues, but is also contributing to a growing clout for women in politics. 'The thirty-three per cent representation for women in local panchayat positions,' Dr Vijay Kelkar tells me, 'is making women far more visible as leaders.' There are now one million women elected panchayat representatives.†

India's growth through the 1980s and 1990s has also added a new wrinkle to the class issue of Indian politics by triggering the rapid growth of a middle class that now numbers close to 300 million. The impact of this group of Indians is most visible in the urban areas, as the sociologist Yogendra Yadav notes. 'Class politics is taking concrete shape in our cities,' he tells me. 'Even religion- and ethnicity-based parties now must deliver something extra when they campaign in the cities—to win votes, they have to recognize the rich–poor discrepancy, and respond with better policy.'

The educated middle class has begun to play a powerful role in the push for a better politics and to assert its civil rights. Many of them have turned to the legal system to hold corrupt institutions and people, however powerful, accountable. An instance of this is Neelam Katara, who went to the courts to get justice for her son. Nitish Katara, a graduate from the Indian Institute of Management Technology in Ghaziabad, was allegedly murdered in 2002 by D.P. Yadav's son and nephew, Vikas and Vishal Yadav, for having fallen in love with Vikas's sister, Bharti.

---

*These amendments, passed in 1992 while Narasimha Rao was prime minister, drew a roadmap towards more power for urban and rural local governments. Before these amendments, the authority of local governments had gone unmentioned in the Constitution.

†Their success is, however, mixed in many of India's backward regions. In panchayats across states such as Rajasthan, Uttar Pradesh and Bihar, the 'pradhan pati' has emerged, where it is the woman's husband who actually heads the panchayat, while his wife holds the position only on paper. Nevertheless, studies of women leaders at the local level have shown increased empowerment, with women leaders often re-elected to their positions and linking up with self-help groups and women welfare NGOs to assist in village development activities.

D.P. Yadav wields enormous power in western Uttar Pradesh—a powerful politician with nine murder cases against him, he served multiple times as minister of state in the Uttar Pradesh government and is widely regarded as someone who could not be touched. But Vikas and Vishal Yadav, after six years, were finally convicted, even though witnesses—including the inspector who arrested them and heard their confession—retracted their testimony. A big factor that led to the conviction was not just Nitish's mother's insistence to see the case through year after year, but also the widespread coverage of the case in the English and international media, and the public outrage in its wake. Though this case remains an exception in our legal system, where many perceive political power as a get-out-of-jail-free card, it is a testament to the power of the educated middle class and its possibilities.

The rise of the middle class is also impacting Indian politics by enabling the emergence of a vibrant third sector of civil society organizations and NGOs. Sanjay Bapat, founder of IndianNGOs.com, tells me that the growth of the sector has been especially significant since the 1980s. 'Many of the early NGOs were caste-based or religious organizations,' he says. The exception to this were the Gandhian NGOs, which probably came closest to the 'civil society' idea in emphasizing welfare across caste and community lines.

The NGO sector of the last two decades, however, is very different both in scale and in focus. Many NGOs are not affiliated to caste and religious denominations, or particular ideologies. The emphasis of their programmes is also more obviously class-based and focused on issues ranging from child and maternal welfare to health, education and food. These organizations are beginning to influence policy decisions, especially over the last decade. They have achieved this both through direct advocacy and through 'showing by doing'—for instance, Akshaya Patra's efforts in improving midday meal schemes impacted Karnataka's midday meal policies, and Vijay Mahajan and Al Fernandez's work in microfinance has shaped the centre's approach to self-help groups and microlending.

There is also a new awareness among the NGO sector of the diverse roles it can play. Many NGOs are focusing on not just empowerment of the poor but also on strengthening awareness of civil rights. One of the people involved in such an effort is Trilochan Shastri, civil activist and professor at the Indian Institute of Management Bangalore who has been instrumental in creating new standards of information disclosure for election candidates. 'We managed to get the laws changed only by igniting public support for it,' Trilochan tells me. The impact these activists and organizations have had on legislation such as the Right to Information Act, child labour, the midday meal for schools and court rulings on environmental issues points to a young, powerful force that is shaping India's social and political debate.

The growth and activity of these NGOs is a sign of the changing nature of India's democracy. This bottom-up civil consciousness, non-political and non-partisan as it is, is a sign of a new kind of democracy in India. These organizations are emphasizing an approach towards political democracy that is rooted in the idea of 'civil society' rather than in the divisions that now dominate India's politics. And while it is still early days here, this trend carries a great deal of promise, especially when we consider that the growth of such NGOs has been enabled by a middle class with an active interest in political reforms. This ever-widening group of middle-class Indians is using NGOs to come face to face with India's poorer and working classes, and to plant the ideas of secular rights and liberties across these communities.

For people like Trilochan, the media has also become an important aid of reform, enabling them to create awareness around fundamental rights and voter power. 'Television has been indispensable for our cause,' Trilochan tells me. The media is helping create the bottom-up demand necessary to drive change by popularizing, for instance, the ideas of education, better infrastructure and income mobility. 'Even in villages, television is changing attitudes quite rapidly,' the economist Sir Nicholas Stern remarked to me. 'It is making people conscious of what life is like outside the walls of their village.'

Not only is the Indian media affecting our social attitudes, it is reflecting these changes back at us. At one time, nationalism was just another key part of political manoeuvring—especially with Indira, for whom appealing to nationalist sentiment was an easily available excuse for imposing President's Rule on opposition governments, and to tamp down on dissent. But as Jaideep Sahni, the boyish scriptwriter of films such as *Company*, *Bunty aur Babli* and most recently *Chak de India*, points out, the success of his films has been based on a changed sense of nationalism—the kind that is from the grassroots. 'Among film audiences now, what I sense is both a new curiosity and an understanding of people across state borders,'

he tells me. 'There's always been a pride surrounding our particular regional identities. But now there is an emerging pride in being Indian.'

'BARBARIANS AT THE GATES'

For too long, the unchallenged authority of a set of quasi-socialist ideas took India on a path of low, disappointing growth. Nevertheless, while India's top-down political system allowed bad policies to last far longer than they should have, in the early years of reform it also gave enterprising bureaucrats such as N. Vittal, Sam Pitroda and later Manmohan Singh the opportunity to drive the policy agenda. These years were thus somewhat insulated from our politics.

Since then, however, India's democracy has changed and deepened. Untrammelled acceptance of ineffective policies and bad ideas is no longer possible. And, on the flip side, coalition politics has worked its magic, and India's potential bureaucrat-visionaries now have too many feet in the aisle ready to trip them over. The shift to bottom-up political power has meant that India's reform agenda has become far more tentative, as policies can be derailed or slowed down by political parties with even small national clout. What was once marginal has now become central—the only possible strategy now is alliance, agreement, coalition and accommodation. India's reforms are now firmly in the hands of its voters, in the shape of individuals, voting blocs and interest groups.

Critical reforms in areas such as labour, infrastructure, education and health remain tangled up in the politics of coalitions and blocked by powerful interest groups to the detriment of broader development. And unfortunately enough, it is the most controversial reforms that will also create the most access and broad-based benefits—such as labour reforms that will bring in labour flexibility and expand employment opportunities, or the removal of monopolies in the agricultural sector that keep crop prices stagnant and limit choices of sellers for farmers. The deadlock here worsens our existing inequalities, limits the benefits of growth and sustains inefficient subsidy systems. In the long term, it also hurts widespread support for reforms, since large numbers of people see no benefits from them.

I encounter many bureaucrats, academics and entrepreneurs who are dismayed by this state of affairs. The new political status quo

and the rise of politicians who speak in the language of the demagogue has been seen, especially among the old-guard bureaucrats I had the opportunity to speak with, as a case of 'barbarians at the gates'.

But this period of stonewalling, backtracking and accommodation is essential—we must have this debate. It is the only way we can frame policies that are truly sustainable and also difficult for just one person or one government to revoke. And this approach, despite its sometimes infuriating slowness, also enables a system where all parties are responsible for policy, and bad policies come back to haunt them.

The need for this was pointed out in a different context by the Sapru Committee in 1937 while discussing universal suffrage. The committee noted that it was, despite its dangers, necessary for its 'educative effect', even if the average voter's 'judgement may be faulty, his reasoning inaccurate, and his support of a candidate not infrequently determined by considerations removed from a high sense of democracy'.[38]

FROM KHADI TO SILKS

The form of political democracy we have today is still young—many of India's political parties mobilized and gained strength only since the 1970s, and it was only in 1977 that the first non-Congress government came to power. And as a BJP worker pointed out to me, it was only in 1998, a bare decade ago, that the first non-Congress government lasted its full term at the centre.

And these new parties, despite their weaknesses and populism, represent a real break from the past. The holy cows of the freedom movement—the focus on swadeshi and socialism, for instance—were liberating, powerful ideologies in the fight against British rule. But post-independence, despite the fact that these policies outlived their usefulness, the Congress party held on to them, as they still connected and defined a potent history. Even the parties that emerged in the 1960s and 1970s embraced these symbols, which was not surprising since these were parties often led by former Congress leaders, such as Charan Singh who founded the Bharatiya Lok Dal and Biju Patnaik who formed the Utkal Congress.[39]

But the regional parties of today make a point of distancing themselves from the Congress ethos, and the most significant instance

Laughter and tears: Mayawati's supporters at a political rally organized by her party, the BSP. *Photograph: Manoj Patil/Dinodia Photo Library*

of this is perhaps the Dalit leader Mayawati and the Bahujan Samaj Party (BSP). Mayawati, with her legendary fondness for pink silks,* is indifferent to the idea of clothing herself in khadi or making other symbolic gestures towards the swadeshi/socialist ideology.

While Mayawati may not seem the ideal example of change for the better, she represents a breaking away with the past—which in time will hopefully allow us to debate our policies on their merits, instead of embracing them for what they symbolize. And as our debates today have the educational effect that the Sapru Committee championed on our politicians and voters, it will in all likelihood emerge that some of the crises in moving reforms forward is teething trouble. The politics of populism that we see now is necessarily a short-term strategy, and voters will grow impatient if these policies fail to deliver sustainable economic gains. The change is already visible in infrastructure, where people angry about bad roads and constant power outages have consistently voted out governments. In response, political parties have now slowly begun to favour more effective infrastructure solutions that rely on public–private partnerships and tariff-based models over state monopolies and power freebies.

This is also impacting how critical caste and regional loyalties are in determining elections. 'Parties are shifting from pure interest group and partisan politics to a strategy that combines development concerns,' Atul says. This, once seen only in the south, is also becoming visible in the north. For instance, as Yogendra pointed out recently, 'The CPI(M) and SP have flirted with liberalization, and the BSP talks about "sarvajan samaj" [society for all people].' The latter shift is quite a transformation from the 1990s, when BSP's leaders—Mayawati and Kanshi Ram—shouted slogans like *'Tilak, taraju aur talwar, unko maro juthe char'* (Brahmins, traders and the warrior caste should be kicked).

This somewhat agonized movement in our policies does make it look like we are moving, slowly, to a politics that is based on ideas. But India's challenge right now is the environment the average voter lives in, which has influenced our political allegiances and dramatically shapes the way we vote. Illiteracy in particular has had a huge

*After she was elected chief minister of Uttar Pradesh in 2007, officials also had major parts of the state's capital city, Lucknow, painted pink, her favourite colour.

Laughter and tears: Mayawati's supporters at a political rally organized by her party, the BSP. *Photograph: Manoj Patil/Dinodia Photo Library*

of this is perhaps the Dalit leader Mayawati and the Bahujan Samaj Party (BSP). Mayawati, with her legendary fondness for pink silks,* is indifferent to the idea of clothing herself in khadi or making other symbolic gestures towards the swadeshi/socialist ideology.

While Mayawati may not seem the ideal example of change for the better, she represents a breaking away with the past—which in time will hopefully allow us to debate our policies on their merits, instead of embracing them for what they symbolize. And as our debates today have the educational effect that the Sapru Committee championed on our politicians and voters, it will in all likelihood emerge that some of the crises in moving reforms forward is teething trouble. The politics of populism that we see now is necessarily a short-term strategy, and voters will grow impatient if these policies fail to deliver sustainable economic gains. The change is already visible in infrastructure, where people angry about bad roads and constant power outages have consistently voted out governments. In response, political parties have now slowly begun to favour more effective infrastructure solutions that rely on public–private partnerships and tariff-based models over state monopolies and power freebies.

This is also impacting how critical caste and regional loyalties are in determining elections. 'Parties are shifting from pure interest group and partisan politics to a strategy that combines development concerns,' Atul says. This, once seen only in the south, is also becoming visible in the north. For instance, as Yogendra pointed out recently, 'The CPI(M) and SP have flirted with liberalization, and the BSP talks about "sarvajan samaj" [society for all people].' The latter shift is quite a transformation from the 1990s, when BSP's leaders— Mayawati and Kanshi Ram—shouted slogans like '*Tilak, taraju aur talwar, unko maro juthe char*' (Brahmins, traders and the warrior caste should be kicked).

This somewhat agonized movement in our policies does make it look like we are moving, slowly, to a politics that is based on ideas. But India's challenge right now is the environment the average voter lives in, which has influenced our political allegiances and dramatically shapes the way we vote. Illiteracy in particular has had a huge

*After she was elected chief minister of Uttar Pradesh in 2007, officials also had major parts of the state's capital city, Lucknow, painted pink, her favourite colour.

impact on voting preferences, since it limits access for voters to information on policy positions and ideas, and people consequently vote based on what they know—family and community loyalties.

