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Source: *Comparative Politics*, Vol. 35, No. 4 (Jul., 2003), pp. 459-476
Published by: Comparative Politics, Ph.D. Programs in Political Science, City University of New York
Stable URL: http://www.jstor.org/stable/4150190
Accessed: 15-06-2016 11:18 UTC

Rethinking the Developmental State Model

Divided Leviathan and Subnational Comparisons in India

Aseema Sinha

For some time, the concept of the developmental state has been at the center of debate in comparative political economy.[1] It encompasses the view that state intervention is necessary not merely to correct for market failures arising out of scarce capital, externalities, and technological improvement but also to achieve long-term capital accumulation and society-wide developmental goals. While the history of the concept of the developmental state may lie with the economist Friedrich List, its recent reincarnation was implicit in the writings of the post-World War II development economists.[2] It owes its current usage to Chalmers Johnson, who, in addition to socialist and free market systems, posited a third category, the capitalist developmental state. Johnson used this conceptual innovation to offer a revisionist account of Japan's rise to power.[3] The concept has survived the public choice onslaught because of its empirical robustness in explaining the East Asian countries.[4] The World Bank for the first time in 1993 recognized that the state played a role in sustaining high growth, and subsequently its 1997 world development report was devoted to analyzing the role of "the state in the changing world."[5]

India, regarded as a developmental failure, seems to challenge this emerging consensus by confirming the public choice position that states negatively affect growth by constraining private activity and generating rent-seeking. Amidst other relatively prosperous Asian nations, negative images depict the Indian state as at once weak, predatory, and interventionist. India has become the model of failure that helped usher in the antistate, promarket *Zeitgeist* of the 1980s. Krueger's analysis of the "rent-seeking state" originated in the Indian experience.[6] The *dirigiste* developmental state in India outlined a powerful vision of state-led industrialization for the whole nation-state in 1947, embodied in autonomous bureaucratic agencies, regulations, and legislation. One high official in New Delhi is reported to have told a friend: "If you want me to move the file faster, I am not sure I can help you; but if you want me to stop a file I can do it immediately."[7] The common and dominant view was that the central state was responsible for India's slow growth rate.[8] India's unenviable reputation as a negative case continues to this day. While economic reforms in 1991 ushered in a more promising scenario, their success is interpreted through the old lenses. In a recent international conference, T. N. Srinivasan, an eminent economist, lamented the persistence of a "wooden bureaucracy" even after the onset of reforms.[9] For others, the sweeping changes of the 1990s are valued positively only as long as they imply a drastic antidote to the erstwhile central state. The Indian model of development seems to suggest that state failures are more crippling than market failures, overturning a powerful postwar faith in state intervention.

Yet a set of intriguing puzzles, until now considered marginal to the debate over India's developmental trajectory, confound and throw doubt on this picture. Despite the powerful constraints of the central policy framework, some regional states within India have managed to escape the adverse effects of the *dirigiste* regime. Diverse regional states reveal very different patterns of industrial development and divergent investment flows. Some (for example, Gujarat) attracted a very high share of industrial investment, while others (for example, West Bengal) failed to capitalize on their initial strengths as capital-rich states. Regional differences in outputs were accompanied by institutional differences in the organization of investment. Some regional states emphasized the role of the public sector; others encouraged synergistic public-private coordination. These regional differences in outputs and institutions persisted after radical changes were made in the regulatory system in 1991. Thus, if *dirigisme* is the problem, as conventional opinion concludes, what explains the different subnational developmental pathways within India? Clearly, a similar central constraint can not explain this variation. Did the successful regional states circumvent or mitigate the constraining effects of the central state in their regions? If they did, how exactly did they do so?

These puzzling regional contrasts within a centralist nation-state challenge expectations rooted in both statist and neoliberal accounts. Neoliberal theory argues that the central state's policy framework is responsible for the laggard developmental outcome in India. Regional differences, despite the presence of a central framework, suggest that regional political elites circumvented or mitigated the effects of a constraining national environment, thereby reducing the analytical power of explanations that attribute all investment flows to it. Statist theory focuses disproportionately on market failures; the high-performing states within India are not antimarket but are market-enhancing. These doubts expose an important limitation in studies of the political economy of development. Both neoliberals and statists have seen the state as a unified actor that either succeeds or fails but in either case does so coherently on a nationwide scale. Few studies have addressed the multilevel character of states; consequently, there is no framework for systematically explaining variation within developmental states, whether they are strong or weak. The political economy of growth in most but especially in large countries must be understood with the help of a multilevel, interactive model.[10]

This model posits that the policy framework of growth may not be centrally guided but is a joint product of central rules, provincial strategic choices, and subnational institutional variation. The interaction between different levels of government is consequential not only for political conflict and central–local relations, but also for the implementation of central policy and the creation and sustenance of developmental states.[11] Cross-national analysis, which pays no attention to infranational differences, compares noncommensurable units, throwing in doubt the validity and generalizability of conclusions about developmental states. Yet subnational states are not completely autonomous and thus can not be treated like nation-states. Rather, located within a political hierarchy, they are only relatively autonomous. Thus, it is necessary both to disaggregate the state and to reorganize its units in a multilevel framework. The elements of this two-level framework are the incentive structure created by (central) rules and regional political responses (regional strategies) to that central framework, which may be a product of trade-offs in spatially different political arenas (regional and national space). The strategic capacity of regional units to implement their own developmental agendas also becomes crucial in this framework.

