Political Settlements and the Governance of Growth-Enhancing Institutions (II)

Abstract: A political settlement refers to the ‘social order’ in which institutions and governance policies are located. A sustainable political settlement is a consistent combination of institutions and a distribution of power such that the two are compatible and mutually supportive. In developing countries, formal institutions alone cannot produce distributions of benefits that can satisfy all powerful groups. This is because the modern productive sector, which is primarily defined by formal institutions, is too small to generate benefits compatible with the overall distribution of power. Hence, without exception, developing countries have significant informal institutions and informality in the operation of formal institutions. These modify the distribution of benefits to achieve a tolerable compatibility between the overall structure of institutions and the distribution of power. The model shows that informality is part of the construction of the political settlement in these countries and not a feature, for instance, of culture or weak democratic institutions. This explains the significant role of informal institutions and in particular of patron-client organizations and clientelist politics in developing countries. Developing countries have ‘clientelist’ political settlements, but they also vary greatly in their details depending on their internal configuration of power.

A typology is developed for distinguishing between political settlements. In addition, important characteristics are identified that distinguish clientelist political settlements from each other. The broad typology is important because it shows that the Weberian good governance approach makes inappropriate assumptions about political settlements in developing countries and identifies reform goals that are structurally unachievable. The finer characterization of differences between clientelist political settlements is important because at the level of particular institutions, the political settlement determines enforcement costs. This explains why similar institutions can perform very differently (indeed some beneficial institutions can become damaging
ones) and why the introduction or enforcement of particular institutions can face very
different ‘growth-stability trade-offs’ as a result of the resistance of powerful groups.

Two dimensions of difference between clientelist settlements are important. The first
is the organization of the ruling coalition and its relative power vis-à-vis excluded
factions and its own lower-level factional supporters. The second is the level of
development of productive entrepreneurs and their power relative to the ruling
coalition. Both these dimensions are responsible for significant differences in the
incentives of ruling coalitions and the costs of enforcing specific institutions.

The framework is applied in our case study countries to outline how their political
settlements evolved over time in terms of the characteristics identified. The evolution
of their political settlements closely tracks changes in the performance of their
institutions and their institutional strategies. This establishes the analytical and policy
significance of the model for evaluating the effectiveness of particular institutions in
specific political settlements and the political costs of their implementation.
CONTENTS

1. Introduction .......................................................... Erreur ! Signet non défini.
   A First Approximation: Formal Institutions .................. Erreur ! Signet non défini.
   Further Developments: Informal Institutions and Non-Institutional Factors Erreur ! Signet non défini.
3. Power and the Political Settlement ......................... Erreur ! Signet non défini.
   Political Settlements: Two Levels of Analysis ............ Erreur ! Signet non défini.
4. Power and Institutions Defining the Political Settlement Erreur ! Signet non défini.
   The Significance of Informal Institutions in Developing Countries Erreur ! Signet non défini.
5. The Political Settlement as a Constraint on Institutional Performance ...... Erreur ! Signet non défini.
   Partial Enforcement ............................................. Erreur ! Signet non défini.
6. A Typology of Political Settlements ...................... Erreur ! Signet non défini.
   The Capitalist Political Settlement .......................... Erreur ! Signet non défini.
   Clientelist Political Settlements ............................. Erreur ! Signet non défini.
   Pre-capitalist Political Settlements ......................... Erreur ! Signet non défini.
   Political Settlements in Crisis .............................. Erreur ! Signet non défini.
7. Patron-Client Networks ........................................ Erreur ! Signet non défini.
   Patron-Client Organizations and the Structure of the Ruling Coalition ...... Erreur ! Signet non défini.
8. Thailand: The Rise and Fall of Competitive Clientelism .................. 5
   Authoritarianism with Weak Capitalists: 1960s to early 1970s .................. 7
   Summary .......................................................... 9
   Competitive Clientelism: Mid-1970s to 2001 ........................................ 9
   Summary .......................................................... 12
   The ‘Unproductive’ Dominant Party: 2001-2008 .............................. 12
   Summary .......................................................... 16
   The Backlash: Authoritarianism with a Democratic Face 2008 .................. 16
   Summary .......................................................... 18
9. Maharashtra: From Dominant Party to Competitive Clientelism ............ 18
   Summary .......................................................... 23
   The Rise of Competitive Clientelism 1990- .................................... 23
   Summary .......................................................... 25
10. West Bengal: The Limits of a Progressive Dominant Party ................ 25
Summary ..................................................................................................................30
The CPM: A Progressive Dominant Party 1977-......................................................30
Summary ..................................................................................................................34