This incessant focus on caste and religious identities has effects that ripple much beyond our economic policies: it sidelines national identity in favour of these others. Once reservation policies and vote bank politics encourage Indians to fence themselves in within their own communities, people begin to see themselves as belonging to their caste or religion first, and country second, a dangerous theme in a nation so diverse. This also makes Indians susceptible to the extreme ideologies of terrorism in the name of their religious allegiances and communities. I believe there is a direct link here: in recent years, as we have seen more middle-class and educated Indians express more radical views on religion, we have also seen software engineers and doctors emerge among the ranks of domestic terrorists.

Rising populism and the framing of our democracy on caste, regional and religious lines have no quick-fixes. After all, issues such as more effective primary education, better infrastructure and a focus on improving and integrating India's markets require long-term investments and taking on powerful interest groups. But they are the only policies that will be both sustainable and irreversible in the impact they will have on the quality and nature of our democratic debates.

But now more than ever, we have cause for optimism. To win, politicians trade on getting people excited and fired up in the moment, and they are finding that doing this now increasingly requires speaking the language of policy. In the short time since reforms, the expectations of our voters have changed dramatically. People are now making precisely those demands—in education, infrastructure and income mobility—which will force the government towards better policies. In fact M.N. Srinivas, who had been so perceptive on the role of caste in 1957, wrote an essay in 2003 predicting the uprooting of caste as a result of the rise of markets. In his 'Obituary on Caste', Srinivas pointed out that the death of caste-based division of labour—thanks to the new emphasis on income mobility, as well as democratic and economic rights—is leading to a breakdown of a once pervasive social system.[40] In the last decade, this breakdown may have speeded up. The politician Jay Panda offers me an example of this trend. 'A rapid change is

occurring, especially as backward caste women enter the workforce. This is one among many forces that are enabling caste boundaries to dissolve, and its creating a faster than ever before rise in inter-caste marriages.'

As a country, we are still struggling towards our democratic ideals. But these past two decades have been a time of immense hope. The move to bottom-up democracy has brought with it a far more topsy-turvy politics than we have been used to. But the clamour has come with more access than ever before, and carries with it an immense potential for change, new answers and better policy.

We now represent a truly unusual country, one that thoroughly embraced what was once an entirely alien idea and held on to it through upheavals good and bad—through growth and crisis, despite missteps. In this sense, democracy in India has shifted from being 'essentially foreign' to being, simply, essential.

15. N. Krishnaswamy and Lalitha Krishnaswamy, *The Story of English in India*, Foundation Books, 2006.
16. Percival Spear, *History of India*, Vol. 2, Penguin Books India, 1990.
17. N. Krishnaswamy and Lalitha Krishnaswamy, *The Story of English in India*, Foundation Books, 2006.
18. Aijaz Ahmad, *Theory: Classes, Nations, Literature*, Oxford University Press, 1993.
19. N. Krishnaswamy and Lalitha Krishnaswamy, *The Story of English in India*, Foundation Books, 2006.
20. Robert King, *Nehru and the Language Politics of India*, Oxford University Press, 1998.
21. Ibid.
22. Ibid.
23. Robert L. Hadgrave, Jr, 'The Riots in Tamilnad: Problems and Prospects of India's Language Crisis', *Asian Survey*, August 1965.
24. N. Krishnaswamy and Lalitha Krishnaswamy, *The Story of English in India*, Foundation Books, 2006.
25. Vaidehi Ramanathan, *The English–Vernacular Divide: Postcolonial Language Politics and Practice*, Multilingual Matters, 2005.
26. Sunil Raghu, 'Gujarat Fuels English Hopes of Many', *Mint*, 2 July 2007.
27. James Tooley and Pauline Dixon, 'Private Schools Serving the Poor: A Case Study from India', Reading, CfBT Report, 2003.
28. Braj B. Kachru, *Asian Englishes: Beyond the Canon*, University of Washington Press, 2005.
29. Ibid.
30. Robert McCrum, William Cran and Robert MacNeil, *The Story of English*, Penguin Press, 1986.

FROM MANEATERS TO ENABLERS

1. Steven R. Weisman, 'The Rajiv Generation', *The New York Times*, 1986.
2. Kenneth Keniston and Deepak Kumar, *IT Experience in India*, Sage Publications, 2004.
3. R. Mukherji, 'India's Aborted Liberalization: 1966', *Pacific Affairs*, September 2000.
4. Ibid.
5. Bruce Nussbaum, *The World after Oil: The Shifting Axis of Power and Wealth*, Simon and Schuster, 1983.
6. Balaji Parthasarathy, 'Globalizing Information Technology: The Domestic Policy Context for India's Software Production and Exports', *Iterations*, May 2004.

7. Dani Rodrik, Arvind Subramanian and Francesco Trebbi, 'Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development', National Bureau of Economic Research, Working Papers 9305, 2002.
8. 'Leveraging IT Assets', *Economic and Political Weekly*, April 2003.

HOME AND THE WORLD

1. E.J. Kahn, Jr, 'The Wayward Press', *The New Yorker*, January 1952.
2. Nayan Chanda, *Bound Together: How Traders, Preachers, Adventurers and Warriors Shaped Globalization*, Penguin Books India, 2007.
3. Andre Gunder Frank, *ReOrient: Global Economy in the Asian Age*, University of California Press, 1998.
4. Constituent Assembly Debates, 11 December 1946.
5. Harold Robert Isaacs, *Scratches on Our Minds: American Views of China and India*, M.E. Sharpe Publishers, 1997.
6. 'Schoolboys Come of Age', *Time*, April 1966.

THE DEEPENING OF OUR DEMOCRACY

1. Partha Chatterjee, *The Nation and Its Fragments: Colonial and Post-colonial Histories*, Princeton University Press, 1995.
2. Ibid.
3. Ramachandra Guha, *India after Gandhi*, Picador, 2007.
4. R.C. Dutt, *State Enterprises in a Developing Country*, Abhinav Publishers, 1990.
5. Partha Chatterjee, *The Nation and Its Fragments: Colonial and Post-colonial Histories*, Princeton University Press, 1995.
6. Thomas Metcalf, *Ideologies of the Raj*, Cambridge University Press, 1997.
7. James Chiriyankandath, 'Democracy under the Raj: Elections and Separate Representation in British India', *Commonwealth and Comparative Politics* 30(1), 1992.
8. James Chiriyankandath, 'Democracy under the Raj: Elections and Separate Representation in British India', *Commonwealth and Comparative Politics* 30(1), 1992; Thomas Metcalf, *Ideologies of the Raj*, Cambridge University Press, 1997.
9. Ibid.; David Washbrook, 'The Rhetoric of Democracy and Development in Late Colonial India', in *Nationalism, Democracy and Development*, edited by S. Bose and A. Jalal, Oxford University Press, 1998.
10. Shashi Joshi and Bhagwan Josh, *Struggle for Hegemony in India, 1920–1947*, Sage Publications, 1994.
11. James Chiriyankandath, 'Democracy under the Raj: Elections and

Separate Representation in British India', *Commonwealth and Comparative Politics* 30(1), 1992.

12. Ibid.

13. Ibid.

14. Siba Prasad Nanda, *Economic and Social History of Modern India*, Anmol Publications, 1999.

15. Shashi Joshi and Bhagwan Josh, *Struggle for Hegemony in India, 1920–1947*, Sage Publications, 1994.

16. William Gould, *Hindu Nationalism and the Language of Politics in Late Colonial India*, Cambridge University Press, 2004.

17. Ibid.

18. Shashi Joshi and Bhagwan Josh, *Struggle for Hegemony in India, 1920–1947*, Sage Publications, 1994.

19. Ibid.

20. Gyanendra Pandey, 'The Construction of Communalism', cited in Shashi Joshi and Bhagwan Josh, *Struggle for Hegemony in India, 1920–1947*, Sage Publications, 1994.

21. B.D. Dua, 'The Prime Minister and the Federal System', in *Nehru to the Nineties*, edited by James Manor, C. Hurst & Co., 1994.

22. Ibid.

23. Atul Kohli, *The Success of India's Democracy*, Cambridge University Press, 2001.

24. Christophe Jaffrelot, 'The Politics of OBCs', *Seminar* 549, May 2005.

25. Francine Frankel, *India's Political Economy 1947–77*, Princeton University Press, 1979.

26. Ibid.

27. Baldev Raj Nayar, *Minority Politics in the Punjab*, Princeton University Press, 1966.

28. Sujata Patel and Alice Thorner, *Bombay: Metaphor for Modern India*, Oxford University Press, 1995.

29. Lloyd Rudolph and Susanne Rudolph, *In Pursuit of Lakshmi: The Political Economy of the Indian State*, Chicago University Press, 1987.

30. M.N. Srinivas, 'Caste in Modern India', *The Journal of Asian Studies*, August 1957.

31. Baldev Raj Nayar, *India's Mixed Economy: The Role of Ideology and Interest in Its Development*, Popular Prakashan Books, 1989.

32. Mary Katzenstein and Raka Ray, *From State to Market*, Rowman and Littlefield, 2005.

33. Yogendra Yadav, *Understanding the Second Democratic Upsurge*, Oxford University Press, 2000.

34. James Manor, 'Making Federalism Work', *Journal of Democracy*, 9(3), July 1998.

35. Sanjaya Baru, 'Economic Policy and the Development of Capitalism in India: The Role of Regional Capitalists and Political Parties', in

Transforming India: Social and Political Dynamics of Democracy, edited by Francine Frankel, Zoya Hasan, Rajeev Bhargava and Balveer Arora, Oxford University Press, 2002.

36. Ibid.

37. Sudipta Kaviraj, 'The Imaginary Institution of India', in *Subaltern Studies*, Vol. 7, edited by Partha Chatterjee and Gyanendra Pandey, Oxford University Press, 1992.

38. James Chiriyankandath, 'Democracy under the Raj: Elections and Separate Representation in British India', *Commonwealth and Comparative Politics* 30 (1), 1992.

39. Francine Frankel, 'Introduction', in *Transforming India: Social and Political Dynamics of Democracy*, edited by Francine Frankel, Zoya Hasan, Rajeev Bhargava and Balveer Arora, Oxford University Press, 2002.

40. M.N. Srinivas, 'An Obituary on Caste as a System', *Economic and Political Weekly*, February 2003.

S IS FOR SCHOOLS:
THE CHALLENGES IN INDIA'S CLASSROOMS

1. Balachandra Rajan, *Under Western Eyes: India from Milton to Macaulay*, Duke University Press, 1999.

2. Ibid.

3. Krishna Kumar, *Political Agenda of Education*, Sage Publications, 2005.

4. Ibid.

5. Ibid.

6. Ibid.

7. Poromesh Acharya, 'Education, Politics and Social structure', in *Education and the Process of Change*, edited by R. Ghosh and M. Zachariah, Sage Publications, 1987.

8. Constituent Assembly of India, Vol. 7, 23 November 1954.

9. Poromesh Acharya, 'Education, Politics and Social Structure', in *Education and the Process of Change*, edited by R. Ghosh and M. Zachariah, Sage Publications, 1987.

10. V.S. Naipaul, *India: A Wounded Civilization*, Penguin Books Ltd, 1979.

11. Amit Varma, 'Fund Schooling, Not Schools', *Mint*, 20 September 2007.

12. Krishna Kumar, 'Education and Elites in India', in *Education and the Process of Change*, edited by R. Ghosh and M. Zachariah, Sage Publications, 1987.

13. Barbara Harriss, *Child Nutrition and Poverty in South India: Noon Meals in Tamil Nadu*, Sage Publications, 1986.

ERASING LINES

Our Emerging Single Market

HARISH HANDE, WHENEVER I run into him, comes across as a man in a hurry, a bit rumpled and restless. The founder and managing director of SELCO, Harish is one of India's many new entrepreneurs, and also among the most innovative. His company provides low-cost solar lighting systems to small entrepreneurs and rural business groups and while describing his innovations for cheap lighting, Harish tells me of a group of blanket makers whose productivity went up dramatically thanks to solar lights that let them work on their sewing machines well into the night. As a result he says, 'These workers ended up with many more blankets than they could sell. So we found a hospital that needed a regular supply of blankets, and introduced the workers to them.'

When I chat with India's new breed of can-do entrepreneurs, I find this a common theme—to be successful, companies must often devise unorthodox solutions to reach and connect people within India's highly fragmented markets. It is an essential part of doing business here.

India has been routinely described as a land deeply fragmented, with divisions within divisions, and I think this description especially suits our markets, which are splintered all over the place—fragmented at the state level thanks to policy differences, and locally because of regulation, weak infrastructure and information networks that still cover only half the country. In fact, while India has managed to sustain a political unity that has defied all expectations, economic unity has been far more difficult for us to achieve. And it is only in this past quarter century that this has begun to change.

NO EASY CHOICES

India—always difficult to govern and hugely diverse—defied the attempts of its many kings and empires to unify and control the region. Invaders who came in with their swords blazing and conquered parts of India found it to be a slippery possession. Even the powerful Mughal Empire only partly succeeded in running the large territories under its rule, and tended to cede authority to local powers. These local leaders would slowly grow ambitious and start plotting to overthrow the kings. The key threats to the kingdoms in the subcontinent were consequently mostly from within, and it was these petty kingdoms weakened by a thousand internal cuts that would finally fall to the British.