Three comparatively chosen regional states within India help resolve the puzzle of regional divergence in industrial investment flows and the institutional pattern of public-private partnerships. The focus of the analysis is on the regulation of the large-scale industrial sector from 1960 to 1991, the high point of the *dirigiste* state and the period in which the currently observed regional patterns were set.[12] An alternative multilevel framework that disaggregates states and points to the regional political economy of governance challenges the national framework implicit in both the market-friendly and the statist views in comparative political economy.[13]

The Puzzle of Subnational Variation within India

In India, despite the uniform national regulatory framework, the performance and patterns of industrial development in various regional states differ markedly. India's provinces reveal a substantial diversity of development experiences in terms of outcomes but even more interestingly in terms of policies and institutions, as across nations. Investment data show that the divergent regional pattern had taken shape by 1978 (see Table 1). The institutional organization of investment also shows a persistent regional pattern. In 1978, at the high point of the public sector development strategy, 74 percent of investment in West Bengal's regional economy was constituted by the public sector, 8 percent by the joint sector, and 17 percent by the private sector. Similarly, in Tamil Nadu the public sector absorbed 79 percent of investment, the private sector 15 percent, and the joint sector only 6 percent. Gujarat's ownership pattern was very different: 38 percent by the public sector, 30 percent by the joint sector, and 31 percent by the private sector.

What explains infranational variations within strong or failed developmental

Table 1 Per Capita Industrial Investment in Selected States in Rs.[a]

States	1978 Investment Per Person (Rs.) [Investment Index (All India Per Capita Investment = 100)]	1980 Investment Per Person (Rs.) [Investment Index (All India Per Capita Investment = 100)]	1986 Investment Per Person (Rs.) [Investment Index (All India Per Capita Investment = 100)]	1994 Investment Per Person (Rs.) [Investment Index (All India Per Capita Investment = 100)]
All India	670	677	1234	9177
	[100]	[100]	[100]	[100]
Gujarat	805	1142	2302	22776
	[120]	[168]	[186]	[248]
West Bengal	428	469	927	4376
	[63]	[69]	[75]	[47]
Tamil Nadu	517	503	629	7823
	[77]	[74]	[50]	[85]
Maharashtra	779	617	1249	12385
	[116]	[91]	[101]	[134]
Bihar	684	704	410	2301
	[102]	[103]	[33]	[25]
Kerala	361	367	504	5174
	[53]	[54]	[40]	[56]

Source: Computed from Center for Monitoring the Indian Economy (CMIE), *Shape of Things to Come*, 1978, vol. 1, 1–10; 1980, vol. 1, pp.1–11; July 1986, pp. xix; and December 1994, pp. xix.
[a]In current prices.

states? An important methodological question is the level at which variance is studied. Should the focus be on cities (Bombay versus Calcutta), districts (Howrah versus Surat), or regions (western versus eastern India)? Substate variation (district level) in investment flows is not as persistent as across-state variation in India. Moreover, the levers of political authority vis-à-vis economic policy are located at the provincial level in India, and local governments, whether cities or villages, lack power to affect investment patterns. Broader units of analysis such as regions are too aggregated to make analytical distinctions. Given these patterns, the provincial level is the most appropriate unit of analysis in explaining economic policy in India.

Historical arguments suggest that initial political, economic, and social preconditions were crucial for later developments. Regional patterns set during colonial times had a powerful impact on later developments.[14] Economists suggest that it is unfruitful to compare advanced provinces (Maharashtra or Bengal) with backward ones (Bihar or Orissa). Thus, a comparison of the industrial and economic structure before the postulated divergence begins may be necessary to control for economic variables. Selecting from the larger set of India's fifteen major regional states, I chose those where many initial social and economic conditions were similar and where developmental potential was clear. Following this reasoning, it was necessary to choose those regional states that had experienced the economic and political effects of colonial modernization directly (categorized as presidency states). Thus, the choice of West Bengal and Tamil Nadu was clear (presidency areas). Two other cases, Gujarat and Maharashtra (the southern part of Gujarat and most of Maharashtra was part of the Bombay presidency), suggested themselves as plausible cases for comparison.

Economically, the comparison of key industrial indicators by state on the eve of independence shows the clear "dual dominance" of Bengal and Bombay in the industrial field arising out of colonialism.[15] Historically, the colonial pattern of industrial development predisposed the development of port towns, such as Bombay, Calcutta, and Madras, which in turn worked as nuclei for the development of Maharashtra (Bombay state until April 1960), West Bengal, and Tamil Nadu, respectively.[16] In contrast, the resource rich regions such as Bihar, Orissa, and Madhya Pradesh lagged behind. The data on the spatial distribution of companies corroborate the emergence of dual dominance, with Madras as the third most industrially advanced state in the colonial period. In 1913–1914 the total number of companies in the province of Bengal was 973 (35.4 percent), in Bombay, 613 (22.3 percent), and in Madras, 427 (15.6 percent). In 1947, while Madras led in the number of registered factories, West Bengal was close behind; Bombay had the maximum productive capital, closely followed by Bengal, and Madras employed less than 10 percent of productive capital. The three major provinces—Bombay (which included what was to become Maharashtra and a large part of Gujarat in 1960), Bengal, and Madras—accounted for 68 percent of total factory strength, and Bombay and Bengal alone employed 62 percent of the total productive capital. Thus, these three presidency areas were far ahead of other states in terms of industrial potential.

