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**Parties and Patronage:  
A Comparative Analysis of the Indian Case**

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## **Abstract**

What political factors influence the allocation of economic patronage in democracies? Answering this question is vital to improving our knowledge of how states and markets interact. In this paper, I argue that changing levels of party centralization can drive important changes in the allocation of state largess. When governing parties are centralized, national party leaders will control sources of patronage, targeting benefits to particularly influential regions and industries. By contrast, when governing parties are decentralized, influential sub-national party leaders will advocate for their constituents, allocating patronage evenly through a national logroll. I find evidence for these relationships by comparing India's distribution process for industrial licenses and government finance under a decentralized Congress Party (1954-61) to its distribution process under a centralized Congress Party (1969-75).

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What political factors influence the allocation of economic patronage and support in democracies? In other words, how do we understand which actors benefit from government largess and which are left in the cold? Answering this question is vital to improving our knowledge of how states and markets interact around the world. Many governments intervene heavily in their national economies, making economic patronage (including such instruments as trade protection, subsidies, government loans, and industrial licenses) an important driver of outcomes. As scholars of the developmental state have shown, governments can spur rapid growth through the (economically) efficient application of support.<sup>1</sup> In most countries, however, the allocation of economic benefits tends to follow a political rather than an economic logic.<sup>2</sup>

Scholars have advanced a variety of explanations in their efforts to understand who gets what. Some have suggested that government generosity depends simply on the influence of the potential recipient. Researchers have proposed, for example, that more geographically concentrated industries are more likely to receive trade protection.<sup>3</sup> Alternatively, some have suggested that industries dominated by a small number of firms are more effective at soliciting the state than are highly decentralized industries.<sup>4</sup> Other political scientists have highlighted the role played by domestic institutional variation in aggregating and mediating the demands of aspiring government clients. There is, for example, evidence that such factors as the structure of electoral systems and the relationship between executives and legislatures influence the allocation of economic patronage.<sup>5</sup>

Despite these important advances, the literature has largely overlooked one institution that may profoundly influence the distribution of government benefits – the

political party. While prior studies have examined the impact of party ideology and party system on various types of patronage distribution, party organization has mostly fallen by the scholarly wayside.<sup>6</sup> In this article, I hope to help remedy that problem by examining how changing party centralization drove important changes in the allocation of economic patronage in India.<sup>7</sup>

My understanding of party centralization, the component of party organization that I examine here, takes its cue from the literature on the organizational characteristics of parties.<sup>8</sup> In systems with centralized parties, decision-making is primarily in the hands of national party leaders. These leaders may head the party organization, hold key positions in government, or both. Whatever the case, they exercise significant power over the party apparatus and the party's elected deputies. Often, the source of this power is their control over the party name in legislative elections, but other means of leverage are also possible.

When centralized parties hold the reigns of power, national party leaders will make the decisions as to which groups receive economic patronage and at what level.<sup>9</sup> These national leaders will be in a position to assess how patronage can best be targeted to achieve their party's national political goals. As a result, they will distribute economic benefits to particularly influential and strategic regions and firms. National party leaders might, for example, target patronage to contested constituencies to firm up their local support. Sub-national party officials will probably continue to advocate to the party leadership for patronage in their constituencies, but only those from the more electorally strategic locales will succeed. Likewise, potential clients in the private sector will continue to lobby for state aid, but only the more organized and well financed are likely

to achieve their aims. In systems with centralized parties, therefore, economic patronage will generally be concentrated in the most influential and strategic industries and regions.

When governing parties are decentralized, numerous sub-national party officials will have influence over national policy. These officials, by virtue of their smaller constituencies, will be easier targets for lobbyists than their colleagues running the national party. As a result, in systems with decentralized parties, patronage will arise from numerous, independently powerful sub-national officials and party leaders advocating for industries in their constituencies. This advocacy will generally take the form of a logroll, with many influential party officials, each associated with particular clients and constituencies, trading support.

The decentralized nature of the governing party or parties can manifest itself in a wide variety of ways, depending on the economic policy process of the individual country. For example, lobbying and logrolls may take place either in party organizations or in party-dominated legislatures, governments, or bureaucracies. They may be characterized by classic legislative vote trading, a debate among representatives to a party organizational meeting, or bargaining among co-partisan national and regional officials. We can be sure, however, that independently powerful local and regional officials will demand a role in allocating benefits.

This patronage will tend to be distributed rather evenly among a democracy's sub-national units and firms. The independent power of sub-national officials and representatives in decentralized parties, along with the logrolling process, will ensure that few geographical areas are left without support. Indeed, the relatively even spread of patronage will extend to the smallest geographical or industrial unit that is represented in

the decentralized policy-making process. Of course, even in a system with decentralized parties, more strategic regions and firms may be in a better position to demand benefits. Still, when decentralized parties are in power, I suggest, the distribution of economic support will be more even than when centralized parties control the government.

I evaluate these arguments with a comparison of India's experience across two historical periods in which the centralization of the country's chief political party, the Indian National Congress (hereafter the Congress Party or simply the Congress), has varied. The first period that I examine stretches from 1954 to 1961, and encompasses the development and execution of the Second Five Year Plan under Jawaharlal Nehru's decentralized Congress. The second period, extending from 1969 to 1975, saw the consolidation of power by Indira Gandhi, her centralization of the Congress Party, and a strengthening of the government's role in economic affairs. I use the analysis to evaluate party centralization and economic patronage distribution in each period and to assess the causal mechanisms, if any, that have linked the variables together.

My analysis is cross-temporally rather than cross-sectionally comparative and makes use of a most-similar-systems research design.<sup>10</sup> This approach allows me to vary party centralization while controlling for potentially confounding factors more effectively than would a cross-national comparison. India in 1954 and India in 1969, while certainly different, are probably more comparable in most ways than, for example, India in 1969 and Nigeria in 1969. India continued to operate under the same constitution across the two periods, and such formal institutions as the country's electoral system and the relationship between its legislature and executive changed little. Further, the Indian National Congress held tightly to the reigns of power during both periods, resulting in

little significant change to India's party system or to its professed governing ideology.<sup>11</sup> What did change was the organization of the Congress Party, which centralized significantly during the second period. India is therefore an excellent laboratory for evaluating the effects of party centralization on patronage distribution in a temporally comparative setting. As most potentially confounding factors are constant across the two periods, I am able to test the "sufficiency" (although not the "necessity") of relative party centralization as an explanation for changes in patronage distribution.