The British in turn resorted to a centralized, authoritarian government with a shallow reach, which formed alliances, as the Mughals had done, with a variety of 'local despotisms'. Despite this history of centralized rule, there was a strong sense of local roots among Indian leaders, even within the highly nationalist Congress party. For instance, during a visit to the United Kingdom in 1895, the major Congress leaders identified themselves primarily as heads of their respective regional associations.[1] The Indian movements of the period had a strong tradition of decentralized management, and the most prominent politicians emerged first as local and city leaders, who thrived on regional support and kept these interests close to heart. Once the imperial government passed the Montagu-Chelmsford Reforms in 1919 allowing representative government in India, these leaders took steps to ensure that voters were represented regionally and the Congress adopted twenty-one provincial committees based on linguistic divisions.[2]

But as independence became more a reality than a hope, Indian leaders started to favour a strong centre. Nehru wrote in 1936, 'It is likely that free India may be a Federation, [but] . . . there must be a great deal of unitary control.'[3] This vision completely contradicted the constitutional framework the British had pitched for independent India, which had even suggested that states be allowed 'to maintain their own armies'. A big reason for this change of heart in India was the growing worry over the nation's security—a young state with its independence so freshly minted was jittery of its external and internal threats.[4]

Nehru and his ministers could not ignore how fragile the country they had to govern seemed. The varying interests of the Indian states

were pulling them in different directions, with the ones furthest from the centre threatening secession. The idea for a centralized state consequently gained the support of key leaders in a March 1948 conference, which had convened in the backdrop of Gandhi's assassination, the events of Partition and 'an India out of control'. Congress leaders and especially Nehru emphasized that, 'We are not concerned with any possibility of attack from outside. Our fear is of violence amongst ourselves—of internal conflict.'

India's legislators believed that a centrally empowered government would limit this 'tendency towards disintegration'.[5] A big influence that shaped India's centralized framework was another powerful centre—the British India government. 'The 1935 Government of India Act had a big impact on our constitution,' Dr Govinda Rao tells me. But this was an act tailored for the colonial government, and meant to give the British massive control over the Indian-run provinces. 'Constitutional articles such as Article two,' Dr Rao says, 'even allowed the centre to abolish a state or create a new one—it only had to inform the state that it had done so.' The 1935 act thus became a refuge for India's leaders, a restraint on an independent—and perhaps headstrong—young country. Nehru hoped that a strong centre would help India weather the challenges of freedom, 'however high the winds, or stormy the tempest'.

But political issues in India soon muddied this picture. The government's hopes for a powerful centre were tamped down somewhat by the passionate regional sentiments that rose across newly independent India. The 1948 Dar Commission had already warned that 'Indian nationalism is deeply wedded to its regional languages; Indian patriotism is aggressively attached to its provincial frontiers.'[6] Delhi had to give in to the regional passions that lay behind the fiercest, most vehement protests post-independence—the fast unto death in 1952 of the Telugu leader Potti Sriramulu in his demand for a separate state for the Telugu-speaking population, the violent Bombay riots and the clamour in the south, especially Tamil Nadu, against Hindi. This decision to carve out new states based on linguistic boundaries eventually allowed regional parties to emerge as powerful political forces, wielding significant clout in Delhi.

Of the two things the government wanted—political and economic coherence—India effectively managed the former, in part by drinking deep from the nationalist sentiment that prevailed after independence. The aim of economic coherence, however, slipped from its grasp.

A POOR, UNCONNECTED ECONOMY

Both India's early democracy and its growth surprised observers—in the remarkable success of the first and in the disappointment of the second. Even as India came to be rated as one of the few, enduring and 'continuous' democracies in the world, our governments' inability to create growth became near-legendary in its failure. Both resulted from our policy of control.

Dr Parthasarathi Shome is now the 'former' adviser to the finance minister, having left the role in early 2008, but when I met him he was still with the ministry, steeped in its politics and its policies. Despite the changes outside, the North Block and South Block in Delhi, where the major ministries are housed, still keep to their particular culture. It is not just the furnishings, which while luxurious, are worn around the edges, from the faded carpeting to the paint peeling off its cream walls. When you enter these buildings you are struck by the decades-old Delhi ethos of 'support staff'—after you get past the polite security, you are surrounded by a hubbub of assistants carrying handwritten notes from one office to the other (email has yet to make much headway here), liveried men carting trays of teacups and bureaucrats making their way through the corridors with their arms full of files.*

I sip sweet tea in Dr Shome's office, while he dissects the mindset that has made it so difficult in recent years to integrate India in an economic sense. 'Indian governments believed they could direct economic growth in a top-down model,' he says. The focus among India's early governments was on a unified approach to economic policy, and the five year plans were built around this. The centralization of policy was aided by the Industrial Development and Regulation Act in 1951, as well as the industrial policy resolution in 1956—which Dr Shome calls 'decisive' in the shift in control to the centre.

Directed policy, it was hoped, would enable a coherent economy to emerge out of the ruins of a highly feudal colony, but it ended up doing just the opposite. At independence, India was a low-technology,

*A glance at these files is enough to tell you how set in its ways these offices still are—these are the kind of folders that have loops on either side and threads to pull them close. While they are old-fashioned and a little inconvenient, I still find them deeply charming.

agricultural market, which lacked the unifying effect of industrialization. What we needed to link the different parts of India's economic terrain was industrialization in parallel with infrastructure investment.

But investment in infrastructure was lagging badly, in part due to the lack of funds. The government also made a variety of concessions to local powers and players, which impoverished it and fragmented markets even further—for instance, as the Congress found widespread support among the agrarian elite and the midsize and local landowners, the government refrained from taxing these groups at a time agriculture contributed to 50 per cent of India's economy.[7] The *feudal systems also kept these markets fragmented*—landowners maintained their power over local communities and small farmers, which hindered rural areas from getting information from and access to outside markets. Demands to impose new limitations on market links became a lobbying cause—pesticide distributors, for example, could successfully plead to the government to prevent farmers from directly contracting purchases with manufacturers. Similarly, Uttar Pradesh's cane reservation regulations restricted sugar cane growers to not just selling only to local mills, but also often tied the farmers to just one mill, allowing local monopolies to flourish and killing off market networks. Much of rural India as a result remained villages that were isolated and apart. And the government, while neither buyer nor seller of the crop, has insisted on setting sugar cane prices, which makes little economic sense.

Specific laws further throttled the growth of wider markets. Dr Rao notes that laws such as the Essential Commodities Act, which had entered the books to manage war scarcities and famine, survived as they were written long after independence. 'The act restricted the movement of agricultural produce across state and even *district borders, and limited the amount of extra food a trader could keep in his store backrooms*,' he says. Agricultural markets imploded to local networks.

There were other problems that thwarted the rise of interstate markets. The absence of physical infrastructure and cold chains made the movement of goods difficult, and that of perishable goods near-impossible. While the rail network was the one transport system that could pass through states unhindered, its snail-crawl expansion led to an emphasis on road freight.[8] This gave immense power to state border patrols which held the interstate movement of goods virtually hostage while regulating the traffic of trucks. Some

states levied a 'path kar' or road tax on the entry of all commercial vehicles, which further complicated interstate movement. Additionally as the states regulated transportation licences, each truck carrying goods had its papers checked at the state border. Vineet Agarwal tells me, 'The focus on "checking" trucks itself is a big drain on our costs and the time we spend on roads.'

LABYRINTHS OF TAXES

'A big reason why states tightened their borders so much in later years,' Dr Rao says, 'was because they were struggling for revenue.'

The restrictive state border policies had come about in the same way all unnecessary laws did—as 'traps for money'. At the time of independence, Indian states had ceded a great deal of their tax-levying authority to the centre. This made them overly dependent on centre–state transfers for revenues—such transfers covered as much as one-third of their expenditure. But as the centre grew cash-strapped in the 1960s, these money transfers began to dry up, and the states were forced to levy their own taxes on their borders and internal markets to stay solvent. Income from interstate taxes eventually amounted to over 60 per cent of the state's revenues. And unable to tax consumption and production directly (as this power belonged to the centre), the states also levied various indirect taxes on goods.[9] Every few years, that percentage crept a little higher. By the 1980s, the average indirect tax incidence on goods in India was one of the highest in the world, varying anywhere from 30 per cent to 40 per cent of their total value.

These taxes that the states imposed on interstate trade directly contradicted the spirit of the Constitution and the early hopes of the Indian government.[10] 'The Constitution was quite clear in its preference for a single market,' Dr Shome says. For instance, Article 301 stated, 'Trade, commerce and intercourse throughout the territory of India shall be free.'* But a related constitutional article that had

---

*The Constitution was in fact pretty clear about the need for a common market, adding in Article 286 that, 'No law of a state shall impose, or authorise the imposition of the tax on the sale or purchase of goods where such sale or purchase takes place (a) outside the state, or (b) in the course of import of goods into, or export of goods out of, the territory of India.' But this was also elbowed to the wayside through the Sixth Amendment.

been written in the war years had empowered Parliament to impose restrictions on this freedom in the 'public interest'—a loophole that gave tax-happy legislators plenty of legroom.[11]

The final result was a complicated, hydra-headed tax regime, which would unleash a cascading array of taxes as material moved from state to state into a finished product. The myriad state taxes on goods made interstate transport and production incredibly difficult.

The limitations on interstate trade were an especially big thorn in the flesh for India's central states. The economist Paul Collier has pointed out the critical importance of accessible markets for regions that are landlocked; in Africa, for instance, landlocked countries such as Somalia became trapped in poverty since they were surrounded by equally impoverished countries with high trade barriers, and they had virtually no one to sell to. In contrast, landlocked countries like Switzerland had accessible markets in Italy and Germany, which allowed the country's domestic economy to flourish. This is also borne out by India's landlocked BIMARU states, all of which struggled due to their lack of access to ports, as well as high interstate barriers which limited their access to neighbouring markets.

The market forces of supply and demand are usually great unifiers of local and regional markets, as businesses build supply chains and support infrastructure. But the Indian industry faced a market cluttered with limits on production and investment, licensing rules and tax rates that were 'progressive with a vengeance'[12]—taxes hovered at around 60 per cent for companies in 1970. This discouraged any spending businesses would have made in expanding their networks across the country. 'Going through our tax policies was simply mind-numbing, they were so hopelessly complicated,' Dr Shome tells me. 'There were pages and pages of exemptions, additions, extra levies. For any business, getting it all straight would have been a nightmare.'

These strategies of control, which had served the government so well in the political sphere, only crumbled India's economy into local, inefficient markets. The market also proved slippery and difficult to pin down, and a large, informal economy across labour, land and capital that evaded regulations took root. Rent control and land regulation acts pushed large parts of land into the black market. The flourishing black market for goods, under one estimate,

was as much as one-third of the legal economy. And tightened labour laws meant that the workforce across industries was mainly made up of unorganized and contract workers.

The vast network of regional restrictions often puzzled—and thwarted—foreign buyers in India. One senior manager of a large, European furniture firm (which is now entering India) told me in passing that this was not his first attempt in doing business here. 'I came here in the 1980s looking to source furniture from India. I had found the designs and work the craftsmen did here quite exquisite.' But he wanted to buy the wood in Punjab and the brass fittings in Uttar Pradesh and assemble them in Maharashtra. 'I found that the logistics for doing it was impossible,' he said. 'There was simply no reasonable way where I wouldn't be stuck with clearances for weeks each time I wanted to move something. I had to drop the plan.'

OUR REGIONAL IMBALANCES

The Planning Commission in Delhi had come in with a sweeping vision in 1950—to ensure that India's economic growth was 'regionally balanced and socially equitable'. But in reality, the budget allocations for states from the centre have long depended on the states' ability to bargain effectively with the Delhi government and the skill of their local industry to negotiate with the bureaucracy for licences.[13]* With the rise of coalition governments, such negotiations between governments at the centre and states only grew more pronounced—for instance, Andhra Pradesh's state party, the Telugu Desam Party (TDP), had twenty-eight seats within the NDA coalition government, making it the BJP's single largest ally. This gave the TDP enormous bargaining power for benefits and investment for its home state in return for its continued support. Andhra Pradesh as a result had the highest allocations for rural development among states, and also got the biggest share of subsidized schemes—such as the food-for-work programme—within the NDA government. Personal interests of ministers have also counted for a lot when it

---

*After 1969, however, distribution of revenues was done on the basis of a consensus formula, called the Gadgil formula, decided by the National Development Council (NDC).

came to receiving funds—the Amethi constituency in Uttar Pradesh, for instance, has prospered due to its Nehru–Gandhi connection and Haryana could snap up the Maruti project thanks to 'the personal intervention of Sanjay Gandhi'.[14]

Such sops and benefits for specific states created immense opportunities for arbitrage in markets across the country. One bureaucrat described how a 50 per cent subsidy on pesticides in Uttar Pradesh meant that a truck carrying a cargo of pesticides from neighbouring states would travel back and forth several times with the same load across the border, collecting the subsidy each time. Vineet points out that the free hand for officers at checkpoints means that these regulations remain pretty ineffective, becoming little more than tools for taking a cut and extorting bribes. 'Officers at border checkpoints and some truckers share code words to trigger the exchange of cash,' he tells me. 'This gives contraband a free pass, while legal traffic gets slowed down and stopped due to constant checks.'

Other policies created massive problems of regional inequity at a single stroke. The priorities of India's five year plans—such as their focus on energy and steel production—diverted large investments to states such as Maharashtra and Gujarat. One particularly ill-considered policy was the Freight Equalisation Act, which kept freight costs the same no matter where the goods were transported from. This act was a body blow to India's mineral rich eastern states, and relocated resource markets closer to the port cities. Bad policy is nearly always the result of powerful lobbying, and Dr Vijay Kelkar notes, 'The Freight Equalisation Policy was at the insistence of the industries located in Gujarat and Maharashtra, who found themselves shut out from cheap resources, once import substitution came in.' As a result states on our east coast such as West Bengal, which had dominated industrial growth in colonial India, saw their fortunes slide both as a resource centre and as an industrial centre through the 1960s and 1970s.