Indicators related to human and social capital—literacy rate and circulation of newspapers—reveal that, while the literacy rate was similar across the three states in 1961 (30 percent in Gujarat, 29 percent in West Bengal, and 31 percent in Tamil Nadu), the per capita circulation of newspapers was relatively unequal, with West Bengal and Tamil Nadu having a significantly higher per capita circulation of newspapers (1.5 and 2.7 times, respectively) than Gujarat in 1963.[17] Thus, according to human capital theory, Tamil Nadu and Bengal had the most conducive social conditions for positive developmental outcomes, yet Gujarat's investment level outpaced the other two. In 1951 all three states' share of urban population was similar: Maharashtra's was 28 percent, Gujarat's 27 percent, West Bengal's 23 percent, and Tamil Nadu's 24 percent. Kerala (13 percent) and Bihar (6 percent) ranked much lower. Thus, on the eve of independence West Bengal, Bombay (Gujarat and Maharashtra), and Madras (Tamil Nadu) were relatively well developed, urbanized, and industrially advanced, thus generating the expectation that all four were potential developmental states.

I decided to focus on Gujarat rather than Maharashtra because Bombay city, the capital of Maharashtra, contributes disproportionately to Maharashtra's development.[18] Given the dominance of Maharashtra on the industrial map of India, Gujarat's trajectory of successful industrial management was not predetermined. It could have become a subordinate hinterland, supplying labor and raw materials (oil and lime, for example), to Maharashtra. Gujarat in fact became an independent center of industrial activity, building autonomous sites of industrialization in southern, central, and increasingly, in the 1980s, western Gujarat. The choice of economic controls for the case selection implies that economic variables outlining either the different initial conditions in the three cases or their different levels of industrial potential can not fully explain the regionally divergent investment patterns across them in the postindependence period.

It is important, however, to consider other plausible competing explanations. Could the regional pattern have been a result of central bias in allocating discretionary (public) investment to states ruled by an opposition party (for example, a non-Congress party)? This explanation seems plausible. Opposition parties rule both West Bengal and Tamil Nadu—the Left Front in West Bengal after 1977 and the DMK and AIDMK in Tamil Nadu after 1967. Interestingly, this explanation does not square with the evidence on discretionary central transfers to states.[19] West Bengal and Tamil Nadu, ruled by non-Congress party governments, consistently received higher public sector allocations than Gujarat, which was ruled by the Congress party from 1960 to 1990. The data on transfer of discretionary central resources to the states shows that West Bengal, a state that receives a very low and declining share of investment, receives a very high share of central public investment (see Table 2). Thus, a focus on the central level can not explain regional divergence in investment flows.

Another competing explanation is sociological. It suggests that the pattern of regional class formation in West Bengal was not conducive to success in attracting investment. This explanation focuses on Bengal to argue that the specific ethnic character of the business class in Bengal was different from other states and the dominant business community was "mercantile in spirit."[20] West Bengal's economy

Table 2 State Share of Central Public Investment (Percent of All Indian Investment)

States	Gujarat	West Bengal	Tamil Nadu
1960-1969	1.2	13.8	7.7
1970-1979	3.0	10.7	6.7
1980-1989	3.6	10.5	7.3

Source: Computed from, Bureau of Public Enterprises, *Annual Report on the Working of the Industrial and Commercial Undertakings of the Central Government*, and *Public Enterprises Survey*, Various Issues (New Delhi: Government of India).

is dominated by the non-Bengali Marwari business community, whose original home province is Rajasthan, while investment in Gujarat essentially comes from indigenous business classes. This explanation, while valid for the preindependence period when the difference between foreign and "indigenous" business was distinctive in the context of colonialism, is problematic for the period after 1947. It is difficult to argue that Marwaris are not "indigenous" to Bengal when they have been based in Bengal since the 1800s or that they are "mercantile in sprit" when they have invested in industrial sectors like chemicals and engineering since the 1930s. Moreover, there is no "indigenous" ethnic business class in Maharashtra, the state that attracts the largest investment among all the states. Tamil Nadu does not lack indigenous (Tamil) business communities, yet its investment levels have been low. This explanation, while theoretically plausible in explaining West Bengal's development patterns, lacks empirical support and fails to stand up to scrutiny in a comparative framework that could explain the investment patterns in other regional states. Thus, economic factors, social class variables, and conventional political explanations do not fully explain the regional divergence across regional states. An alternative analytical framework is needed.

Developmental States: An Alternative Multilevel Framework

Economic development is a spatial phenomenon. It takes place in a specific space and time. The expanded role of states in economic life links the spatial dimensions of the development process with the incentives of its rulers. The spatial consequences of growth give bureaucrats and politicians strong incentives to harness regulation for political purposes. Moreover, because of the spatial embodiment of development and state action, decisions about government's role in fueling economic growth can not be made independently from decisions about location.[21] In large states and in states with some differentiated regional traditions, regulatory policy should be expected to become a tool in shaping regional economic prospects. Furthermore, interests of regional and national politicians may vary.

Nevertheless, the theory of the state is held hostage to the received nation-centric frame in the theory of economic development. Debates about the proper role of the state in the economy usually assume a centralized national state. The framework outlined here suggests that it is necessary to pay more attention to the choices and behaviors of regional rulers. Their (unintended) developmental impact on the national political economy emerges as a significant variable in analyzing economic policymaking and developmental states. Two different yet interlinked vertical and horizontal dimensions of developmental states need emphasis.