### **Decentralized Distribution: 1954 – 61**

In the years following India's independence in 1947, Jawaharlal Nehru's power base, the Congress Party, transformed itself from a nationalist movement into an encompassing political party. The Congress Party of the 1950s and early 1960s featured a decentralized structure in which the preferences of local and state officials were aggregated into government policy. At the same time, India's Second Five Year Plan launched the country on an economic development path based on import substitution and government direction. While India's decision to adopt this development path sprang primarily from the beliefs of its early leaders, party organization played a critical role in how the strategy was implemented. This section will argue that the decentralized nature of the Congress Party led to fierce bargaining among influential state and local leaders over the allocation of economic benefits under the Second Five Year Plan. The distribution of these benefits was determined through a vast national logroll, leading, I contend, to an even distribution of industrial licensing and state finance relative to what would come later. Thus, I argue that the Congress Party's decentralized structure was a

key determinant of the distribution of state-funded economic benefits in post-independence India.

The Independent Variable:  
The Decentralized Indian National Congress

During the 1950s, the Congress Party sprawled across India's political scene, aggregating the views of local and state elites from Punjab to Madras and providing the country with direction and stability. The party's decentralization was reflected in, among other things, the formal party organization. On paper and to a significant extent in reality, the Congress was a bottom-up organization.<sup>12</sup> At the base of the party were the Mandal Congress Committees (MCCs), largely chosen by the party's primary members and responsible for a population of at most 20,000 people. The MCCs played a key role in electing the party's next highest unit, the District Congress Committees (DCCs), which in turn helped select members of the state-level Pradesh Congress Committees (PCCs). Members of India's PCCs then elected the president of the party and chose one-eighth of their number to constitute the national All India Congress Committee (AICC). Finally, the AICC and the Congress president selected the membership of the party's most powerful body, the Congress Working Committee (CWC).

Under Nehru, this organizational structure had real weight, and the national party leadership, while firmly in control, based its power in the consent of the party's local and state units.<sup>13</sup> As Weiner famously pointed out in his grassroots study of the party, Congress dominance was founded not on mobilization but on mediation and broad-based aggregation.<sup>14</sup> The decentralized party structure was a conduit for passing the

preferences of sub-national elites and, to a lesser extent, the rank-and-file up to the PCCs and the CWC.<sup>15</sup>

The Congress's decentralized structure was also visible in its candidate nomination procedures.<sup>16</sup> When the party sought potential candidates for state and national elections, it first solicited the views of the Mandal and District Congress Committees. The state-level Pradesh Congress Committee (or the Pradesh Election Committee) might, for example, send representatives to constituencies to interview potential candidates and to speak with MCC and DCC members. Determining the competitiveness of a potential candidate required a detailed knowledge of factional, caste, and religious divisions within a constituency, something that could not be evaluated from New Delhi or even from state capitals.

The views of the Mandal and District party leadership generally weighed heavily on the decision at the state level. After considering carefully the views of these local party leaders, the PCC would make candidate recommendations to the Central Election Committee (CEC). The CEC, drawn from the Congress Working Committee, would then consider the recommendations and produce the final list of candidates.

In states with fairly stable Congress governments, the CEC generally left the nomination decision at the Pradesh level.<sup>17</sup> When state parties were particularly faction-ridden and unstable, the CEC would involve itself more deeply in the nomination procedure. Even then, however, it was a mediator or arbitrator among competing state factions, not a central organization imposing its will on subordinates.

Clearly, then, the Congress Party under Nehru was a broadly decentralized organization. Sub-national elites maintained independent power bases in party factions,

loyal electoral support, local governing councils, and state ministries. Their preferences were aggregated up through the party apparatus, and the central leadership provided broad policy guidance while acting as a mediator of local and state interests.

Examining the Causal Linkages:  
Did Party Decentralization Drive Economic Patronage Distribution?

Proper functioning of the Second Five Year Plan required significant government intervention in the Indian economy, with the state taking responsibility for regulating production (through industrial licenses) and providing finance (through subsidized loans and grants). The Congress Party's decentralized structure played a vital role in determining the administrative processes through which the Indian government allocated these economic benefits.

*Highlighting Causality:*  
*Party Decentralization and Financial Disbursements*

One of the most important goals of the Second Five Year Plan was to drive development in India through massive investment, much of which was earmarked to establish or grow protected enterprises. Decisions about which regions and industries would receive the all-important government rupees were the product of a complex, multi-level process.

At the center of this process was the Planning Commission, formed in 1950 and charged with drawing up the planning documents and overseeing their implementation. The presence of the prime minister and several key cabinet ministers on the Planning Commission aimed to ensure that the ambitious national plans would not be ignored.<sup>18</sup>

Helping to guide the actions of the Planning Commission was the National Development Council (NDC), created in 1952 to represent formally the views of India's state governments. The NDC comprised the members of the Planning Commission as well as each of India's chief ministers, the heads of government in India's federal states. The cabinet resolution creating the NDC gave the body such a key role that planning scholar A. H. Hanson has called it, "an advisory body which could be said to rival the Planning Commission itself in importance."<sup>19</sup> The NDC served as a forum through which powerful sub-national elites could influence the plan and push for increased government outlays to their states.<sup>20</sup>

The formulation of the Second Plan began as early as 1954, more than two years before its final adoption. During these early stages, a series of debates were held within the Planning Commission, the cabinet, and the NDC to develop the broad outline of the plan. At the same time, state, district, and even village governments were in the process of formulating their own plans to be incorporated into the national document.<sup>21</sup> Indeed, the planning process in India, while coordinated at the national level, was carried out, to one degree or another, in cities and villages across the country. While some local plans were in fact developed by state officials to satisfy New Delhi's demands for grass roots involvement, village and district officials often pressured state officials to advocate projects in their constituencies to the Planning Commission.<sup>22</sup>

As the village and district plans were being developed, the states were working to formulate their own plans. Caught between the plan guidelines developed in New Delhi and the demands of village and district authorities and interest groups, their task was not a trivial one. The development of state plans and the incorporation of village and district

plans generally involved a process of lobbying by various powerful interests and logrolling among state ministries.<sup>23</sup> Local elites and demand groups with influence over state plans traded favors, producing documents full of requests for finance from the central government. In the state of Andhra Pradesh, for example, a consultative Advisory Board raised the suggested total money to be spent under the plan from Rs.475 crores to Rs.482 crores.<sup>24</sup>