A HOUSE OF CARDS

The fortunes of the single market idea in India have been closely tied to the relationships between the governments at the centre and the states. Till the mid 1960s, both India's centre and state elections

were usually nothing more than the routine re-election of the Congress. In fact in the first three general elections to the Lok Sabha, Congress won three in four seats, and it dominated in all the state governments except for the brief gap during 1957–59 in Kerala. But weaknesses began to emerge—spreading hairline cracks in popular support—in 1967, and the state ministers sensed an opportunity for more power when the Congress lost eight state elections that year. They began to challenge the authority of Indira Gandhi, the new prime minister, and the Tamil Nadu Chief Minister K. Kamaraj remarked, 'No person would be able to fill the void left by Jawaharlal . . . the party would have to function on the basis of collective leadership, collective responsibility and collective approach.'[15]

But centre–state power equations were not going to change easily. Indira was no pushover, and she saw these suggestions as villainous attempts to undermine her position. She made her objections to this clear—through a rapid centralization of power within the Congress organization that left her state ministers barely hanging on to their chairs.

Indira's focus on control also caused her to pass a series of laws throughout the 1970s that redefined the nature of markets in India. She tightened labour, land and investment regulation, and prioritized smaller companies through laws that essentially favoured the bazaar over large-scale industries. But while these policies further undermined a common market for goods, Indira's efforts to access people directly and bypass the state machinery led to policies such as the nationalization of banking and insurance. This quite unexpectedly shaped a streamlined market around services. Thus—in her attempt to build more direct and mass-based political power—Indira created national markets in these sectors. In this sense, services in India operated in a national market, manufacturing in a state-level market and agriculture in local (mandi) markets. It is no wonder that the relative growth rates are so different. In fact localized markets in agriculture have strongly discouraged productivity growth—since, as the tailors' dilemma of extra blankets made clear, in a limited localized market, increased productivity only resulted in surplus goods and falling prices.

Additionally, the free movement of people was never restricted in India. The investment-heavy states such as Maharashtra and Gujarat have, for instance, attracted immigrants from across the country, from construction labour to doctors in city hospitals. These easy

crossovers of people across state borders have been reflected in India's film industry. Bollywood and regional movies in India have seen many actors and actresses become icons in states outside their own, and who had to initially cram their dialogues, unfamiliar as they were with the state language. Some of the most admired actresses in Hindi films through the 1970s and 1980s, including Rekha, Hema Malini and Sridevi, were Tamilian, while Kushboo Khan, a Muslim girl from Bombay, became such a star in Tamil movies that fans built a temple for her in the town of Thiruchirapalli and a popular dish in the state goes by the name 'Kushboo idli'.

This easy movement for labour has created a national market for both organized and contract labour. This sets India apart from countries such as China, where the Hukou system requires people to have a work permit to move to the cities.*

BREAKING BORDERS

India is not alone in our politics shaping the nature of our markets. Across large economies, regions tend to become territorial of their markets, as politicians respond to local interest groups and frame gatekeeper policies that limit access. The rise of a common market is consequently often a gradual one. In Europe, the growth of the common market was an attempt for peace in a region that—with the exception of relatively peaceful years from 1815 to 1914—had seen almost constant war. A move towards the European Common Market in 1957, an agreement first brokered between Belgium, France, Italy, Luxemburg, the Netherlands and West Germany, was part of the effort to end the regional skirmishes that had resulted in a continent full of shifting boundaries and small kingdoms for centuries.

In India our early political equations had, while hindering the movement of goods, unwittingly enabled a national market for services by gradually establishing central institutions that regulated the services sector. Thus, India's Reserve Bank has regulated banking since pre-independence days and the Forward Markets Commission has regulated commodities trading since 1953. Other services sectors also had central oversight, including the airlines sector under the Airports Authority of India and the media under the information and broadcasting ministry.

More recently, post-reform institutions such as the Insurance Regulatory Authority of India (IRAI), the Securities and Exchange Board of India (SEBI) and the Telecom Regulatory Authority of India (TRAI) have emerged as central regulators of India's insurance, stock exchange and telecommunication sectors. The uniformity these institutions have brought to these services is a huge competitive advantage and they are among the fastest-growing sectors in India today.

India has been fairly unique in this seamless services market. Each state in the United States still has its own insurance regulator which has to give approval for any new insurance products and this results in varying standards and portability problems across regions. In China, each province has to issue permissions for performing financial services, which has created a complicated system of entry approvals for every region. In Europe a regional streamlining of financial services happened only recently, with the MiFID, Markets in Financial Instruments Directive, and there still exist significant barriers to a single market in other services, including audit and transparency standards, company registration and laws, and rail and air transport.

The rise of the single market in the European Union, however, is an instance of its enormous potential. Not only has it eliminated the tit-for-tat capital and labour policies that debilitated Europe through the 1920s and 1930s, it has also brought in significant efficiencies, with the rise in productivity and trade growth adding half a point on average to the region's GDP every year for the last decade. And despite the 'Polish Plumber' fear that came with low income, cheap labour countries such as Poland and Hungary joining the European Union, the free movement of people and goods helped create an estimated 2.5 million new jobs across the continent's otherwise staid labour market.

---

*Migration has, however, reduced the pressure on low-performing states to grow, as enterprising people simply left—villages across Bihar, Uttar Pradesh and Orissa are full of families without their men, who have left the state to work in Bombay, Delhi and Bangalore and send back money.

THE WORM TURNS

When it came to the balance of centre–state power in India, what had seemed like only mildly threatening shifts in the political landscape in the 1970s became an avalanche by the 1990s. As Sunil Khilnani points out, India's reforms, by releasing the centre's grip on economic regulation and giving increased decision-making authority to the states, upended the equations of centre–state power, and the relationship between the government in Delhi and the states began to tilt in favour of the states.

The post-1990s rise of markets also created new buzzwords: efficiency and productivity, which gave momentum towards reducing interstate barriers. 'Before the reforms, single market debates among Indian analysts and economists alike were pretty rare,' Shankar Acharya tells me. Dr Kelkar concurs, 'Until the mid 1990s, we hadn't used the "single market" phrase in any government document or speech. But by the end of the decade, the idea was everywhere.' A definite shift here was seen with the BJP-led NDA government at the centre, and its highly nationalistic approach to the Indian economy.* For this government, the idea of a common market seemed a natural one.

'Connecting India—both in the physical and economic sense—was a big policy concern for Vajpayee,' Sudheendra Kulkarni tells me, and the NDA government began to aim its policies towards removing the many barriers to the growth of a uniform market. Their efforts towards making more markets accessible included the new openness in telecom policy, the Golden Quadrilateral Project and the reforms in ports. And perhaps the most remarkable achievements for Vajpayee's government were its directives to abolish the much-loathed octroi, dismantle administered prices and the middlemen haven that was the Agriculture Produce Marketing Committee (APMC). The government also directed states to get rid of the Urban Land Ceiling Act (ULCA), and appointed the Kelkar committee to work towards a unified tax system.

---

*In part, this was out of political necessity. The NDA coalition lacked the natural appeal of the Congress party's history, which the Congress had long capitalized on—of leading the independence movement, and with the Nehru–Gandhi family among its senior leadership. The NDA leaders had to resort to broader themes of unity, connectedness and national pride, both in rhetoric and in policy.

'ONE RING TO RULE THEM ALL'

In Allahabad* the confluence of the rivers Ganga, Yamuna and Saraswati is called 'Triveni', a site holy for many Hindus. Here, several leaders of Uttar Pradesh's trading bodies gathered on New Year's Day 2008, to carry out what they called a 'buddhi shuddhi' (mind cleansing) fire ceremony. The ceremony, they hoped, would 'unite their minds', and help them present a single front while protesting against the implementation of the value added tax (VAT). It was not going to work. Their state, Uttar Pradesh, was the last hold-out against VAT, and implemented the system four days later over protests and strikes.

These traders ought to have had a conversation with Bhoothalingam. He was part of the first Indian government committee that mooted the VAT—in 1968. This obviously did not go far. In the 1980s the Indian government again began testing the waters for tax reforms. This policy if it came to fruit—of bringing the country under one national tax, first through the VAT† and then a goods and services tax (GST)—would allow the idea of the single market in India to truly come of age.

But as Bhoothalingam and others discovered, champions of such tax reforms faced pretty rough political odds from the word go. Indian states have been immensely wary of such tax reforms—it meant losing their tight control over their borders, and reform efforts here were immediately torpedoed.

India's tax reformers learned to take the small wins when and where they could. The first successful step to a national tax in India

---

*Taking a small detour into Indian mythology—Allahabad, the 'City of God', has one of the most charming mixed origins when it comes to its religion. While the Mughal emperor Akbar gave it its present name, Hindus also give this city special religious status, as the place from where Brahma (the First of the Trinity) made his first sacrifice after creating the world.

†The big advantage of VAT is not just its simplicity—the pay-offs in tax revenues are big, because it is very difficult to evade it. The advantage of VAT is that, as Dr Shome points out, 'It only taxes the additional value of your input and labour at each step of production. You can claim tax credits on the rest. But a seller downstream the supply chain can only claim tax credits if the person he bought from does the same.' The domino-effect of the tax thus compels people across the chain to disclose their revenue.

was the state-level VAT, a convoluted and contested reform that started in 1997 and was negotiated every inch of the way. It involved two central governments, all the state governments with their many, divided loyalties, several enterprising bureaucrats and a couple of hold-out states who resisted the reform well into 2007. All in all, it is a tale of a few good men negotiating and manoeuvring the reform for the better part of a decade, through the labyrinth of the government and its bureaucracy.

'The NDA government did something really smart,' Dr Shome tells me. 'It put the responsibility of the tax reforms directly into the hands of the states.' The central finance minister Yashwant Sinha took a step that was a masterstroke in reducing dissent. He appointed the West Bengal finance minister Asim Dasgupta to head the empowered committee of finance ministers for the VAT, thus making the minister of one of the states more ambivalent to VAT the man in charge of steering the reforms through.

Yashwant Sinha effectively sums up the transformed attitude of the central government in this decade. 'Trying to steamroll these policies over the protests of the states would have been a very bad idea,' he tells me. 'Our approach was instead to build consensus, and not rush policies through.' He adds, 'An MP from our own party representing the traders promised us that blood would flow on the streets if these policies went through. But discussions with each group to address their concerns helped us ensure that these leaders didn't take their arguments—at least too vehemently—into the streets.'

Nevertheless, the government did have some advantages here that its predecessors did not. For instance, the only reason it was possible to get the states to the table to negotiate was that they were less dependent on state taxes to stay financially afloat. Many of the economists and policy experts I spoke to admit that state governments earlier had little elbow room for reform. Thanks to the continually strained finances in Delhi, there was not much money coming from the centre, and the states depended on indirect taxes for as much as 80 per cent of their revenues.

But through the 1990s, direct tax revenues surged, and 2006 marked the first time direct taxes took more than half of the total tax pie, in a windfall for the government treasuries. The new wealth of the 1990s gave the central governments the leeway to drive structural changes in policy, issuing more transparent guidelines for

grants and loans to states, and making states more secure about letting go of indirect taxes. The rise of markets were also changing how state governments looked at taxes—the competition between states for private investment through the 1990s had forced them into a race to the bottom in corporate tax sops. It was not a surprise, then, that they were giving the idea of a national tax system a second look.

The big fear for the states about moving towards VAT was that it would reduce their independence, and the centre would appropriate their revenue and tax collecting powers. The UPA government took up VAT reforms where the NDA government left off, but the challenge in convincing the states remained. Dr Shome tells me, 'Chidambaram met the resistance from some states against VAT by offering to compensate them for any losses.' The finance minister was able to offer the states a comfortable cushion, more than making up for state losses. 'Chidambaram pointed out that the fastest growth in tax revenues the states had experienced in the last five years was 12.5 per cent,' Dr Shome says, 'and he told them that if any state got less than 17.5 per cent in tax growth, he would make up the difference.'

Dr Shome adds, 'At the meeting with the empowered committee, I was sending him memos saying, stick to a 12.5 per cent compensation. But he looked up at the state ministers, and offered 17.5 per cent!' Chidambaram then passed a paper to Dr Shome, which said, 'Partho, sometimes in life, you have to take risks.' But without the financial comfort that India's burgeoning economy gave the finance minister, it would have been a risk that he would have been unable to take.

The third path towards a streamlined tax has been through the service tax reforms. The service tax is now collected, as Dr Shome points out, only at the central level, thanks to a constitutional amendment in 1994. 'When the bill for the tax was first introduced, the states didn't recognize the revenue implications, since services hadn't fully taken off,' Dr Shome tells me. 'Only when the money started flowing in directly to the centre did they realize how much they were missing out, and they've pushed strongly for this reform.' This tax is now set to be aligned at the state level.

And thus we have reached closer and closer to the GST. The final step towards the GST system would mean enfolding the CENVAT (the government's tax on manufacturing), the service tax and the

VAT into a dual GST at the centre and state. 'Passing the GST will need a constitutional amendment,' Dr Shome says, 'but I am optimistic about our 2010 deadline.'

FASTER AND FASTER

The shift to a single system in taxes would be enormous in its impact for the Indian single market. It would take us from the status quo of evasions, tax distortions and dodging the taxman to a self-regulated, uniform system. Something fair and all-encompassing like the GST would also eliminate the lobbying across Indian industries for exemptions and local monopolies, which has very effectively constrained the growth of efficient market networks across the country.