Recognition that the impetus for creating developmental states may also exist at the subnational level puts regional elites and their strategic calculations at the center of the analysis. Yet regional elites are not leaders of nation-states and are not completely free in their choices of policies and institutions; central rules and regional constituents constrain their developmental visions and strategic calculations. Thus, economic policy implementation is the product of intergovernmental interaction among politicians located at different levels of the system. A fuller explanation of developmental states requires a nested interactive framework that links higher level constraints and regional democratic imperatives of regional rulers with the necessity of enhancing regional investment flows.[22] Vertical actions of subordinate rulers vis-à-vis the central rulers are ultimately implemented in local or regional contexts; thus, horizontal aspects arising out of the subnational political economy are equally relevant. Subnational institutional capacities therefore become a key mediating variable in explaining investment in the respective regions.[23]

Regional institutions may be defined as decision-making structures, bureaucratic agencies, and formal and informal rules that are responsible for "translating" national policy. In multilevel systems regional institutions may have an important impact on investment flows and investors' decisions in three distinct ways: by affecting the certainty of transactions, by providing reliable information, and by enhancing the credibility of higher-level decisions and policies.[24] Lobbying the central state on behalf of investment proposals and ensuring that the procedures of the central bureaucracy work will reduce the uncertainty faced by investors. Information is the key to investment and economic growth. In systems where economic decisions are relatively free of governmental control, information provision can be an important public good; some of this information is a local public good. In systems where the (central) state has a monopoly on information about economic decisions, local institutions may play a crucial role in distributing that information and in generating new information. Thus, local information services may substitute for informational rigidities at higher levels of the system in both centralized and relatively decentralized systems. Table 3 table captures both the vertical and horizontal dimensions of developmental states.

India

The central policy framework in India elaborated between 1947 and 1955 did not realize its goals. Rather than organize a uniform *dirigiste* model of development, it triggered the formulation of variable yet coherent long-term vertical strategies by state-level incumbents toward the center. Some regional states sought to mitigate the effects of the central state through bargaining and lobbying; others opposed the central state. Investors responded to these subnational developmental models in different ways, shaped more by regional institutional contexts than by the licensing framework. The interactions between state and central governments fostered diverse market governance patterns across India's provinces. They all emphasized the role of the state, but the state interacted with the private sector in very different ways and engaged the central state with variable effects.

Alternative Vertical Strategies Despite the common regulatory framework and similarly statist policy repertoire, different regional state elites chose strikingly different vertical strategies towards the central state. In Gujarat political and bureau-

Table 3 Vertical and Horizontal Dimensions of Subnational States

VERTICAL MODEL⇒ HORIZONTAL CAPACITY ⇓	BARGAINING	CONFRONTATION
HIGH	A Vertically Integrated Developmental State **(Gujarat)** Outcome: High Investment	Isolationist but Productive State Outcome: Low–Medium Investment
LOW	Inconsistent but Integrated State **(Tamil Nadu 1947-1967)** Outcome: Low-Medium Investment	Isolationist Non-Productive State **(West Bengal), (Tamil Nadu 1967-1991)** Outcome: Low Investment

cratic elites attempted to attract as much private sector investment as possible. They monitored the output of the central regulatory regime and circumvented its constraining rules effectively. Vertical integration and high licensing flows were the result. West Bengal's rulers, in contrast, followed a partisan confrontational strategy that eschewed bargaining and monitoring. The level of confrontation with the center was heightened. Subnational resistance and a partisan regionalism were the result. In Tamil Nadu the party leaders oscillated between confrontation and lobbying. Their strategies towards the central regime were contingent and varied over time. Table 4 summarizes the vertical model.

Gujarat's bureaucrats evolved a long-term and coherent infiltration strategy to deal with the constraining rules of the regulatory system. Its essence is described evocatively by a former Gujarat government bureaucrat. "Our motto was 'necessity is the mother of invention'; the *license-raj* was a constraint and it led us to innovate around it."[25] Thus, while the actions of the Gujarat's bureaucracy embodied the classic developmental role of guiding markets, this market-guiding role of the subnational state evolved through strategic interaction with the central state. Strategies of

Table 4 Three Strategic Models of Center-Regional Linkages

	Bureaucratic Liberalism [Cooperation]	**Political Confrontation [Conflict]**	**Political Protection [Mixed Strategy]**
Cases	Gujarat	West Bengal	Tamil Nadu
Vertical Strategies of State-Level Élites Towards the Center	Bureaucratic Entrepreneurial Strategy	Confrontational Strategy	Protectionist Strategy
1) Mode of Action towards the Center	Bargaining	Confrontation and Eschew Bargaining	Alliance formation or Regional Protest
(2) Channel of Access to the Center	Bureaucracy	Media and Political Arena	Inter-Party & Electoral Alliances
(3) Timing of Action	Long-term and Consistent	Long-Term and Consistent	Episodic and Inconsistent (varies with the electoral cycle)
Type of Central-Regional Relationship	Pragmatic Integration	Ideological Regionalism	Pragmatic Regionalism

monitoring and mitigation to counter the barriers to entry posed by central rules and of circumvention to bypass rules that could not be mitigated evolved over time.