In July 1955, the Planning Commission and the NDC began to consider how the state plans would be incorporated into the national effort. Thus began a round of logrolling and negotiation among the state chief ministers, each advocating for the expansion of protected industries and the provision of finance to his state.<sup>25</sup> NDC meetings were often characterized by vote trading over disbursements under the plan, creating logrolls among the powerful state politicians.<sup>26</sup> Indeed, as a result of these logrolls, the finance minister called into question the fiscal solvency of the plan in the NDC. No doubt in a centralized system the financial allocations incorporated into the plan would have been reduced, but in India's decentralized system the chief ministers would have none of it. They blocked the efforts of the finance minister and the Planning Commission to cut financial outlays under the plan, and at the same time initially refused to increase taxes.<sup>27</sup>

While the NDC was working to revise the state and national plans, the powerful Congress Party organization was holding its own discussions. On August 14, 1955, the president of the All-India Congress Committee issued a circular to prepare members for a wide-ranging discussion of the plan:

You perhaps know that the Plan Frame and the question of resources were discussed by the Standing Committee of the National Development Council on

which are represented some of the Chief Ministers who are also in their political capacity our leaders. . . . Our leaders in the government are in a better position to study these questions. . . . Apart from this, I would not set any limit to constructive suggestions. . . . Nor would I like to set any limit to suggestions for the more efficient and economical implementation of the Second Five Year Plan.<sup>28</sup>

While the party's organizational leadership showed a willingness to defer somewhat to their colleagues in the government, they were still determined to have their say.

Members of the party's influential governing body brought with them concerns about how the plan would influence their home villages, cities, and states. These views would have been aggregated up to the party leadership that controlled the future of the plan.

After seven months of discussions, the NDC approved the Draft Outline of the Second Plan, and it was published by the Commission. The Draft Outline contained the Planning Commission's first official recommendations for the general shape of financial allocations under the plan. Its release began an even broader national debate over the details of the plan, a debate carried out in the NDC, the cabinet, the parliament, the Congress Party, and numerous less official forums. In its explanation of the planning process, the Commission put it this way:

With the approval of the [National Development] Council, the Draft Outline is published as a document for the widest public discussion and consideration. Comments are invited from all sections of opinion. State governments arrange for the Draft Outline to be discussed at the district level by District Development Councils and other bodies.<sup>29</sup>

The central and state governments consulted again with influential local elites and pressure groups, absorbing their views for the final session of logrolling before the publication of the plan document.

The national parliament also debated the Draft Outline. As the Planning Commission put it:

. . . at the national level, both Houses of Parliament arrange for discussion of the Draft Outline, first in a general way for a few days at a time, and then in greater detail through a series of Parliamentary Committees which individual Members are free to join . . . .<sup>30</sup>

The Draft Outline of the Second Plan elicited significant interest among the MPs, leading to additional demands for changes. Member comments ranged from questions about the broad structure of the plan to concerns over its effects in their constituencies.<sup>31</sup>

Taking all these views into consideration, the Planning Commission, still working in consultation with state chief ministers on the NDC, produced the final plan document. This document represented, at least to some extent, a national consensus over the distribution of government support under the plan. Even this “final” document was not, however, final in any true sense, but was subjected to constant review and criticism over the plan’s five years. The Lok Sabha, India’s lower house of parliament, debated it several times, and the NDC considered proposed changes, including a dramatic increase in agricultural production targets. Indeed, the Planning Commission caved to pressure groups by increasing plan outlays to a number of economic sectors.<sup>32</sup> Even a foreign exchange crunch in 1957 was not enough to reduce expenditures under the plan by more than Rs. 200 crores.<sup>33</sup>

The decentralized process of formulating and implementing the Second Five Year Plan afforded central ministries, state governments, the Congress Party, the parliament, local elites, and private interests ample opportunities to influence investment targets. Indeed, the nature of the process accords well with the expectations of the theory. The development of the plan was characterized by constant lobbying from a multitude of independently powerful actors, each attempting to ensure that the plan would be as

beneficial as possible to its interests. As we have seen, a series of logrolls took place simultaneously at the district, state, and national levels.

How do we know that this decentralized process reflected a decentralized Congress Party? My argument does not require that the financial allocation process should be carried out within the political party organization itself. Indeed, while the Congress Party organization played an important role in the development of the plan, much of the process took place in the institutions of government. Nevertheless, as these institutions were dominated by members of the Congress, the structure of the party was vital to the policy making process. Kothari, for example, has linked the development of mediating institutions in the party organization with the development of similar institutions in the state apparatus.<sup>34</sup>

Even if the administrative process had been centralized on paper, without the NDC and lacking state and local planning, a decentralized Congress would have ensured a decentralized plan. When local and state Congress members have independent power bases, they demand a role in the process, whether formal or informal. On the other hand, in the presence of a centralized Congress, even an administrative process that was decentralized on paper would be centrally controlled in reality. District Development Councils, state advisory bodies, Congress committees, and even the NDC would be unable to influence the plan if their members were under the thumb of the party leadership. We shall see the truth of this statement in the next section, which examines the government of Indira Gandhi.

Because of the Planning Commission's obligation to respond to independently powerful elites and interest groups, financial disbursements under the Second Plan were

distributed relatively evenly by region. It should be emphasized that these disbursements were sometimes not very balanced in absolute terms, but *were* balanced relative to allocations under the centralized system of Indira Gandhi. In the next section, I will present some basic statistics comparing the geographical distribution of government finance under Jawaharlal Nehru and Indira Gandhi.