With the milk and honey of tax revenues closely linked to the health of their markets, states have also become more concerned with the efficiency and growth that the single market brings. This has compelled them to invest more in infrastructure and in the health of their cities.

And as regulations eased up, market players have brought in remarkable synergies into the rise of a single market. Freeing up the private sector has allowed entrepreneurial energy to work its way through infrastructure barriers and connect markets, thus building innovative, interlinked networks from scratch. For instance, the NSE is fast linking India's disparate and remote capital markets, while the NCDEX is networking agricultural bazaars across the country. This is creating unprecedented market access—as Ravi Kumar, chairman of NCDEX notes, 'The commodity exchange means that a farmer has a choice of selling his produce to any of the seven hundred and fifty mandis across India.' At the same time, models such as the Honey Bee network, which is focused on documenting innovations and new ideas from across rural India, aims, as the founder Anil Gupta tells me, 'to tap and interconnect India's knowledge bases'. He says, 'The vision is to create a national idea network that anyone can access, and which can enable best practices and regional innovations to quickly spread.'

Indian firms are building business models that can connect producers to far-flung consumers more effectively than ever before. ICICI Bank, Madhabi Buch tells me, is linking old infrastructure such as post offices with IT, to build networks that eventually reach

'even the smallest village'. And national chains are emerging in everything from organized retail to agricultural produce, health services and education. India's newer, small companies have been especially ambitious in their all-India approach—Sanjeev Bikchandani, the founder of the jobs site Naukri.com, tells me that the company sees itself as a market unifier, a firm that 'ties India's regional labour markets together into one seamless pool'. The rise of such national market models are fast establishing single market standards across sectors, such as for example, the Delhi Public School, which has established a 115-school network with a shared school curriculum across cities and towns as varied as Bangalore, Jammu, Siliguri and Calicut. And K.S. Kohli, CEO of Frankfinn, an airhostess training school, tells me that as his firm—which now has over a hundred training centres—branches out to smaller towns, girls have begun to pour in from nearby villages. 'We are able to tap into a lot of latent talent, thanks to how intricate our network is becoming,' he tells me. This single market vision has also spread to the NGO sector—Madhav Chavan's vision for Pratham is to teach sixty million children across India to read and Akshay Patra wants to cover a million children across India's schools in its meal scheme by 2010.

India's surging national market has also made indirect taxes such as customs and excise duties secondary to direct taxes in government revenues. This has given India the breathing room to slash these levies across sectors and connect its internal markets more seamlessly with the global economy. The rise of such access to the global market has encouraged Indian companies to invest capital into building the supply chains and networks to source and produce across the country. The company Calypso Foods, a growing agricultural exporter, has linked over 5000 farmers in the south and 1000 farmers in the east to its supply chain network. Its founder, Debashish Mitra, tells me, 'We are building cold chains to transfer fruits and vegetables to the markets and ports for exports, and we use mobile phones to communicate with our "farmer-partners" on fertilizer use, planting patterns and harvesting times.'

The new focus on single market synergies is also driving reform towards national policies and infrastructure around critical sectors such as energy. For example, the freeing up of the distribution market around energy is making a national gas grid possible. Krishna Kumar, chairman of Turbotech, is especially enthused about the infrastructure investments around gas—he tells me that firms

such as GAIL, Reliance Industries and the Gujarat State Petroleum Corporation (GSPC) are 'building a gas pipeline that will grow from six thousand kilometres to over twenty-four thousand kilometres across India by the end of 2008'. India has also benefited from a national oil market governed by a central regulatory policy, with a seamless retail and distribution network across the country. And the Electricity Act of 2003 has envisioned a uniform tariff policy across electricity markets, as well as a single regulatory framework.

MOVING CRACKS

'The Congress party,' one of its party workers says to me, 'is in holding operation. Our glory days are past.' India's early years were marked by political unity, but economic fragmentation. Since the 1990s, however, we have moved towards the integration of India's local and regional markets. But in parallel, India is seeing a rapid splintering in political power—even as regions are becoming less distinct economically, they have become more prominent politically. This is the decade of the state party in power.

This shift in fragmentation has immense implications for Indian policy. For a long time, India was a country that Indians experienced in the abstract, and its geographical and economic span was unfamiliar to the large majority in the country. But since reforms, the ubiquity of the print media and television both in the cities and in the villages has made different aspects of India, and its variety of socio-economic classes and communities, far more familiar.

The growing opportunities and economic benefits of a single market have also become powerful incentives for a stronger national consciousness. We have already seen the evidence of this in the rise of the European Union and in the long queue of countries from Croatia to Turkey eager to join it. These countries are willing to endure the long-drawn qualification process for European Union membership for the benefits of job and trade opportunities, and new investment that the region's seamless market will provide.

In India similar, emerging single market benefits have been critical in tamping down secessionist movements in the country's far corners. Through the 1950s and 1960s, states such as Tamil Nadu, Nagaland, Mizoram and Jammu and Kashmir were economically marginalized and attracted little investment from the centre, and their sense of alienation had given immense power to local, messianic movements

for independence. Getting negligible benefits from being part of the larger Indian economy, these states felt that they traded in their independence for little in return.

The Tamil Nadu minister C.N. Annadurai had put the case for secessionism well when he spoke in the Rajya Sabha in 1963 on why Indian states such as his own wanted to secede—Tamilians, he noted, were unhappy that they had to depend on Delhi for policies to address their economic backwardness and poverty. 'Psychologically,' he said, 'we would not have so much of solace as we would have if we were to separate.' He added, 'Today, our riches are plundered and our prosperity sapped.' In an effort to weaken such secessionist demands the centre amended the Constitution in 1963 to ban 'secessionist propaganda and activity'.[16] But the rise of the single market—with the growth of national employment opportunities, the fall of interstate market barriers and the rise of internal trade—has been far more effective in curbing these movements. It has given states powerful economic reasons to remain within Indian borders.

'Three Café Coffee Day outlets have opened up in Srinagar,' Jairam Ramesh tells me, 'and I think attracting such Indian investment and capital is more important than anything else when it comes to discouraging support in these areas for militants.' Similarly, many immigrants from the north-east have found jobs in the services sector across urban India, thanks to their fluency in English—many north-east Indian men and women run beauty salons and work in large numbers in Bangalore's BPO sector, in shops across Bombay and in Delhi's hotels and restaurants.

Dr Nicholas Stern labels this change as India's 'internal globalization'. He says, 'At the most basic level, connecting India's villages to the Indian market is as big a challenge as connecting to the global market—India is a huge country, massive in its opportunities.'

PATHS TO GROWTH

Mahesh Rangarajan underlines the major challenge to the single market today as a political one when he tells me, 'We are going through a period of some political chaos. And the impact it will have on single market reforms is pretty difficult to predict.'

The reality is that our national consciousness and economic

cohesion are emerging even as our politics shifts towards more local and state leaders. Even as the economic importance of our state borders has begun to fade in the emergence of a single market, the fast-integrating Indian economy faces other, less visible boundaries—of caste and regional groups and their political demands for privileges. The national economic consciousness is coming up hard against these interest groups.

Coalitions, for example, have skewed the political game significantly in the favour of smaller parties, which now possess disproportionate bargaining power at the centre, allowing, as Omkar Goswami notes, 'the tail to wag the dog, and an emerging politics of compromise across our policies'. This also enables them to squeeze more resources from the central government for particular regional interest groups—a tendency that has been clear during our coalition governments, where regional partners extracted sops such as high support prices in wheat and rice for their farmers and specific state development packages.

Such bargaining within coalitions has compelled other governments to instal breakers against such powers—as in Germany, where parties are allowed to vote out governments only if they have an alternative, credible coalition they can attach themselves to. But in India this is, for now, wishful thinking. We have to work with the government we have, and it is becoming increasingly clear that the remaining key reforms to an efficient and effective single market lie in the hands of the states, and in the back and forth of negotiation and slow steps towards reform.

At the state level single-market reforms are finally now finding political favour. For instance, states now admit to the need for better connectivity and infrastructure across urban and rural areas. The move towards a more rational tax system also has broad buy-in, especially following the success of VAT which, on average, doubled the growth in tax revenues for states to 24 per cent. Flush with cash, states are eliminating many market-distorting taxes such as octroi. Nevertheless, some specific taxes—such as the state excise tax on alcohol—have been reform-resistant, since these provide substantial revenue; in Tamil Nadu, for instance, revenues from alcohol taxes amounted to more than Rs 85 billion in 2007–08.

Governments are also accepting the gradual move towards organized retail markets and supply chains that link both local and out-of-state producers. In West Bengal, the chief minister is promoting his state as 'a logistical hub'. In states such as Uttar Pradesh, politicians trumpet industrial and private investments in infrastructure, which is leading, as one minister exulted, to the 'unleashing of unlimited potential' of the state.

But state governments are also closer to their local interest groups—the farmers and industry sectors that receive sops and subsidies, and the constituencies eligible for grants. The rise of effective, accessible market networks, as a result, has been tangled in numerous political considerations and has turned some critical reforms towards a single market into nothing more than lip service at the state level. For example, APMC members and mandi owners in Uttar Pradesh and West Bengal have stalled the reforms aimed at removing the monopoly of the state marketing committees and enabling contract and direct farming. Even the VAT reforms caused traders to object, as this would amount to their being included in the tax net—forcing, as Dr Shome notes, 'the state finance ministers to promise a benign tax regime towards traders, with no tax raids till they adjusted to the new tax system'. Consequently, as Ashutosh Varshney points out, it has been easier to liberalize trade and simplify investment—concerns of the central government—than it has been to revise labour laws and drive infrastructure reform, which are state subjects. 'The reforms around state issues such as education, infrastructure and agriculture are where we now lag the most,' Yashwant Sinha concurs.

Central governments have attempted to drive reforms in these 'single market enablers' while working within the boundaries of its now more limited political power. For example, the proportion of tax transfers to the states has steadily increased, while that of grants has declined. Dr C. Rangarajan, chairman of the twelfth finance commission, notes, 'The centre has made attempts to link debt relief from the centre with fiscal reforms, with states that adopt Fiscal Responsibility Acts receiving substantial debt relief.' Such an approach compels states to choose development and reform-oriented expenditure in areas such as infrastructure and market efficiency, instead of throwing freebies at vote banks. The central government has also resorted to specific-purpose transfers that require states to pass certain reforms. This has included centrally driven schemes such as the JNNURM programme, where states are required to execute specific reforms in urban governance and financial management before they can access funds.

Cess-funded schemes from the centre such as the Golden Quadrilateral Project are also attempting to connect markets better. But the reluctance of states to pass key reforms has also compelled the centre to sometimes pass policies that actually undermine the single market—such as the SEZ policy,* which establishes isolated economic zones governed by relaxed labour laws, less regulation and more streamlined supply networks and costs. Other moves, such as the area-based exemption package that Delhi granted to India's 'hill states', including the north-east, Uttarkhand and Jammu and Kashmir, exempt businesses in these areas from income tax for five years and from excise duties for ten. These steps are highly retrogressive—such isolated exemptions bypass the gains we would see from an interlinked, efficient national market. It also short-circuits the difficult but necessary debate the states need to have on the merits of reforms in labour, infrastructure and regulation, which is necessary for long-term political buy-in into the single market. And the strategy of exemptions that the central government has resorted to is a death-spiral in itself—these policies penalize developed states with better infrastructure and labour quality, and artificially prop up backward regions. The state government of Punjab, for instance, has already sued the central government for job and investment losses from capital flight to neighbouring tax-exempt Himachal Pradesh.

The execution of the idea of India as a single market has several dimensions. The GST will take the extremely ambitious reform of indirect taxes to a close. With services like banking, telecom, stock exchanges and insurance already a national market, the GST will close the loop on goods. Yet, there are still missing pieces to the vision of the single market. Agriculture, for instance, needs reforms that allow the farmer to sell his produce anywhere in any market. This will be aided by the spread of electronic commodity and spot markets. The alignment of stamp duties in property and securities will enable national markets around them. Creating a common market for alcohol will become imperative as ethanol gains acceptance as a bio-fuel. Land titling systems will create a countrywide market for land. The national electric grid should enable us to buy and sell power anywhere in the country. Octroi will have to be abolished. All

---

*Full disclosure: Infosys has investments in Indian SEZs.

'enclave' approaches like area-based excise exemptions, the tax-breaks of the SEZs and other such policy detours have to stop. The entire highway network should have one interoperable system for paying tolls. Products and produce should be able to move smoothly between different modes of transport. And national standards and information utilities for drivers' licences and vehicle registration will ensure electronic exchange of information at state boundaries, reducing time and hassles.

BORDER CROSSINGS

Right now, our consciousness in terms of a single economic and cultural identity is still evolving. But there are signs that both at the regional and at the national level our ideas on our identity might be converging. Jaideep Sahni tells me, 'People now travel across India for work and education even from the smaller towns and villages, and they constantly come across people from other states and regions who help break down the stereotypes they hold. Additionally, with Hindi and English as increasingly shared languages, people usually find they are a lot more alike than different.'

Even as our politics have fragmented, our economics has become a unifying force, bringing people from all corners of the country together in the cities, connecting them through networks and linking them to the larger, national market. And Indians in every corner are eager to tap into the opportunities such a market presents. But meeting the demand for connectivity and economic cohesion here depends on how fast and well we will be able to execute our goals in primary education, urbanization, infrastructure and single markets.