The first aspect of the strategy, "bureaucratic pressure," was evident in the constant and careful monitoring of the regulatory process in New Delhi, a form of a "industrial espionage."[26] State agencies in Gujarat kept regular track of the number of applications received by the central ministry, their current status, and the extent of investment and employment envisaged by each project and their locations.[27] Even more important, the officials of Gujarat's government in New Delhi established contacts with key ministry of industry officials to support Gujarat-specific investment applications.[28] These contacts involved the procurement of information on future projects, allotment of licenses, checking of the status of licenses granted for Gujarat, and follow-up to ensure that the applications for Gujarat were implemented effectively and quickly. Obtaining crucial and usually informal information was key to the process. As an example, information about prospective sectoral priorities of the central ministries allowed Gujarat's government to propose "good" projects. These efforts allowed Gujarat's industry department officials at licensing committee meetings to build a coherent defense. Consequently, a large majority of Gujarat's investment applications was approved. Gujarat's state officials compensated for the rigidity of the central system in these diverse ways, mitigating its adverse effect on investment behavior.

Moreover, even when industrial capacities were frozen for the private sector, the ministry of industry could approve public sector projects. The Gujarat Industrial Investment Corporation (GIIC) applied for these licenses and after getting them brought in private industrialists as joint sector partners.[29] By 1978 30 percent of investment in Gujarat's regional economy came from the joint sector, the highest of any state. This tactic bypassed and circumvented the central rule of discouraging the private sector. Thus, consistent monitoring, circumvention, and mitigation of the central bureaucracy allowed Gujarat to ensure a high flow of investments to its region.

In contrast, the West Bengal government did not monitor or mitigate the national regulatory system. The West Bengal Administrative Reforms Committee, a governmental body, commented as follows on West Bengal's office in the capital.

> The state government [West Bengal] has to maintain a major presence in the nation's capital. It has been the experience of other state governments that an effective liaison office in New Delhi facilitates dealings with the different ministries....The condition of the liaison office the state government [West Bengal] at present maintains in New Delhi is disappointing....Unfortunately, the quality of hospitality accorded by the State government to representatives of the Union government, representatives of other State governments, members of parliament, legislators from other States as well as foreign dignitaries leaves a great deal to be desired....We should be at par with what other [regional state] Governments are capable of offering.[30]

The West Bengal political elite pursued an alternative strategy of conflict against the center. After 1977, when the CPI(M)-led Left Front came to power, subnationalist opposition against the center was elevated to a long-term credible political strategy. The sheer volume of official press output and rhetorical tactics on the question of center-state relations in West Bengal is considerable. It ensured continuous public attention to the question of central discrimination and shaped the political culture of the state toward subnationalist resistance. One of the most famous rhetorical flourishes was the public blood donation camp organized to raise money for a thermal power project despite the absurdity of raising money in this way.

Approximately 60 percent of the documents released by the department of information and cultural affairs of the government of West Bengal are on center-state relations. Almost every public statement of key ministers on center-state relations is published and circulated widely. A notable example is the publication of two volumes that contain most of the chief minister's letters to the prime minster; the official purpose of this publication was to "inform the public" about central discrimination.[31] These letters embody the partisan confrontational strategy: their purpose was to show the state government agitating against the center.

In addition, certain agencies were established to pursue these strategies. Political and bureaucratic organizations such as the information and cultural affairs department, *Ganashakti*, the Bengali newspaper of the CPI(M), and *People's Democracy*, another CPI(M) newspaper, as well as the support given to various cultural and educational agencies formed the centerpiece of a strategic model of political confrontation. In contrast to the public and cultural channels utilized by West Bengal's rulers, Gujarat's leaders preferred to lobby the central government through bureaucratic channels. Both strategies, although contradictory, were successful on their own terms because they were credibly sustained by the state's political elites and the corresponding institutional innovation in both states.

Regional actors in Tamil Nadu adopted defensive and protectionist postures to protect a culturally specific populist strategy. They thus pursued inconsistent strategies toward the central government that varied over time. The DMK and later AIADMK (regional parties ruling Tamil Nadu after 1967) oscillated between confrontation and bargaining. These parties' roots lay in a strong regional populism and deployed its antinorth and anti-Hindi rhetoric to oppose the hegemony of the central state from 1967 to the late 1970s. In 1969 Tamil Nadu's government commissioned a report on center-state relations, the Rajamannar Report, which was extremely critical of the central government. An industrialist reported: "We are missing out a lot by not being close to Delhi. In the last ten years a lot of money changed hands in terms of agency commissions, turnkey projects and World Bank aided projects [through the central government]. We are not daring enough to be part of the scene."[32] At this time, no attempt was made to mitigate or monitor the central regulatory agencies.

Suresh Krishna, CEO of a Madras-based automobile company called TVS, felt very strongly that Tamil Nadu's government did not lobby enough with the center in the 1970s and the 1980s. In 1984 Krishna suggested to Tamil Nadu's government: "As a first step, the Tamil Nadu government should establish close liaison with the Center so that its existing strengths can be capitalized on for locating any new manufacturing unit...there can be no justification for the existing vehicle manufacturing in Tamil Nadu having to look elsewhere for better terms and opportunities due to lack of initiative by the home State."[33] However, alliance and electoral exigencies in the 1980s forced the government of M. G. Ramchandran, chief minister of Tamil Nadu from 1977 to 1988, to seek favors from the center. Prime Minister Indira Gandhi promised key industrial projects in the 1980s in return for regional electoral support. Thus, regional party politicians in Tamil Nadu followed an inconsistent ad hoc strategy that was driven by their cultural and electoral compulsions. The flow of investment to Tamil Nadu thus oscillated from low to medium.