*Highlighting Causality:*

*Party Decentralization and the Allocation of Industrial Licenses*

Government financial outlays were not the only policy instrument of planning affected by the decentralization of Congress. The process of allocating industrial licenses, of vital importance in planned economies, also reflected the decentralized structure of the party. Through the potent mechanism of licensing, government officials ensured that private firms operated only in those industries reserved for them and that the country's scarce resources were devoted to areas prioritized by the plan. Licensing was also intended to encourage smaller industries, prevent the concentration of ownership, promote regionally balanced economic development, and ensure the usage of domestically produced inputs.<sup>35</sup>

At the center of the industrial licensing process was the inter-ministerial Licensing Committee. Generally, license applications were first reviewed by relevant government ministries, which then forwarded those they supported to the committee. After receiving advice from the Directorate General of Technical Development, the Licensing Committee made recommendations to the Minister for Industrial Development, who then made the final decisions. Often, additional committees and government agencies were involved in the review process.<sup>36</sup>

Given the prominent role played by various government ministries, the licensing process was both decentralized and political from the start. A number of observers, including the authors of an official Lok Sabha study, have noted the lack of economic guidelines to inform the decisions of the committee.<sup>37</sup> As a result, political pressures played a significant role in determining who was granted a license and who was not. The same Lok Sabha study noted that:

It has been stated by the official representative of the Ministry that ‘Quite a number of States keep on representing that their areas have not received an adequate share of licenses. I have not got the figures for the number of representations, but it is a fact that from time to time, Chief Ministers of States and Industries Ministers of States do write to us pointing out that their States, in their opinion, have not received a fair share of the licenses.’<sup>38</sup>

The ministry representative went on to say that the government gave preference to projects located in underdeveloped areas, but that economic factors were considered first. A representative from the Planning Commission concurred with this view, but noted that “there may be other elements like regional considerations which may have to be introduced in the consideration of particular projects.”<sup>39</sup>

This anecdote indicates that state officials were not afraid to advocate for the licensing of projects in their constituencies. Influential businesses also appear to have applied political pressure to influence the industrial licensing process. Government ministries often developed clients among interest groups and lobbyists, and very likely advocated for firms under their purview when referring their applications to the Licensing Committee.<sup>40</sup>

The industrial licensing process under Nehru thus accords well with the expectations of the theory. It was decentralized, and was characterized by powerful state officials pressuring the central government to grant as many licenses as possible for firms

and projects in their constituencies. The decentralized structure of the Congress Party, to which both the central and state leadership almost invariably belonged, ensured that these requests were often heeded. As a result, while industrial licenses were not distributed evenly across regions in an absolute sense, they were (as we shall see in the next section) allocated with more balance under Nehru than under Indira Gandhi.

### **Centralization and Patronage: 1969 – 1975**

Although Indira Gandhi first became India's prime minister in 1966, it was not until after the bitter 1969 split in the Congress that she put her indelible mark on the party and on the nation it represented. She centralized the Congress Party under her direct control, dispensing with intra-party elections and creating a top-down chain of command. Moreover, she accelerated the collapse of the Congress System that had aggregated the preferences of sub-state elites under her father. Gandhi based her support primarily on populist appeals, and after the 1969 split, she lost control of a large portion of the party organization.

At the same time, Prime Minister Gandhi set her country on a road towards increased government regulation and expanded economic subsidies.<sup>41</sup> I argue in this section that, in keeping with the theory's expectations, these economic benefits were distributed by national party leaders and indeed by Gandhi herself. Gone were the days of independently powerful party officials distributing economic benefits through a national logroll. Under Indira Gandhi, it was the prime minister and her immediate associates who controlled the patronage of the state, distributing it strategically and unevenly to encourage support and to punish opposition.

The Independent Variable:  
Centralization of the Indian National Congress

While Prime Minister Gandhi made some efforts to centralize power before the famous Congress split, it was only after she had broken with the party's entrenched bosses that she could truly dominate the party apparatus. In 1969, a brewing dispute between Gandhi and the party's organizational leadership, often termed the Syndicate, came to a head over the election of the Indian President. After trading a series of recriminations with members of the Syndicate, the prime minister and her supporters in parliament separated from the party's organizational leaders and claimed the mantle of the Congress for themselves. From 1969, power in Indira Gandhi's Congress, termed the Congress (R) and later the Congress (I), was concentrated in her hands and in the hands of her closest associates.<sup>42</sup> This centralization of control was further expanded after the prime minister's triumphant 1971 election victory, in which she secured fully 67.9% of seats in the Lok Sabha, performing significantly better than had the united Congress in 1967.<sup>43</sup> By contrast, the branch of the Congress dominated by the Syndicate, the Congress (O), performed quite poorly. No longer dependent on the communists, the Syndicate, or the Congress left-wing for her position, Indira Gandhi exercised a level of power that her father never could have imagined.

No doubt thinking of her recent confrontation with the Syndicate, Gandhi moved quickly after the split to establish her control over the Congress (R).<sup>44</sup> Never again would the prime minister allow herself to be challenged by independently powerful party leaders at the apex of the Congress. To that end, she ensured that all Congress presidents would

be close associates and unlikely to criticize her openly. Indeed, after her strength was reinforced by the successful 1971 elections, Gandhi made sure that holders of that high office would have no political base and would be totally dependent on her largess. Further, to prevent any future Congress president from transforming the position into a source of independent power, Prime Minister Gandhi ensured that no one would hold the office for long. Five different individuals held the presidency between 1969 and 1975.<sup>45</sup> In 1972, the prime minister pushed one of her closest associates, Jagjivan Ram, out of the Congress presidency and replaced him with D. Sanjivayya, a party leader with no independent base. Although Ram had proven his loyalty during the Congress split, Indira Gandhi very likely perceived his strong base among scheduled castes as a threat.<sup>46</sup>

With her control of the Congress presidency ensured, Gandhi could select one-half of the members of the Congress Working Committee quite directly. She also exercised great influence over the remaining members, who were elected by the AICC, by regulating the selection of candidates.<sup>47</sup> With the CWC in her pocket, Gandhi was also in effective control over its associated organizations, including the CEC. She used her power over the party's apex bodies to turn the organization on its head.

Under Nehru, officials at each level of the Congress organization had derived much of their power from the primary membership and from the lower levels of the party hierarchy. By contrast, Prime Minister Gandhi adopted the practice of using the powers of the CEC and the Parliamentary Board (another party institution involved in candidate selection) to appoint members of Pradesh Congress Committees by fiat. These members would be personally loyal to the prime minister, and would generally not have an independent power base that could challenge her in the future. The centrally-appointed

PCCs would in turn often be charged with selecting members of the DCCs who fit the same criteria. PCCs that opposed or threatened her Indira Gandhi would simply dissolve and replace with ad hoc bodies that operated under her personal direction.