While people are impatient for improvements on the ground, these reforms have taken years to go from proposal to implementation. 'Maharashtra took many years to implement the Urban Land Ceiling Act reforms,' Yashwant Sinha points out. 'Reforms around the APMC have been extremely slow, and even the policies we successfully passed, such as VAT, took a very long time to be implemented.' Ateeq Ahmed notes, 'Education schemes such as Sarva Shiksha Abhiyan are still not addressing the roots of our school crisis. We are side-stepping the most difficult reforms for creating teacher incentives and reducing dropouts.' Similarly in infrastructure, the knots are not fully unwound, and as a result, as Chidambaram points out, 'We are allotting significant funds for roads, but we see

enormous delays and expense in constructing every kilometre of them.'

Our slowness in implementing these ideas remains our greatest challenge. And our shuffling and backtracking around the reforms here is especially painful to watch considering the speed with which we implemented other policies. We brought in free markets at a single stroke in 1991, incentivized our IT and knowledge industries, and opened up to global trade. Now the economic successes enabled by those policies are coming up short against our slow progress in this second set of ideas, and we cannot stall any longer. Else, the reality of India will remain a strangely bipolar one. We are a country that is now fast growing yet constricted, with entrepreneurs who eye the global market, yet find the infrastructure and regulatory barriers to expanding their business into, say, Uttar Pradesh difficult to overcome. Our surging reputation as a knowledge power is threatened by our weak and crumbling primary schools. Our cities struggle for better governance even as they expand outwards and millions of people pour in. And in the world's seventh largest country, we seem to be running out of space to grow.

1. Harish Bhattacharyya, 'Federalism and Regionalism in India', Working Paper 27, South Asia Institute, Heidelberg University, 2005.
2. Ibid.
3. Ibid.
4. Paul Brass, 'The Strong State and the Fear of Disorder', in *Transforming India: Social and Political Dynamics of Democracy*, edited by Francine Frankel, Zoya Hasan, Rajeev Bhargava and Balveer Arora, Oxford University Press, 2002.
5. Ibid.
6. Harish Bhattacharyya, 'Federalism and Regionalism in India', Working Paper 27, South Asia Institute, Heidelberg University, 2005.
7. M. Govinda Rao and Nirvikar Singh, *The Political Economy of Federalism in India*, Oxford University Press, 2005.
8. Ibid.
9. Ibid.
10. Nirvikar Singh and T.N. Srinivasan, 'Federalism and Economic Development in India: An Assessment', UCSC Economics Department Working Paper, October 2006.
11. Ibid.
12. Shankar Acharya, 'Thirty Years of Tax Reform in India', *Economic and Political Weekly*, May 2005.
13. M. Govinda Rao and Nirvikar Singh, *The Political Economy of Federalism in India*, Oxford University Press, 2005; Devesh Kapur and Pratap Bhanu Mehta, 'The Indian Parliament as an Institution of Accountability', UNRISD Programme Paper no. 23, January 2006.
14. Aseema Sinha, *The Regional Roots of Developmental Politics in India*, Indiana University Press, 2005.
15. Paul Brass, 'The Strong State and the Fear of Disorder', in *Transforming India: Social and Political Dynamics of Democracy*, edited by Francine Frankel, Zoya Hasan, Rajeev Bhargava and Balveer Arora, Oxford University Press, 2002.
16. Jeanie J. Bukowski and Swarna Rajagopalan, *Redistribution of Authority: A Cross-regional Perspective*, Praeger Publishers, 2000.

ICT IN INDIA

From Bangalore One to Country One

A HOLE IN THE WALL

A decade ago, on 26 January 1999, the scientist Dr Sugata Mitra watched as his team cut out a hole in the wall of the Delhi NIIT campus. On the other side of it was the Kalkaji slum, a closely packed, messy confusion of small concrete and brick homes.

The slum's neighbours had regarded it as such an eyesore that the government had been busy building a five-foot-high fence to cordon it off. But Dr Mitra saw the slum—whose clusters carried hopeful names like 'Nehru' and 'Navjeevan' (new life)—and spotted an opportunity. Through the hole they had carved out, his team provided access to a computer for the slum's kids, who quickly figured out how to use it. And soon enough, Dr Mitra found that children using these computers were demanding 'a faster processor and more RAM'[1] and teaching themselves English.

Experiments like the one initiated by Dr Mitra, whose project the government has since taken up as part of its literacy efforts, are shaping a face for information technology in India that is very different from anything anyone expected when IT first made inroads here.

When IT first made a serious debut into Indian economic policy—with its coming out party in 1984—it might as well have been the most unpopular kid in class, greeted with brickbats and managing to survive only thanks to its passionate champions in the Rajiv Gandhi government. Rajiv had great faith in the possibilities of these

technologies, and as prime minister, had announced the New Computer Policy just twenty days after he took office. But if anything, electronification started off disappointing the expectations of both its critics and its admirers. Some of the early initiatives were enormous successes—the telecom policy introduced by Sam Pitroda had an immediate impact, as public telephone booths mushroomed across the country, making phones truly accessible for the first time in India's cities and towns. The electronification of banking processes across India's public banks made the jobs of those at the front-office, the tellers and clerks, far easier. And the computer policy put wind in the sails of small IT companies, including Infosys, which were targeting the international software market. Indian IT companies such as ours—despite early clients who seemed interested but anxious about our ability to deliver—took off.

But other efforts fared badly; Rajiv had emphasized, for instance, that IT was key to tackling India's challenges from poverty to education, but computers supplied to schools with no electricity were little more than curios, and most departments in Delhi strongly resisted the IT initiatives the new government introduced. Overall, the technology remained on a slow simmer. Its effect on the lives of ordinary Indians was mostly indirect—some industries such as banking and telecommunications were adopting these tools in a big way, but few Indians had come in touch with such technology themselves.

But sometimes, change can sneak up on you, completely underestimated in the impact it will have. Around the 2000s, the impact of electronification in India began to change. It started to rapidly evolve from a top-down system driven by government policy and industry into a force surging up from the grassroots. Indian entrepreneurs big and small were at this point focusing on the possibilities of building a unique business approach—based on the idea that you could vastly expand the pool of Indian consumers if you were willing to focus on extremely low-cost products. When IT met this strategy, its presence exploded. Even as Hindustan Unilever Limited (HUL), P&G, Nirma and Cadbury began selling everything from shampoos to soap, detergent and chocolate in tiny, 'single serve' packets costing a rupee or less, banking firms such as ICICI began to offer 'micro' loans and hospitals such as Aravind Eye offered targeted, low-cost health services, technology entrepreneurs began offering low-cost internet and computer usage to villagers across rural India.

As the possibilities in such low-cost technology began to explode, firms across retail, banking and communications found that IT could well be their missing link in connecting with people who were often illiterate and located in distant villages, dirt-road miles away from the nearest market. And reform-minded bureaucrats found that such technology, untouched as it was by the legacies of the sarkar raj, could be a powerful leverage for better public services. IT could play a bigger and more powerful role in the economy than anyone had guessed or attempted before.

BENEATH THE SURFACE

You might wonder about my *two* chapters on electronification—it may look like nothing more than part-indulgence and part-compulsion on my side, a nod to my long role in the software industry.

But I think that electronification is still incredibly underestimated in India in the changes it can bring. In the first part of the book, we talked about how our changing attitude towards technology, from being regarded as an alien and forbidding thing to something that has a huge impact on our daily lives, has been one of the ideas that helped reshape the Indian economy. But we have yet to scratch the surface of the possibilities that electronification offers us, partly because we have looked to the West for guidance in using such technology.

The evolution of IT worldwide has given us a whiff of its potential. Since the invention of the transistor, technology has evolved to astonish even its most optimistic champions. Computers and other forms of digital technology are becoming more powerful, smaller and cheaper every year—and more ubiquitous. We are now seeing the rise of immense computing power, almost unlimited storage capacity and numerous small yet powerful devices that can tap into this. This has enabled a high-speed 'digitization' of all kinds of content, where voice, books, music and video can be transmuted into ones and zeros and carried on the network. At the same time, networks transmitting this information have become intricately intertwined and ubiquitous, especially with the rise of fibre optic and broadband technology. Communication is becoming wireless, lighter than air, with cellular telephony and an alphabet soup of technologies such as Wi-Fi and WiMax. But while these electronification trends triggered dramatic change in the United States and Europe—and no book has described these shifts better

than Thomas Friedman's *The World Is Flat*—we have seen them evolve in these countries mainly as another layer over traditional models, complementing fixed-line telephones, dead-tree content and established ways of doing business.

India is different. For all the benefits India has seen from expected trends in mobile phones, electronic voting and modern stock exchanges, there is a lot more that is likely to unfold around our technology revolution in the next decade. As virgin territory, India could be a testing ground for something far more radical. India is not yet a 'settled in' economy—our supply chains and infrastructure are not nineteenth- or twentieth-century structures and systems, and our market systems are little more than a quarter century old.

Combine the still untapped potential of technology with India's possibilities, and I see a path to a very different kind of country a few decades from now. Even if I were to extrapolate only from what is happening in the present, we can expect a transformation. We can, first of all, reasonably assume that within a few years we should be able to have ubiquitous connectivity to cover every Indian home, hamlet and town. The trends towards this are already obvious: mobile phones are set to pass the 50 per cent penetration mark and many mobile operators hope to cover 95 per cent of the population in a few years. Falling prices for handsets has helped make them popular, as the price has come down from around Rs 15,000 for the cheapest handset in the early 1990s to less than Rs 700 today. And even as mobile telephony gets more sophisticated and networks move from 2G to 3G, high-bandwidth and wireless connectivity will allow us to transmit both voice and data with ease.

The second implication of the rise of increasingly low-cost technology is that it will be possible to put an electronic device into the hands of every citizen and in every village. It could be a low-cost computer, a smartphone, a smart card or a PDA, and it will be both practical and cheap enough for the person to buy or the state to provide.

The third implication is that we will have the computing power and storage capacity to store an unprecedented amount of information that could be universally accessible. While this may conjure up the picture of an Orwellian Big Brother for some, in truth the power from ICT and access to information flows both ways, as many governments have found out to their disadvantage. For instance, news on unpopular policies and state scandals spreads much faster,

and so does dissent. The combination of ubiquitous communication, cheap devices and unlimited computing and storage means that everyone will have a way of communicating with each other, and of storing vast amounts of such information, accessing knowledge and entertainment and being connected to a 'national grid'.

So powerful are these tools becoming that I believe India's revolution, when we see it, will be not be like the one carried out in Europe, with peasant revolutionaries storming the castle gates with farmhand tools, but through low-cost technology models that put the power of digital information and networks in the hands of everyone.

But so far what I have described will happen one way or the other. This part of the revolution is already inevitable, thanks to falling costs of technology, global competition and the emphasis Indian governments have placed on making these tools accessible. But there is a lot more we must get done in terms of our underlying structures in order to have a truly effective, wired nation in place.

To have any kind of national-level, working approach to technology, we must start with the government. But when it comes to computerization within the state, we cannot build new systems over a creaky base—we have to first reinvent our state processes to increase our efficiencies rather than merely computerizing what exists. We also need to ensure that people can actually access these systems effectively; else IT-enabled governance will be little more than a showcase project. And we have to take a long, strategic look at the information infrastructure we need and all the possible services we can deliver across this structure.

GETTING RID OF OUR PHANTOMS: SINGLE CITIZEN ID

A big source of heartburn for those running banks, managing elections and regulating the stock market in India is that the country is filled with people who are virtually invisible. 'The one thing that gives me sleepless nights,' ICICI's Madhabi Buch tells me, 'is the inability of us Indian bankers to put a name to a transaction.'

Today Indians can have a multitude of numbers with which to identify ourselves, depending on when and where we interact with the state. When we get a passport we get a passport ID, a ration card gets us another number, when we pay taxes we need a permanent account number (PAN), when we register our vote we get

a voter ID card, and on to barcode infinitum. 'Our databases are in these disconnected silos,' the chief election commissioner N. Gopalaswami says. This makes zeroing in on a definite identity for each citizen particularly difficult, since each government department works a different turf and with different groups of people. The lack of a unique number has given space to plenty of phantoms—in voter lists and in below poverty line (BPL) schemes and holding bank accounts with multiple PANs. One academic tells me, 'The number of BPL ration cards circulating in Karnataka is more than the state's entire population, let alone the number of BPL families.'

India's ministries and departments are also quite isolated, with separate fund flows and intricate, over-hyphenated authority levels. As a result these systems require paperwork-choked processes each time citizens approach the state. A common technology and process platform for government schemes and departments—especially now that they have such large budgets—would be a huge improvement in coordinating information between departments, and getting rid of redundancy and triplicate forms. Identity systems linked up with an IT-enabled process that interlinks our various departments would, besides making citizen information and identity more verifiable, make the relationship between the state and the citizen infinitely less traumatizing in both time and energy wasted.

Such a 'national grid' would require, as a first and critical step, a unique and universal ID for each citizen. Creating a national register of citizens, assigning them a unique ID and linking them across a set of national databases, like the PAN and passport, can have far-reaching effects in delivering public services better and targeting services more accurately. Unique identification for each citizen also ensures a basic right—the right to 'an acknowledged existence'[2] in the country, without which much of a nation's poor can be nameless and ignored, and governments can draw a veil over large-scale poverty and destitution.