Horizontal Institutional Analysis Investment flows are affected only when the vertical strategies towards the center are complemented by institutions that provide regionally specific enabling environments. Clearly, the investors could not rely on the central government for speedy implementation or reduction of their contracting risks. Some regional institutions compensated for this weakness in central institutional design; in doing so, they enhanced the credibility of state-level institutions that enabled greater investment than would have been expected under a centralized regime. Regional institutions exhibited wide variation in institutions, rules, and styles. This variation was consequential for investment. One aspect is emphasized here: information provision.[34]

Information provision by the regional states affected the uncertainty and credibility of implementation, compensating for informational rigidities in the system. The comparative analysis of information services revealed that Gujarat, by ad hoc experimentation, designed institutional mechanisms to collect industrial information and then disseminated it to industrial entrepreneurs. In its effort to ensure investment flow from Bombay, Calcutta, and East Africa in the 1960s and 1970s, it generated databases of the potential entrepreneurs and provided one rationale for the creation of a specialized body, iNDEXTb (Industrial Extension Bureau), to collect data and information. Even more significant, in an explicit effort to develop sectoral leadership, for example, in chemicals in the 1960s and in electronics in the 1990s, iNDEXTb and other industrial agencies collected industry-related information about many sectors.[35] In addition, information about government rules at both the central and state levels was collated in one place.

West Bengal and Tamil Nadu did not create such an agency.[36] They had a statistical department, which collated industrial data, but its role was passive. None of the information was made available to investors in West Bengal and Tamil Nadu. The industry departments in the two provinces provided information regarding various incentives, but it was dispersed and was not coordinated and collated. Information was fragmented and not easily available.[37] Sectoral or regional studies were not conducted by the industry departments in the two states.

A comparison of state-level promotional agencies shows that the vertical strategies toward the central government need to be complemented with state action towards the private sector. This action ensures higher investment flow as well as a higher implementation of investment intentions. In those states where the institutions lacked horizontal capacity, investment flows were correspondingly weaker. Thus, subnational developmental states within India combine both vertical and horizontal dimensions with significant consequences for regional investment patterns and national regulatory policy.

Concluding Observations

Are the conclusions of this analysis specific to India, or can they be generalized to policymaking in other states and to larger theoretical debates? India provides three significant contributions for broader theoretical debates with implications for other cases: recognition of the need to address the problem of the state comparatively, a nuanced view of the state versus market dichotomy in political economy and studies of neoliberalism, and a methodological critique of cross-national studies.

Studies of the developmental state either argue for its importance or suggest that states' solutions generate their own problems. This analysis, by contrast, disaggregates the state spatially, showing how variation within a state and interaction across governmental levels may affect investment flows and contribute to national developmental failure. An alternative framework can incorporate size and geography in explanations of developmental states. This framework consists of two, vertical and horizontal, models, linked to each other in a two-level interaction. The dual focus on regional elites' strategic choices toward the central rules and horizontal institutional variation shapes the nature of national-level regulation and regional investment flows. This linkage of different spatial arenas in analyzing national-level regulation must modify insights generated by comparative political economic debates that rely exclusively on national governance models.[38] Studies of substantial subnational variation in the pursuit of economic policy in Brazil, Mexico, and China strengthen the point that developmental states exist at different levels within a nation-state.[39]

Subnational variation has a vertical intergovernmental dimension that has not yet been analyzed explicitly.[40] Attempts at subnational re-regulation may be engendered by the policy imperatives of the central rulers. A multilevel framework is needed to theorize linkages and interactions across levels. In large countries with some degree of multitiered authority, increasing or fine-tuning central or subnational state capacity, while important, may not be enough. The type and extent of conflict and competition within the system will also affect subnational initiatives and the output of nation-states. Hence the developmental state needs a theory of multitiered decision making within the nation-state.

Spatial or central-local dynamics affect national developmental patterns. The national state is not exhausted by the actions of its central rulers. It is a complex aggregation of lower level states and local elites. The provincial states are poised between regional society and the larger state system. Depending upon their strategic capacity, they can either create an independent developmental state, subtly wresting power away from the central state, or become dependent states. Analysis of the full, multilevel complexity of the regional actors' relationship to the nation-state and the external world is necessary to explain how the nation-state system is both made and remade.

Differences across Indian states do not derive from state or market based action but rather from different types of state-led strategies that combine different organizational forms, for example, the joint sector, to manage development. The varied responses within India suggest that developmental states come in different types and embody different microinstitutional mixes of public and private principles. Cross-national comparisons may fail to illuminate such crucial fine-grained variables. These findings can be applied to similar evidence of mixed organizational forms in China's provinces and in eastern Europe.[41]

An important priority for future research involves analyzing subnational and intergovernmental interactions in less *dirigiste* regimes and in neoliberal policy transitions. Withdrawal of central state regulations over markets may provide greater, not lesser, opportunities for provincial governments to re-regulate economic policies; thus, liberalization has enhanced local state capacity in many contexts.[42] In addition, vertical interactions with the central state or international actors (such as the World Bank and multinational corporations) may also remain necessary. The regional states in India, for example, continue to lobby the central government for World Bank projects, international loans, foreign investment, and central transfers even after liberalization.[43] A multilevel interactive model implies that vertical strategies and institutional variation at the subnational level are as relevant for *dirigiste* developmentalism as for liberalization.

Methodologically, this argument offers important lessons for traditional cross-national analysis.[44] Comparative cross-national studies of economic performance are troubled by too few cases chasing too many variables. Infranational institutional analysis makes it possible to develop finer analytical categories that control for nationwide variables and emphasize subnational microinstitutional variables. Comparative political economy should focus on new units of analysis and a multilevel framework.