In a further sign of the centralization of the party, the Congress president assumed the authority to nominate two representatives on every Congress Committee.<sup>48</sup> As a result, Prime Minister Gandhi was able to place supporters directly at every level of the party organization. Her control over the Congress apparatus was finally complete when Gandhi and her Congress president postponed the 1970 party elections and suspended those scheduled for 1972. Indira Gandhi had transformed a party organization that had derived its power from the political base into a top-down institution, and she had done it without changing the letter of the party constitution.<sup>49</sup>

In addition to expanding her control over the new Congress Party organization, Prime Minister Gandhi moved to dominate the process of selecting candidates for the Lok Sabha. As we have already discussed, in Nehru's time, the Central Election Committee had generally allowed bodies at the state level to select candidates, only intervening in the decisions of faction-ridden states. By contrast, Gandhi used the CEC to, as Stanley Kochanek put it, "restructure state legislative elites from above."<sup>50</sup> Through the CEC and the Parliamentary Board, the prime minister appointed and removed state chief ministers and members of Pradesh Congress Committees and Pradesh Election Committees. She refused to re-nominate state politicians whom she opposed, replacing them with politicians selected for their loyalty to the prime minister rather than their base in the state.<sup>51</sup> On the eve of her success in the state elections of

1972, for example, Gandhi forced out the powerful chief ministers of Andhra Pradesh, Assam, Madhya Pradesh, and Rajasthan.<sup>52</sup>

Because the Congress Party dominated Indian politics, its centralized structure was grafted onto the government. Without any visible changes in form, the same federal and state institutions that had functioned with significant independence under Nehru became vassals of the new prime minister. The increased role of the central government and the prime minister vis-à-vis the states is indicated by a decrease in the number of voters who, when polled, could name their chief ministers.<sup>53</sup> Further, in those states where factional conflict prevented the establishment of a stable government, or where non-Congress parties held sway, Indira Gandhi often exercised “President’s rule,” assuming direct control over state governments. Nehru and Shastri (Indira Gandhi’s immediate predecessor) had resorted to President’s rule only ten times during their tenures in office, whereas Indira Gandhi (plus the 1977-80 Janata government) made use of it fully seventy-two times.<sup>54</sup>

The impact of a centralized Congress on the functioning of government was also manifested in Gandhi’s strengthening of the prime minister’s personal secretariat and in her constant reshuffling of the cabinet. Perhaps the most well-known example of this approach was the prime minister’s removal of her most senior supporters Y. B. Chavan, Jagjivan Ram, Swaran Singh, and F. A. Ahmed from their strong positions in the ministries.<sup>55</sup> After her confrontation with the Syndicate over the Indian presidency, Prime Minister Gandhi also ensured that whoever held that exalted office was clearly under her influence. In 1974, she prevented V. V. Giri from serving a second term, and instead appointed her supporter F. A. Ahmed to become President.<sup>56</sup>

Examining the Causal Linkages:  
Did Party Centralization drive Economic Patronage Distribution?

The centralized character of Indira Gandhi's Congress helped determine, I argue, the allocation of economic benefits in India. Indira Gandhi, at the apex of the Congress "pyramid", had personal access to extensive sources of patronage, which she distributed strategically to build and maintain support from key groups in her unwieldy electoral coalition.<sup>57</sup> As a result, I argue, economic patronage, including government finance and industrial licenses, were less evenly distributed under Gandhi than they had been under her father.

*Industrial Licensing*

Indira Gandhi's centralized use of economic patronage was reflected in her increased control over industrial licenses. In 1969, the prime minister leveraged a new law, the Monopolies and Restrictive Trade Practices Act (MRTP), into greater powers over private industry. Further, in stark contrast to Nehru, she centered decision-making for major industrial license requests in a special cabinet committee, ensuring that each application would require her personal approval.

Prime Minister Gandhi's centralized control over the Congress Party allowed her to dictate industrial licensing decisions from her office. She had little fear that lower echelons of the party would object to her new powers. While Nehru had played little role in allocating industrial licenses, Indira Gandhi ensured that no major projects could be

approved without her personal agreement. Under the MRTP, a committee of ministerial representatives would review the license applications of large business houses. Any proposals that the committee approved it would send to the Ministry of Industrial Development, while any questionable or complex proposals it would forward to a semi-independent Monopolies Commission.<sup>58</sup> In reality, however, decision-making had become so political that the Commission was often shut out of the process. In 1972, its members complained to the Parliament:

The Commission cannot help feeling that there is some incongruity in that sometimes cases not involving any major issue were referred to the Commission while other which would *prima facie* involve important considerations are not so referred.<sup>59</sup>

From 1970, the ultimate decision-making authority over industrial licenses lay neither with the Monopolies Commission nor with the ministries, but with the prime minister and her secretariat. The secretariat had been created by Shastri to strengthen his hand in dealing with the party organization, and it was beholden only to the prime minister.<sup>60</sup>

Under Indira Gandhi, it took on a new identity as the center of power in the Indian government. As long-time civil servant Nitish Sengupta put it:

Interestingly, PM's secretariat became a miniature central secretariat. Some of the Joint Secretaries or even Deputy Secretaries would only deal with the Ministers or Secretaries of other departments and would zealously guard their authority. The PM's secretariat became, for all practical purposes, the most important Ministry in the Government of India between 1970 and 1977. It had the power to veto any proposed activity.<sup>61</sup>

All major applications had to be forwarded to the Cabinet Committee on Economic Coordination, a body chaired by Gandhi and essentially a part of her office.<sup>62</sup> Nitish Sengupta wrote:

No worthwhile project could be cleared without the prime minister's approval. Those who managed to get industrial licenses also managed to see to it that others did not. This was done by money, influence, and political muscle power.<sup>63</sup>

Industrial licenses had become, at least in part, an instrument of patronage to be doled out by the prime minister to shore up her political position.

While Nehru and Shastri had presided over a decentralized system where numerous firms and officials bargained over license allocation, Gandhi was able to target approvals strategically to build support.<sup>64</sup> Gandhi's centralization of the industrial licensing system was reflected in an uneven distribution of approvals across India's federal states. It was also apparent in the relationship between licensing decisions and the Congress Party's national political interest.

That licensing decisions were guided by political and strategic considerations under Indira Gandhi is indicated in Figure 1. In this figure, I group India's federal states into three categories – those that gave the Congress Party weak electoral support (less than 45% of votes), those that gave it moderate support (between 45% and 55% of votes), and those that gave it strong support (over 55% of votes).<sup>65</sup> For the earlier period, I measure a state's electoral support for the Congress using its Lok Sabha vote in the 1962 general election; for the later period, I use the state's Lok Sabha vote in the 1971 general election.<sup>66</sup> The blue bars represent the average number of industrial licenses received per capita by states in each group in 1965, while the red bars represent the licenses received per capita in 1974-75.