The use of IT and the rise of such unique number systems are closely correlated. In the United States, for instance, the Social Security Administration (SSA) was the first federal bureaucracy to require the use of computers, because of the overwhelming complexity of processing the social security numbers and data of its 200 million plus citizens. The bureaucracy was a massive complex of wall-to-wall file cabinets managed by hundreds of clerks. It was the early

IBM 705 computer that helped transform and streamline it. This mainframe approach quickly spread to European bureaucracies in the 1960s and 1970s. The transparency and flexibility of such computerization also enabled other reforms—such as laws that introduced individual citizen accounts for benefits and welfare payouts, a step which both opposition parties and citizens in Europe and the US would have been deeply suspicious of under the earlier, less transparent and bureaucracy-run system. In China as well, IT has helped the government transform its social security systems from a local network to a national, increasingly interlinked process.

In India the government has made some attempts towards such a single citizen ID number. This had a lot of traction in the previous NDA government as well, albeit for reasons that were less financial—they saw it as a way of identifying illegal aliens and refugees. UPA's finance minister, P. Chidambaram, has on the other hand seen it as a way to address the identification challenges of Indian banks and the financial sector. A stop-gap arrangement that the government has put in place requires the PAN as 'the sole identification number' during bank transactions. But of course, with just sixty million people with a PAN, this does not come close to a broad-based citizen ID, and Dr Arvind Virmani, former principal adviser at the Planning Commission in New Delhi, tells me that the government has been working on a 'smart integrated ID card' that would serve as a unique ID. As things stand, a regulatory authority along the lines of the SSA in the United States, Chidambaram says, is likely to be approved.

Too often though, we see issuing smart cards as the main challenge of implementing such a system. But building these intelligent little stripes is the easy part. It is in making the back-end infrastructure secure and scalable, providing a single record keeper for the whole country and integrating the agents who issue these numbers that it gets tough.

To do this, we need a sustained and multi-pronged effort that cuts across governments as well as companies. For example, issuing this number to each citizen, say, during a census would be extremely onerous, as it is a painful task prone to errors as census officials spend long days walking through neighbourhoods and knocking on doors. It would be a lot more effective to issue these numbers when citizens come to the government. This would mean issuing citizen IDs when individuals come to a

public office for an identification document—a passport, birth certificate, caste certificate, driver's licence—when they come to collect a benefit such as a BPL card or when they have to make a financial transaction, such as pay taxes, open a bank account or buy into a mutual fund. The government can also easily recruit private companies such as telecommunication and financial services firms to become intermediary issuers to their large numbers of customers.

Each of these paths to identifying the citizen and bringing him into the database would cover different pools of people. The PAN covers all tax payers, voter IDs all registered citizens over eighteen, birth certificates all newborns and BPL cards the poor. Using the databases to issue IDs to different groups of people means that the initiative would ramp up to near-universal, accurate levels very quickly. And if necessary, such efforts can be complemented with a census.

A national smart ID done at this level could, I think, be transformational. Acknowledging the existence of every single citizen, for instance, automatically compels the state to improve the quality of services, and immediately gives the citizen better access. No one else can then claim a benefit that is rightfully yours, and no one can deny their economic status, whether abjectly poor or extremely wealthy. More than anything else, this recognition creates among all parties concerned a deeper awareness of their rights, entitlements and duties. It becomes far more difficult for both the citizen and the government to dodge any of these.

A key piece of infrastructure that must sit on top of an interconnected grid is the electronic flow of funds. This will require that each uniquely identified citizen or organization has a financial account into which money can be transferred from the state. This could be an account in a bank, a post office or with a self-help group. And within this system, the ID smart card can function as a mobile, non-transferable electronic passbook.

My guess is that the impact on inclusive growth and India's savings rate from implementing this would be massive, considering that an estimated 80 per cent of Indians today do not have a bank account, and therefore lie outside any sort of banking system besides perhaps the one represented by the exploitative moneylender and his steel box of cash. 'The weakest aspect of India's economic reach is in financial access,' Dr C. Rangarajan agrees, 'and its impact on inclusive growth has been severe.' For instance, people need savings

to invest in education, spend on health care, or to feel secure enough to move to a city, leaving their home and land to take up jobs in a place where they have no real assets.

Linking smart cards to such accounts can open up the banking system to hundreds of millions more people. It also introduces the possibility of offering direct services, from pension and benefit payments to trading accounts to an unprecedented number of people.

DISTRIBUTION CHANNELS

It does sound premature to talk about the transformational potential of IT when our internet penetration nationally stands at 2 per cent. Without real access, our fond dreams for technology in India are just that. But IT penetration can ramp up very quickly with the right models. For an electronification strategy to be effective in India, we need an approach that does not stress traditional mechanisms of IT penetration, but is tailored to our disparate and dispersed geographies, and that can expand with speed, efficiency and, most critically, at low cost.

Right now the greatest danger we face is of creating a divide in IT access that parallels the other divides in accessing infrastructure, capital and information that exist between India's rich and poor, educated and illiterate, and urban and rural people. To avoid this, we must target a variety of distribution channels for spreading technology. Already, mobile phones have spread rapidly, and linked up with other technology-based services such as the NCDEX for live commodity prices and the NSE for live market movements. There are other, not immediately obvious ways of communication that can be invaluable in building complementary technologies that get information to people. Community radios, for example, can disseminate information to large groups, regardless of literacy levels. And a recent, interesting non-profit effort has been the 'Question Box' which links villagers in Uttar Pradesh to an operator who is connected to the internet. People ask the operator questions through the box—anything from exam results to the price of tomatoes at the mandi—and she gets the answers online, and gives them an instant response.

Providing ICT services through kiosks is another mechanism that is proving quite effective in rural India. The National e-Governance

Plan (NeGP) launched in 2005 planned 100,000 such kiosks to provide a variety of state services across India, but Indian entrepreneurs are already making waves with their own rural kiosk networks. For instance, Sriram Raghavan's kiosks across Karnataka are popular for printing out caste certificates and land records. Such networks can be built upon quite easily to support national ID schemes. And having an ICT-literate entrepreneur managing a community-based service is often more effective than individual PC ownership, especially in the rural areas—it speeds up the ICT-learning curve, and these entrepreneurs have invested in services tailored to illiterate villagers, such as voice-enabled applications and local-language software. 'Our role ends up being something midway between a businessperson and a mentor,' Sriram tells me, 'but not for very long. Even illiterate villagers learn how to use them very quickly, and are never scared of these systems. They want to figure them out.'

The access to information that these multiple channels offer in rural India has the potential to trigger a sea change in agricultural productivity. The farmer can, for instance, receive highly localized, relevant and timely information through mobile phones on prices, market trends and weather forecasts. Infosys is doing one such project with ACDI/VOCA, a non-profit international development organization that is working to make local information available to farmers. Amit Mehra, managing director of Reuters Market Light, which provides such data to thousands of farmers in Maharashtra through mobile phone text messages, tells me that farmers are finding such information very useful, and the illiterate ones get their children to read out the messages to them.

FROM SUBSIDIES TO DIRECT BENEFITS

An IT-enabled, accessible national ID system would be nothing less than revolutionary in how we distribute state benefits and welfare handouts; I believe it would transform our politics. Right now our elections are virtually defined by subsidy promises, and a whole ecosystem of theft and leakage has emerged around the handling of our public funds. One state chief minister was recently quoted openly telling his party workers to 'take one-third of the money, and leave the rest'.[3] Across our creaky subsidy distribution systems, leakages average 50 per cent and more. The inefficiency of these

state schemes has gotten even worse over the last two decades: in the 1980s Rajiv Gandhi had remarked that for every rupee spent on the poor, only 15 paise finally reaches them; in 2007 his son, Rahul, offered his own estimate, saying that now a mere 5 paise of every rupee spent reaches the poor in some districts. Mechanisms to curb corruption can be thwarted if high-level bureaucracy is venal enough, as was seen in the most recent government employment scheme, the NREGA, where over 30 per cent of funds were being siphoned off in some districts in Orissa. 'As GDP has surged, corruption across government projects has gone up,' Chidambaram tells me. 'The widespread leakage of funds mean, for instance, that it costs us anywhere between four to six crore rupees to build one kilometre of road.'

A national ID system would make these porous distribution mechanisms and our dependence on the moral scruples of our bureaucrats redundant. The state could instead transfer benefits directly in the form of cash to bank accounts of eligible citizens, based on their income returns or assets. Dr Vijay Kelkar points out that such an approach would not just bring in all citizens within the financial system, but would also give them real financial power. In Dr Kelkar's conservative estimate, for example, combining the bulk of our subsidies into a cash entitlement could amount to Rs 20,000 per family, and make them eligible for loans of up to Rs 100,000.

This would redefine our welfare economy as we know it. The gains in efficiency and transparency would be unprecedented. The additional relief would be of no longer having to endure the harassment of officials for bribes, or being denied benefits that are your right. Such a benefit-linked smart card model would also make welfare benefits national, allowing citizens who migrate to the city to continue using certain allowances. Essentially it would help our governments adapt to what our country has long been—a nation of migrants, who often cross state and city lines in search of work and opportunity.

Chidambaram tells me that the government is set to implement a direct benefits model as a pilot project in two states, Punjab and Haryana, for everyone who has a BPL card. 'I don't think we have yet fully recognized how politically potent direct benefits could be, compared to indirect subsidies,' he says. 'The citizen doesn't really know how much benefit he gets from subsidized LPG—he has no idea what the real price it. But a direct cash benefit is a welfare offering whose value is obvious.'

Such direct transfers would transform the underlying philosophy of our subsidy systems. Since 1991 Indian governments have implemented reform-oriented policies sweetened with old style subsidies* directed at various interest groups. There is a clear attitude of compensating for something here—of governments trying to cushion the blow of what they see as unpopular, pro-market policies. But providing citizens more direct benefits changes these welfare mechanisms from a way of insulating people from the market to a way of empowering them, by giving them capital to access the market. And at the same time, other aspects of the IT infrastructure would connect them to the information and the institutions that they need to participate effectively.

A networked, national ID infrastructure would mainstream many localized, pro-poor reforms in our financial systems, pensions, health and so on. For example, the national ID when integrated with self-help groups, micro-finance and micro-insurance institutions, would link financing options for the poor more closely with bank accounts, creating large-scale organized systems that are at the same time accessible and tailored to the local level. 'We have to tie in local organizations with banks to make our services truly accessible,' Madhabi concurs. 'Anything else, considering the small and disparate communities we are targeting, would be too expensive.'

EFFICIENT PROGRAMME DESIGN

In India IT is flourishing on an infrastructure backbone very different from those in developed countries, and mainly through the low-cost approach of mobile phones and community kiosks. Solutions that take advantage of this infrastructure also ought to similarly prioritize tailoring our existing solutions—in welfare and financial benefits—more effectively for the Indian environment.

'When the most well-intentioned institutions fail,' the economist Senthil Muralidharan tells me, 'it is usually because of the mistakes we make in our assumptions about the poor. The challenges of the poor vary considerably across countries, and in India we have to

*For example, food and fertilizer subsidies alone have grown at a clip of over 30 per cent. It is estimated that including off-budget items such as oil and electricity subsidies brought India's combined deficit to 9 per cent in 2006–07.

frame Indian solutions to benefit them.' Senthil notes, for instance, that many of India's poor are farmers who get paid in bulk every season, post-harvest. 'But their expenses,' he notes, 'are on a monthly basis, like the rest of us, of food, school fees, clothes. Everyone knows how difficult it is to plan spending in the long term—weeks and months—with one-time cash in hand, and this is especially a huge struggle.' Senthil suggests that when it comes to loans for farmers, 'We should be giving them funds in small amounts, rather than the big bang style handout that banks do now.' Small and regular payments compel them to optimize and not make bad choices.

What has also been interesting in our most successful programmes is how targeting the community, especially in the poorer, rural areas, seems more effective than targeting individuals. When it comes to the poor, their small assets mean that they rely for support on their families and village communities. Consequently our most successful solutions—whether it has been IT kiosks or micro-finance—have been those that targeted groups rather than individuals. India's 'traditional' businesses have already tested this, as when HUL created a network of Ashoka Mamis in the late 1990s to teach their communities issues of hygiene and health care; the more promising government programmes in rural health and education—such as the volunteer-driven ASHA system and Madhya Pradesh's *guruji* programme—also adopted this approach.

Perhaps such approaches succeeded because many of these communities have been isolated for so long, often without roads and power, cut off from governments and entrepreneurs, and are forced to rely on each other. Tapping into the networks of trust and cooperation that these communities have built as a result enable governments, social security systems, banks and entrepreneurs to offer more effective programmes.

Other entrepreneurs are also tailoring their business models in rural India towards a more community-based, aggregated perspective. Debasish Mitra describes to me how his company is using technology to manage large 'virtual farms' in Karnataka that are in reality several small farms run by individual farmers. 'With our databases and mobile communications,' he says, 'we can send all farmers growing one particular crop a single communication, for instance, on a particular fertilizer that needs to be added on a particular day.' It enables them to track origins of the produce across the supply

chain. 'We have barcodes on all our produce,' Debasish says, 'and we can track it back to the exact farm it came from.'

Focusing on community solutions may in fact be a great fit for the kind of knowledge economy we see evolving in India today. Collaboration and community networks for formal and informal solutions built on ICT infrastructure can reduce information asymmetry in exponential ways, bridging the gaps between urban and rural India and across socio-economic classes.