Thus, regional differences and the politico-economic conflicts arising out of them may crucially shape the nature and the output of the national political economy. Regional differences not only influence identity formation but also the formation of economies. The activities of the constituent parts can help explain the whole. Unraveling the riddle of regional developmental states can illuminate not only the political economy of industrialization, but also the nature of the state in general. It is time to reorient comparative studies from the nation-state to a multilevel regional political economy of governance.

NOTES

The author would like to thank Anindya Saha, Aili Tripp, and anonymous reviewers for extremely valuable comments on this article. I also wish to thank Mark Beissinger, Richard Bensel, John Echeverri-Gent, Edward Friedman, Ron Herring, Mary Katzenstein, Peter Katzenstein, Melanie Manion, N. Chandra Mohan, Hector Schamis, Chris Way, and David Weimer for comments on the larger project of which it is a part. I am thankful to the American Institute of Indian Studies and the Institute for the Study of World Politics for financial support. The interviews cited were conducted by the author.

1. The word "state" has multiple usages in this article. State with a small s refers to the general concept of the state. Indian provinces are also called states and are referred to as provinces or regional states. The federal government is usually referred to as the central state or center.

2. For the idea of a big push, a classic statist idea, see P. N. Rosenstein-Rodan, "Problems of Industrialization of Eastern and Southeastern Europe," *Economic Journal*, 53 (June-September 1943), 202–11; Allyn Young, "Increasing Returns and Economic Progress," *Economic Journal*, 38 (December 1928), 527–42.

3. Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975* (Stanford: Stanford University Press, 1982). Also see Meredith Woo-Cumings, ed., *The Developmental State* (Ithaca: Cornell University Press, 1999).

4. See Alice Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989); Johnson; and Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asia* (Princeton: Princeton University Press, 1990).

5. World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (Washington, D. C.: Oxford University Press, 1993).

6. Anne O Krueger, "The Political Economy of the Rent Seeking Society," *American Economic Review* 64 (June 1974), 291–303.

7. Pranab Bardhan, quoted in Dani Rodrik, "The Paradoxes of the Successful State," *European Economic Review*, 41 (April 1997), 434.

8. Between 1960 and 1986 India's aggregate performance was one of slow growth, 3.5 percent per annum (1.8 percent per capita per annum). The perception that the central state is responsible for India's developmental failure cuts across contending approaches. See Pranab Bardhan, *The Political Economy of Development* (Oxford: Basil Blackwell, 1984); Lloyd I. Rudolph and Suzanne Hoeber Rudolph, *In the Pursuit of Lakshmi* (Chicago: University of Chicago Press, 1987); and Isher Ahluwalia, *Industrial Growth in India: Stagnation since the Mid-Sixties* (Delhi: Oxford University Press, 1985).

9. Aziz Hanifa, "Bureaucracy Is a Major Threat to India's Economic Ambitions," *India Abroad*, Dec. 14, 2001, p, 38.

10. See E. A. G. Robinson, ed., *Economic Consequences of the Size of Nations* (New York: St. Martin's Press, 1960); John Lewis, *India's Political Economy: Governance and Reform* (Delhi: Oxford University Press, 1995); Richard E. Feinberg et al., eds., *Economic Reform in Three Giants* (New Brunswick: Transaction Books, 1990).

11. This framework is applicable to the politics of development in any large state (for example,

Russia, China, and Brazil) but also to small states with significant territorial differentiation (for example, Italy).

12. Systematic regional variation in industrial development under a state-led policy regime challenges received economic and political models of *dirigiste* societies for two reasons. First, explicit policy instruments designed to prevent regional inequalities were present. Second, industry was a central subject, and regional differences are counterintuitive in this policy domain. Although the focus of this article is on the *dirigiste* period of India's developmental trajectory (1955–1991), its conclusions are relevant for less directive (market-based) systems and periods (post-1991 India). Regional choices and local institutional variation refract such policy transitions as well. For reasons of space it is not possible to elaborate on this point. See Aseema Sinha, "Ideas, Interests and Institutions in Policy Change in India: A Comparison of West Bengal and Gujarat" (unpublished).

13. Richard Locke, *Remaking the Italian Economy* (Ithaca: Cornell University Press, 1995), in a similar vein challenges the national model framework of comparative political economy. Also see Gary Herrigel, *Industrial Constructions: The Sources of German Industrial Power* (Cambridge: Cambridge University Press, 1996).

14. Amiya Bagchi, "Reflections on Patterns of Regional Growth during British Rule," *Bengal Past and Present* (January–June 1976), 247–89.

15. See Claude Markovits, "Bombay as a Business Centre in the Colonial Period," in Sujata Patel and Alice Thorner, eds., *Bombay: Metaphor for Modern India* (Bombay: Oxford University Press, 1996).

16. Amiya K. Bagchi, *Private Investment in India 1900–1939* (Cambridge: Cambridge University Press, 1972); T. R. Sharma, *Location of Industries in India* (Bombay: Hind Kitab Limited, 1946).

17. Computed from Registrar of Newspapers for India, *Press in India, 1965* (Delhi: Government of India, 1965).

18. "In fact, Maharashtra excluding this [Bombay city] region, is industrially as backward as Uttar Pradesh, Bihar or Rajasthan." A. R. Kamat, "Politico-Economic Developments in Maharashtra: A Review of Post-Independence Period," *Economic and Political Weekly*, 15 (October 1980), 1671.

19. Discretionary transfers refer to central public sector allocation. Other central transfers such as the Finance Commission transfers were not discretionary but were governed by statutory rules.