**Insert Figure 1**

The results show that the distribution of industrial licenses was more uneven during the Indira Gandhi period (represented by the red bars) than during the Nehru period<sup>67</sup> (represented by the blue bars).<sup>68</sup> Moreover, the data indicate that, under Indira Gandhi, a state's relative support for the Congress Party was likely to influence its receipt of industrial licenses. It appears that Prime Minister Gandhi strategically approved more licenses to states where support for the Congress was marginal, likely hoping to win them over for the next election.<sup>69</sup> By contrast, states where Congress support was weak and states where it was strong received fewer licenses. The prime minister likely reasoned that changes in patronage allocation would probably not alter the voting behavior of these states significantly.<sup>70</sup> In other words, the data indicate that, under a centralized Congress, industrial licenses were distributed strategically to benefit the national electoral ambitions of the party. By contrast, the data do not support such a clear motivation for licensing decisions under a decentralized Congress.

*Highlighting Causality:  
Party Centralization and Financial Disbursements*

The prime minister's centralized control of the Congress party also allowed significant influence over the distribution of government monies channeled through two key institutions – the Planning Commission and the nationalized banks.

When, in the summer of 1969, Indira Gandhi nationalized India's fourteen largest private banks, she took one of the most far-reaching economic policy decisions of her tenure as prime minister. Most observers attribute the proximate cause of Gandhi's decision to her ongoing feud with the Syndicate; the prime minister calculated correctly that bank nationalization would buttress her political support among the Indian masses

and the left parties. Also important, I believe, was the potential for patronage generation that centralized control over India's credit markets could afford.

With nationalization, representatives of the Congress Party were placed onto the governing boards of commercial banks, and non-market criteria made their way into allocative decisions. Because Gandhi exercised highly centralized control over the Congress Party, she was able to intervene in investment decisions through these representatives. Gandhi and her associates used this new source of patronage to win the backing of Indian industrial and farming interests, providing loans at low interest rates to supporters.

In addition, Indira Gandhi made use of the significant allocative discretion enjoyed by the government to leverage some Planning Commission disbursements into political capital. During Gandhi's tenure as prime minister, distributional decisions under the Planning Commission were determined in part by the Gadgil formula. This formula, developed and implemented under the old, decentralized Congress Party, identified a series of criteria (for example population and income) to be used when deciding on planning outlays to each federal state.<sup>71</sup> After centralizing the Congress Party, Gandhi continued to adhere to this formula, perhaps because it contained sufficient ambiguities to afford her significant control over the recipients of government rupees. It remained largely within the prime minister's purview, for example, to determine which states needed extra federal funds for "special needs" or "special problems."

The political targeting of plan transfers under Indira Gandhi is indicated in Figure 2. The blue bars show financial disbursements to the states under Nehru's Second Five Year Plan, whereas the red bars show disbursements under Gandhi's Fourth Five Year

Plan. As expected, transfers under the Second Plan are distributed fairly evenly, regardless of a state's level of support for the Congress Party. By contrast, transfers under the Fourth Plan appear more targeted towards strengthening the party's position in marginal states.

## **Insert Figure 2**

## **Conclusions**

In this paper, I have argued that the organization of the Congress Party has been among the most important determinants of economic patronage distribution in India. During the Nehru period, the decentralized nature of the Congress Party led to fierce bargaining among influential state and local leaders over the allocation of economic benefits under the Second Five Year Plan. The distribution of these benefits was determined through a vast national logroll, leading, I contend, to an even distribution of licensing and state finance relative to what would come later. Immediately after the party's dramatic 1969 split, Indira Gandhi centralized the new Congress under her personal control. She strategically distributed patronage to key industries and constituencies, eliminating the vast logrolls and complex bargains of the Nehru era. The increasingly uneven distribution of license allocation and government finance during this period supports the argument.

What does the Indian case tell us about the role of political party organization in influencing the distribution of economic patronage? Most other domestic institutions, including those highlighted by the literature as determinants of government largess, did

not vary enough across the Nehru and Indira Gandhi eras to reasonably explain the economic shifts. The evidence, I believe, indicates clearly that the centralization of the Congress Party was the driving force behind the observed changes in patronage distribution. That is not to say that other explanations might not matter in a different context; they very likely would. Rather, it is to emphasize the vital impact that party organization can have in determining who gets economic benefits and who is left in the cold. In fact, the importance of party organization in the Indian case provides evidence that it is a sufficient, although probably not necessary, condition for shifts in patronage distribution. As such, I believe that the organization of parties should be counted among the key political determinants of the economic behavior of democracies.

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<sup>1</sup> See, for example, Evans 1995; Kohli 2004; Wade 1990; Johnson 1982; Amsden 1989.

<sup>2</sup> This fact has been frequently demonstrated. See, for example, Evans 1995; Kohli 2004; Haggard and Webb 1994; Haggard and Kaufmann 1995; Rogowski 1987, and many others.

<sup>3</sup> See for example, Busch and Reinhardt 1999, Busch and Reinhardt 2000, and Lopez and Pagoulatos 1996.

<sup>4</sup> See, for example, Esty and Caves 1983 and Salamon and Seigfried 1997.

<sup>5</sup> See, for example, Rogowski 1987, Mansfield and Busch 1995, and O'Halloran 1994.

<sup>6</sup> An important exception is McGillivray 2004, who argues that, in majoritarian systems, marginal districts will receive greater protection under high party discipline and less protection under low discipline.

<sup>7</sup> A variety of different actors may receive government economic support. In this article, I focus on explaining the distribution of patronage to firms and sub-national political units, especially federal states. In the federal hierarchy of India, the case that I consider here, there are a number of geographical levels. From largest to smallest, the most important are: (1) the federal government (also called the Centre); (2) the state governments (also called Pradesh governments); (3) the district governments (similar to US counties); (4) the Mandal governments; and (5) the village governments (sometimes governed by panchayats). In this article, when I refer to national officials, I mean authorities from level 1. Likewise, state officials are authorities from level 2, sub-national officials from levels 2, 3, 4, and 5, and local officials from levels 3, 4, and 5.