CONTESTED LANDS

A somewhat unexpected place where IT in India has massive potential is in land. Land has never been an easy issue in India—it has been a source of much chest-thumping and of pitched, agitated battles. The crisis of land rights and the abuse many landless workers suffered under the zamindars nearly derailed efforts by Indian leaders pre-independence to unite rural communities under the freedom movement. Post-independence, land politics became even more complicated, especially the failed land reform and redistribution efforts of the 1950s and 1960s. Today the politics of land in India still has a deeply adversarial texture—it is seen primarily as a battle between the powerful and the powerless. In the 1960s and 1970s, it was the zamindars on top, but lately it is companies eager to establish special economic zones (SEZs) in partnership with state governments that are seen as new, autocratic overlords. Singur and Nandigram's highly public battles over land reallocation for businesses are only the most visible signs of the continuing ugliness in our land politics.

These disputes stem from the convoluted Indian laws around property. Land laws in India are a bureaucratic sinkhole—registering the sale deed of a property in India, for example, certifies only the transfer of land, and not a change in ownership. Legislation around land titles is also complicated by murky, ancient records that make it often impossible to determine the owner of the land. With 90 per cent of land titles in a country of a billion people in dispute and over 30 per cent of pending court cases concerned with land, it is no surprise that this issue has become so emotionally fraught. The confusion and lack of transparency around land rights have created massive opportunities for land sharks looking to make a fast buck. In urban slum areas, for instance, the poor often squat on public

land, but slumlords collect either rent or a down payment for a land title. And unlike many countries, India has not recognized the 'right to property' as a fundamental one since 1978, which makes it far more difficult for landowners to contest development plans, and to ensure that the growth and expansion of markets do not steamroll over their livelihood.

Reforms in land titling and property rights, and linking such titles into the national ID system, would be a big step for our land markets. And this would provide powerful momentum towards more inclusive markets—the economist Hernando de Soto noted that the right to property and clear land titles are essential for bringing down poverty.[4] Land is particularly useful for the poor since it is a source of funds, a starting fuel for economic mobility, and instrumental as collateral for obtaining loans from banks.

But bringing IT into India's land markets presents a classic clash of the old and the new. Much of our land legislation and data come from methods used in British India. Considering that land taxes accounted for approximately 40 per cent of British India's revenue, land surveys were a big part of the Empire's bureaucratic work. Land mapping for the British was a source of enormous, imperial pride, a way to enumerate the Empire's treasures, its captured territories. In fact the Survey of India covering 2400 kilometres of the Indian subcontinent that William Lambton began in 1800 and George Everest concluded fifty years later, and which the British undertook with unstinting seriousness, was regarded not only as a unique mathematical and scientific triumph, but also a political one.

But however thorough and detailed for their times, these surveys relied on primitive tools, and very often, as Dr N. Seshagiri notes, the boundaries defining land ownership 'often described a well or a wall that had disappeared for many years, complicating ownership issues even further'.

As Abhijit Banerjee points out, land records have also varied from region to region thanks to the differences in how ryotwari, inamdari and zamindari systems were surveyed; the princely states too had their own record-keeping and taxation mechanisms. But having seamless information records across states regardless of central versus state jurisdiction, through a national database for land and property records, would still have a dramatic, cleansing effect on land productivity, equity and litigation.

British India's surveys were also largely restricted to 'revenue

lands'—village lands that collected revenues for the East India Company. As a result we have good maps of rural India, but none for our urban areas. It has not helped that Indian governments did nothing to revise the town and country planning acts that the British had established as early as the 1850s, and also did little to manage expanding urbanization. 'Reforming ancient planning laws is not even on the agenda,' Swati Ramanathan tells me. 'Our urban legislators spend most of their time firefighting, and negotiating between multiple city agencies to get any work done. They have neither the resources nor the energy to take up fundamental reform.'

The result is laws that are standing relics and work processes a hundred years old. They are in fact so well preserved that they could be a valuable source of study for Indian historians on the workings of the urban bureaucracy in colonial India. Even now, city maps are hand-drawn sketches—a truly bizarre method to follow, considering the high resolution digital tools we now have at our disposal for satellite imagery, aerial and ground surveys. It is only recently that states such as Karnataka have begun to update these records, thanks to the efforts of the eGovernments Foundation and other organizations.

Land boundaries are also very complicated and confused within districts, with different departments—the electricity board, sewage services, the police—defining their own administrative boundaries. If you have had the misfortune of having to file an FIR in India, you immediately experience the complication that comes from this— police stations across the city have drawn up their own jurisdictions, and there is massive confusion over where one station's authority ends and the other begins. In such cases, a bird's-eye view IT system could streamline information across the various state and local bodies. My experience with the eGoverments Foundation vindicates this; for instance, the foundation's efforts in digitally mapping our cities greatly helped the city's decision-making for infrastructure investment and improvements. Global information system (GIS) maps have also enabled us to view ward-wise incomes and expenditure, and these provide a clear picture of where revenues are coming from and where municipalities are spending the money, while tracking citizen complaints highlights where the bottlenecks are.

There have been other remarkable efforts to address the challenge of land reform through IT—such as Rajeev Chawla's Bhoomi project

to computerize land revenue records in rural Karnataka, which he led and implemented almost single-handedly. The central government has taken up Chawla's initiative nationwide, with varying success across states—while Gujarat, Tamil Nadu and Andhra Pradesh have made some progress under the national-level Computerization of Land Records (CLR) scheme, others have lagged. It is difficult and hairy to navigate these reforms through a state's political and bureaucratic maze, and I tell Chawla that what we probably need to expand the scheme nationally is a few cloned copies of himself. But one thing that has changed might explain why implementing the scheme elsewhere is so difficult: before Bhoomi, people were unfamiliar with these IT-based reform initiatives and their potential and power was still unrecognized. As a result bureaucrats could push them through with little resistance. After Bhoomi, this is no longer the case.

These basic building blocks of using IT to identify citizens, and creating accessible electronic channels to reach citizens for financial transactions, classifying land, procuring documents and so on are the key to what I would call 'information infrastructure'. They are as important as ports, roads, power, water and airports are to physical infrastructure, and without them no larger-level IT project can take off. Once these pieces are in place, there will be huge economic benefits that will cascade to our citizens as well as to our broader economy.

CREATING NATIONAL INFORMATION UTILITIES

Sure, 'national information utilities' sounds a little jargonistic. But it is really the best way to put it. A big way to maximize the impact of a national grid would be by creating a large number of national information utilities (let us call that mouthful of a phrase NIUs from here on). NIUs would be databases that amass information, streamlining it for the government, and also making it more accessible and transparent for citizens. The online depository that NSDL implemented under Bhave was the first hugely successful example of such an NIU in India; it now holds over $1 trillion of shares in electronic form. The changes it brought about exceeded all expectations—the NSDL enabled the tax authorities to build the Tax Information Network, which in turn contributed to the huge growth in direct tax collections in India. Now we are poised to build

a similar NIU to manage the New Pension System, and the MCA-21 project of the ministry of company affairs is an NIU to record the details of all registered Indian companies. The Supreme Court of India is looking at a national case management system, an NIU to streamline hearings and unclog the massive backlog of cases across our courts.

NIUs offer us a new kind of governance model—one that is scalable, with a single point of accountability, and where the amount of information available maintains a balance of power between the citizens and the government. Right now India struggles under a governance model where multiple state and central government departments, staffed with differently skilled people, try to accomplish similar goals across Indian states in health care, education and welfare. Repetition, a lack of awareness around best practices and varying degrees of commitment inevitably create different rates of success.

NIUs can make governance across state services both seamless and standardized. For instance, using such a system to handle all fund transfers of government money from the centre to the states and local bodies would ensure predictable, efficient and leak-proof cash flows. We could carry this idea into all kinds of services, and implement such models for driver licences and vehicle registrations. This would help in improving traffic compliance, permit dynamic pricing for congested areas and expedite the single market by making interstate borders and toll roads entry/exit quicker. Having a national information system that keeps electronic records of health would change the whole health delivery scenario. And a similar mechanism that keeps track of student loans along with one to create a portable credit system for higher education would greatly improve both access and quality in higher education.

Such an electronification infrastructure would reduce the knowledge asymmetries—and consequently the lopsided power dynamic—that now exists between the citizens and the government. The Right to Information Act 2005 was a direct prod towards changing the balance. But the electronification framework above, if implemented with all the pieces, would go much further in redressing the imbalances in people–state power, by providing the citizens with unfettered access to a broad range of information. Everything from information on state and city budgets, spending details for specific schools, hospitals or a bridge across a river, tax collections and tracking of citizen complaints would be visible to the public.

Such open systems, by reducing intermediaries in funds transfer and benefit allocations, make governments directly responsible to citizens, and very much like a local government in its accountability and transparency. The light that we bring to bear on these inner workings of the state will ensure that both the incompetent and the corrupt will have far less chance of escaping undetected. Once the opaque veils on our state are raised, the citizen will be truly in charge.

ANTICIPATING OUR CHALLENGES

For many of us in India, governance has been an intractable problem, one very difficult to change owing to the deep-rooted bureaucracy and opaque lines of power. A senior secretary within the UPA government tells me that one of the biggest challenges for governance reforms in India has been this sense that the old structures are simply untouchable. 'Bureaucratic power centres are especially entrenched. The district collectors today, for instance,' he tells me, 'grew up viewing him as the most powerful man in the region. They are not going to cede that authority without a fight.'

This struggle with ancient, draconian systems has long troubled Indian writers and thinkers fighting for fairness and equality, with some calling for nothing less than a revolution. Many believe that only if such structures are completely destroyed can anyone hope to build something better.

But India, a country still caught in a mix of feudalism and a promising market economy, has the advantage of the flattening, transformational power of electronification. Bureaucrats such as Rajiv Chawla, Ravi Narain and Ravi Kumar have already demonstrated the power of information systems in bringing about dramatic, citizen-friendly reforms, and making governance immediately fairer, transparent and more inclusive. The potential of these tools, if taken nationally and implemented with all the parts in place and without compromises, could be huge. But to do this, we have to change the way we think about electronification. First of all, this is too important to leave to the technologists. IT is less of a tool than a strategy for public policy reform—which can be fundamental in making the economy more efficient in addressing concerns of equity and for making public spending more effective. The design and implementation of this information infrastructure is as important

to the country's future as the number of power plants and roads that we build.

Secondly, e-governance is not just about hardware and software. Every conversation on using technology ends in a discussion on which server to use, or which ERP, enterprise resource planning, package to deploy. These are the least of our problems, and are eventually the easiest things to figure out. Far more critical is the database design, the governance structure and the process re-engineering needed to build scalable, replicable and seamless systems that are convenient and practical for citizens.

Finally we must recognize that e-governance projects have been successful when there has been a single owner with a clear, national-level mandate responsible for it. IT transformation projects that span multiple departments or multiple levels of government have fallen short, since these require complex decision-making processes and high levels of collaboration and authority. The inability to manage such interdepartment decision-making has been the reason for the plethora of successful pilot projects that can neither be scaled up nor replicated. Tackling this would require national standards that IT projects must follow, so that they can fit in seamlessly with the existing infrastructure. A rare, successful attempt of a broader IT standard demonstrates how this can work—the Comptroller Auditor General (CAG) along with the ministry of urban development put out the National Municipal Accounting Manual (NMAM), which helped dozens of city municipalities across India migrate to a sophisticated double entry, IT-enabled accrual accounting system. The creation of standards such as the NMAM can enable similarly huge multiplier effects when it comes to improving our governance systems and delivering public services.

A TRANSFORMATIONAL FORCE

They say fortune is all about timing, and India has been incredibly lucky that our growth story is happening at a time when the technological revolution is providing us with a basis for a fundamental transformation in governance, better public services and for creating a targeted safety net for the poor.

Technology is extremely powerful as a liberal force, in its ability to empower citizens and minimize the sway of the state. It would strengthen India's advantages as an open, democratic society, and

would ensure that information, knowledge and services flow unimpeded. But for much of the 1980s and 1990s, our e-governance projects and technology initiatives tended to flounder, usually derailed by political interference and bureaucratic apathy. Technology itself is not the Midas touch—however, if we are sufficiently able to get the technology foundation up and running, the change it triggers across the government has the capacity to become a juggernaut.

India is particularly well suited to harness the powerful capability of IT just as we are undertaking our biggest development journey. The talent that made India the centre of global delivery in IT over the last fifteen years has now developed the skills and experience it needs to apply these learnings at home. In the next fifteen years, these skills can help us build the kind of politically and economically inclusive environment that can take India into a second phase of dramatic, technology-aided growth. The acceptance of technology by the common man means that there will be no resistance to its widespread deployment. And the open society that we have created and nourished is the ideal ground for IT-led transparency in governance. But to realize this vision we have to take IT-led transformation from the sidelines of public policy and make it the centrepiece of our development and reform strategy.

When Tom Friedman was in India, he was asked what he thought about China as the emerging superpower of the century. He answered, 'I don't think that this century can belong to a country that censors Google.' His statement speaks multitudes of how critical information technologies have become to a country's economic strength, and how India's particular advantage—its combination of an open society and its positive attitudes to IT—can transform our country in the coming years. India's potential here to become an open, wired economy, unregulated by any kind of 'intellectual licence permit raj', can be a strength difficult to beat in today's information age.

ICT IN INDIA:
FROM BANGALORE ONE TO COUNTRY ONE

1. Sugata Mitra, 'Self-Organising Systems in Education', *International Journal of Development Issues* 4, 2005.
2. Simon Szreter, 'The Right of Registration: Development, Identity Registration, and Social Security, A Historical Perspective', *World Development* 35, 2007.
3. Jos Mooij, 'Smart Governance? Politics in the Policy Process in Andhra Pradesh, India', Working Paper 228, Overseas Development Institute, October 2003.
4. Hernando de Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, Basic Books, 2003.