20. Debdas Banerjee and Anjan Ghosh, "Indian Planning and Regional Disparity in Growth," in A. K. Bagchi, ed., *Economy, Society and Polity: Essays in the Political Economy of Indian Planning* (Calcutta: Oxford University Press, 1988).

21. Douglas Arnold, "Legislators, Bureaucrats and Locational Decisions," in Mathew McCubbins and Terry Sullivan, eds., *Congress: Structure and Policy* (Cambridge: Cambridge University Press, 1988), p. 524, makes a similar point about regulatory policy in the United States.

22. George Tsebelis, *Nested Games: Rational Choice in Comparative Politics* (Berkeley: University of California Press, 1990). Also see Peter Evans et al., eds., *Double-Edged Diplomacy: International Bargaining and Domestic Politics* (Berkeley: University of California Press, 1993).

23. See Elizabeth Remick, "Building Local States," *Comparative Politics*, 34 (July 2002).

24. See R. Fernandez and Dani Rodrik, "Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty," in Federico Sturzenegger and Mariano Tommasi, eds., *The Political Economy of Reform* (Cambridge, Mass: MIT Press, 1998); Keith Krehbiel, *Information and Legislative Organization* (Ann Arbor: University of Michigan Press, 1991); and Douglass North, "Institutions and Credible Commitment," *Journal of Institutional and Theoretical Economics*, 149 (March 1993), 11–23.

25. Interview with N. Vittal, Gujarat government official, December 1997. *License-raj* refers to an elaborate central regulatory system whereby the central government had the legal power to grant approval of investment applications (called licenses), determine location, circumscribe technological choices, and shape ownership patterns.

26. Interview with a retired Industry Secretary of Gujarat, Chennai, September 16, 1997.

27. Interview with an Industry Department official, April 29, 1997.

28. Each regional government has an office in New Delhi; some regularly lobby the central government.

29. Interview with a Gujarat Industrial Investment Corporation official, New Delhi, December 1997.

30. Government of West Bengal, *Report of the Administrative Reforms Committee* (Calcutta: Government of West Bengal, 1983), pp. 25–26.

31. Jyoti Basu, *Chief Minister's Letters to the Central Government* (Calcutta: Government of West Bengal, 1981, 1982).

32. Interview with a Madras-based industrialist, *Business India*, Jan. 23–Feb. 5, 1989, p. 56.

33. "Special Feature on Tamil Nadu," *The Hindu*, June 21, 1984, p. 29. Suresh Krishna reported in an interview that in the 1970s and 1980s the state government did not lobby the center for central or private investment. Interview with Suresh Krishna, Chennai, September 1997.

34. For reasons of space, analysis is limited to information provision. For a comparative examination of eleven other subnational institutional indicators, see Aseema Sinha, "Divided Leviathan: Comparing Developmental States in India" (Ph.D. diss., Cornell University, 2000).

35. The library of iNDEXTb contains numerous reports about feasible projects and sectoral information.

36. West Bengal did not have a similar agency until 1994, while Tamil Nadu's government established Guidance, a similar organization, in 1992.

37. Interviews with about forty-five investors in West Bengal and about thirty-five investors in Tamil Nadu.

38. The classic study is Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (London: Oxford University Press, 1965). Also see Peter Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca: Cornell University Press, 1985); and Peter Hall, *Governing the Economy* (New York: Oxford University Press, 1986). For a recent study that relies on national frameworks, see Peter Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001).

39. See Judith Tendler, *Good Government in the Tropics* (Baltimore: The Johns Hopkins University Press, 1998); Richard Snyder, *Politics after Neoliberalism: Re-Regulation in Mexico* (Cambridge: Cambridge University Press, 2001); and Dali L. Yang, *Beyond Beijing: Liberalization and the Regions in China* (London: Routledge, 1997).

40. One exception is Daniel Treisman, *After the Deluge: Regional Crisis and Political Consolidation in Russia* (Ann Arbor: University of Michigan Press, 2001).

41. Victor Nee and David Stark with Mark Selden, eds., *Remaking the Economic Institutions of Socialism: China and Eastern Europe* (Stanford: Stanford University Press, 1989).

42. See Jean Oi, *Rural China Takes Off: The Institutional Foundations of Economic Reform* (Berkeley: University of California Press, 1999); Alfred Montero, "Delegative Dilemmas and Horizontal Logics: Subnational Industrial Policy in Spain and Brazil," *Studies in Comparative International Development*, 36 (Fall 2001), 58–89; and Snyder, *Politics after Neoliberalism*.

43. See Shankkar Aiyar and A. K. Menon, "Ransom State," *India Today*, May 27, 2002, pp. 35–39.

44. Similar methodological modifications are implicitly suggested by Atul Kohli, *The State and Poverty in India* (Cambridge: Cambridge University Press, 1987); Subrata Mitra, *Power, Protest, and Participation: Local Elites and the Politics of Development in India* (London: Routledge, 1992); Locke; and Herrigel. A few rare discussions of the cross-national bias in comparative politics are Juan Linz and Armando de Miguel, "Within-Nation Differences and Comparisons: The Eight Spains," in Richard L. Merritt and Stein Rokkan, eds., *Comparing Nations: The Use of Quantitative Data in Cross-National Research* (New Haven: Yale University Press, 1966); George M. Fridrickson, *The Comparative Imagination: On the History of Racism, Nationalism, and Social Movements* (Berkeley: University of California Press, 1997); and Richard Snyder, "Scaling Down: The Subnational Comparative Method," *Studies in Comparative and International Development*, 36 (Spring 2001), 93–111.