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<sup>8</sup> See, for example, Duverger 1954; Randall and Svasand 2002; Mainwaring and Scully 1995; Mainwaring 1999; Jin 1995; Janda 1980.

<sup>9</sup> In another paper (Hankla forthcoming), I argue that party centralization, by itself, tends toward freer trade (and, by extension, less economic patronage available for government distribution). In that paper, I contend that the centralization of parties shifts power to national party leaders with incentives to privilege the national interest in freer trade over the demands of protectionist groups. Nevertheless, I also suggest that unstable or narrow party linkages to the electorate could lead even centralized parties to adopt protectionist trade policies and make extensive use of economic patronage. The current paper puts these issues aside, however, and seeks to understand the process of economic patronage distribution rather than its extent.

<sup>10</sup> For more on most similar systems research designs and the comparative method, see Ragin 1987, Przeworski and Teune 1970, King, Keohane and Verba 1992, Meckstroth 1975, Lijphart 1975, Dion 1998, Hall 2003, and Mahoney 2003.

<sup>11</sup> Indira Gandhi's rhetoric did shift to the left in the late 1960s, but was never very much in opposition to the Congress Party's socialist tradition.

<sup>12</sup> Detailed descriptions of Congress Party organization are available from Kochanek 1968, Brass 1965, Sirsikar and Fernandes 1984, Weiner 1967, and Kumar 1990.

<sup>13</sup> Interviews with a senior Congress Party official and an Indian government official, New Delhi, September and October 2003.

<sup>14</sup> Weiner 1967.

<sup>15</sup> See Kothari 1964, Manor 1988, Chhibber and Petrocik 1990, Weiner 1967, Rudolph and Rudolph 1987, and Brass 1994.

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<sup>16</sup> For descriptions of the candidate nomination process, see Kochanek 1968, Brass 1965, Rudolph and Rudolph 1987, Sisson 1972, and Sirsikar and Fernandes 1984.

<sup>17</sup> See Kochanek 1968.

<sup>18</sup> Hanson 1966.

<sup>19</sup> Hanson 1966, p. 61.

<sup>20</sup> Interviews with a senior Congress Party official and an Indian government official, New Delhi, September and October 2003; Hanson 1966.

<sup>21</sup> Hanson 1966.

<sup>22</sup> See Hanson 1966.

<sup>23</sup> See Hanson 1966.

<sup>24</sup> Hanson 1966. A crore is an Indian measure equivalent to 10 million.

<sup>25</sup> Interviews with an Indian government official and a senior Congress Party official, New Delhi, September and October 2003; Corbridge and Harriss 2000.

<sup>26</sup> For example, the power of state officials is demonstrated by the creation of a steel industry in Punjab and Tamil Nadu, states lacking the natural resource endowments normally associated with steel production. Interviews with an Indian government official and a senior Congress Party official, New Delhi, September and October 2003; Corbridge and Harriss 2000.

<sup>27</sup> Hanson 1966.

<sup>28</sup> Indian National Congress 1955, p. 2.

<sup>29</sup> Planning Commission 1963, p. 46-47.

<sup>30</sup> Planning Commission 1963, p. 47.

<sup>31</sup> Hanson 1966.

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<sup>32</sup> Hanson 1966.

<sup>33</sup> Hanson 1966.

<sup>34</sup> Kothari 1964.

<sup>35</sup> Bhagwati and Desai 1970; Srinivasan 1992.

<sup>36</sup> Bhagwati and Desai 1970.

<sup>37</sup> Bhagwati and Desai 1970.

<sup>38</sup> Ninth Report of the Committee on Industrial Licensing, New Delhi, 1967, as quoted in Bhagwati and Desai 1970, p. 267.

<sup>39</sup> Ninth Report of the Committee on Industrial Licensing, New Delhi, 1967, as quoted in Bhagwati and Desai 1970, p. 267.

<sup>40</sup> See Hanson 1966

<sup>41</sup> In another paper (Hankla 2006), I relate the de-institutionalization of the Congress Party to Indira Gandhi's increasingly tight regulation of the Indian economy.

<sup>42</sup> Mitra 1994; Kochanek 1976; Manor 1992; Kohli 1990; Chhibber 1999; Frankel 1978; Rai and Pandey 1971; Singh 1981.

<sup>43</sup> See Mitra and Singh 1999.

<sup>44</sup> Kochanek 1976. Hereafter, I refer to Indira Gandhi's branch of the party simply as the Congress, following the convention that accords it the name of the original party.

<sup>45</sup> Kochanek 1976.

<sup>46</sup> Kochanek 1976. The scheduled castes are, in common parlance, the "untouchable" castes.

<sup>47</sup> Kochanek 1976.

<sup>48</sup> Frankel 1976; Kochanek 1976; Rudolph and Rudolph 1987.

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<sup>49</sup> Kochanek 1976; Manor 1992.

<sup>50</sup> Kochanek 1976, p. 100.

<sup>51</sup> Corbridge and Harriss 2000; Rudolph and Rudolph 1987. It should be noted that the presence of powerful factions at the state level did limit to some degree Indira Gandhi's power. See Mitra 1994.

<sup>52</sup> Kochanek 1976.

<sup>53</sup> Mitra and Singh 1999.

<sup>54</sup> Chhibber 1999.

<sup>55</sup> Rai and Pandey 1971.

<sup>56</sup> Kochanek 1976.

<sup>57</sup> See Kochanek 1976; Chibber 2003; Duc 1987.

<sup>58</sup> Frankel 1978; Sengupta 1995;

<sup>59</sup> Monopolies Commission, as quoted in Sudhanshu 1986, p. 334.

<sup>60</sup> Frankel 1978.

<sup>61</sup> Sengupta 1995, p. 239.

<sup>62</sup> Frankel 1978; Sengupta 1995.

<sup>63</sup> Sengupta 1995, p. 59.

<sup>64</sup> Interview with an Indian government official, New Delhi, October 2003.

<sup>65</sup> I exclude the state of Jammu and Kashmir from the analysis because the dispute with Pakistan and China helped drive very high aid levels from the central government. I also exclude India's micro-states (i.e. Meghalaya, Nagaland, Sikkim, Tripura, Himachal Pradesh, and Manipur) because data availability is mixed and because small changes in

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patronage distributed to these low population states can result in large changes in per capita patronage allocation.

<sup>66</sup> This coding scheme means, of course, that a state's grouping may change from one period to the next.

<sup>67</sup> Nehru had actually died in 1964, but the Congress Party in 1965 remained much as he had left it.

<sup>68</sup> This finding is especially striking when you consider that only one state (Orissa) can be classified as having given the Congress "strong support" in the 1962 election. As a result, the finding that states strongly supportive of the Congress received fewer licenses in 1965 may be an anomaly.

<sup>69</sup> This finding is compatible with McGillivray 2004.

<sup>70</sup> The fact that MPs are not elected from states but from districts within states is probably causing some error in the results. In other words, Indira Gandhi may have funneled patronage into marginal districts within states that were not marginal. Still, the data presented here indicate, I believe, real differences across the two time periods, and a district-level study is beyond the scope of this project.

<sup>71</sup> George 1985.

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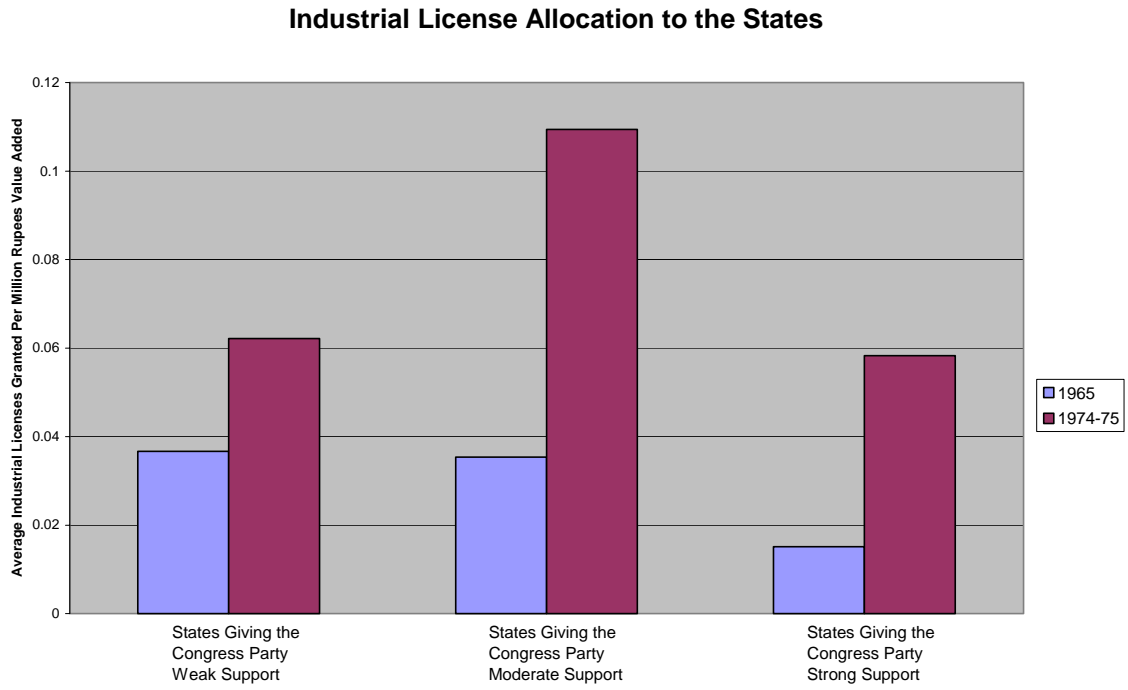
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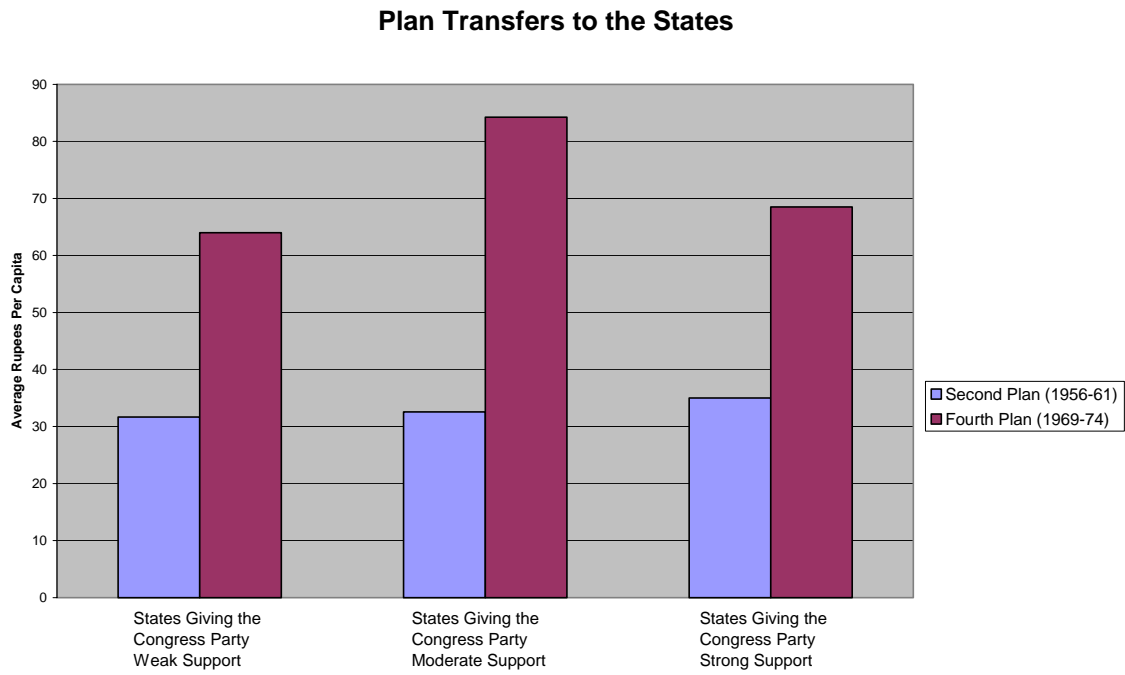
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Figure 1:



Sources: Sudhanshu 1986, Dagli, ed. 1970, Singh and Bose 1986  
NB: Only one state was classified as giving the Congress "strong support" for the 1965 data series.

Figure 2:



Sources: George 1985, Singh and Bose 1986

NB: Only one state was classified as giving the Congress "strong support" for the 1965 data series.