11. Bangladesh: From Authoritarian Rule to Competitive Clientelism .........................34
Military Authoritarianism: 1958-1971.................................................................37
Summary ..................................................................................................................40
The Rise and Fall of Dominant Party Authoritarianism 1972-1975 .........................40
Summary ..................................................................................................................41
Clientelistic Authoritarianism 1975-1990.................................................................42
Summary ..................................................................................................................44
Competitive Clientelism 1990- ...............................................................................44
Summary ..................................................................................................................46

12. Tanzania: From Authoritarian One-Party to Stable Dominant Party .....................47
One Party Authoritarianism and Nation-Building 1962-1992 .................................49
Summary ..................................................................................................................51
The Limits of the Dominant Party Coalition 1992- ...................................................52
Summary ..................................................................................................................54

13. Conclusions ......................................................................................................55
14. References .......................................................................................................57

FIGURES
Figure 1 Formal Institutions Explaining Growth in the NIE Erreur ! Signet non défini.
Figure 2 Formal Institutions Explaining Institutional Change in the NIE...... Erreur ! Signet non défini.
Figure 3 Informal Institutions Constraining Performance in the NIE Erreur ! Signet non défini.
Figure 4 The Dual Effect of Institutions on Growth and Distribution Erreur ! Signet non défini.
Figure 5 Political Settlements .............................................................. Erreur ! Signet non défini.
Figure 6 Lower Level Analysis: Effects on Particular Institutions Erreur ! Signet non défini.
Figure 7 The Interdependence of Power and Institutions...Erreur ! Signet non défini.
Figure 8 Productive Sectors also depend on Informal Arrangements Erreur ! Signet non défini.
Figure 9 Power as a Constraint on the Operation of Particular Institutions ..... Erreur ! Signet non défini.
Figure 10 Political Settlements, Partial Enforcement and Institutional Performance ..............................................................Erreur ! Signet non défini.
Figure 11 Effects of Different Political Settlements on Trade-offs Erreur ! Signet non défini.
Figure 12 Trade-offs in Confrontation Strategies.................Erreur ! Signet non défini.
Figure 13 Trade-offs with Significant Implementation Compromises Erreur ! Signet non défini.
Figure 14 Incremental versus Discontinuous Institutional Changes Erreur ! Signet non défini.
Figure 15 Trade-off Comparisons across Countries ..........Erreur ! Signet non défini.
I. Thailand: The Rise and Fall of Competitive Clientelism

The evolution of the political settlement in Thailand is particularly interesting because it demonstrates the potential danger of attempting to accelerate the achievement of a Weberian state in the context of a clientelist political settlement. In terms of the organization of ruling coalitions shown in Error! Source du renvoi introuvable., Thailand’s ruling coalition from the late 1950s was a military-led authoritarian one. Business interests in these early years, according to the classification in Error! Source du renvoi introuvable., were politically weak and only moderately capable. This was a period of rapid import substitution but industrial policy institutions could not be constructed. By the early 1970s, the growing strength of excluded coalitions meant that the authoritarian ruling coalition could not be sustained and Thailand began a process of evolution towards a structure of competitive clientelism following the 1973 student uprising. It is also around this time that the political power of business interests came into their own, with powerful business interests operating through the competitive clientelism that emerged. This allowed relatively rapid growth based on rent-creation by capitalist-dominated factions. This settlement collapsed after the 1997 crisis. The 1997 constitution that emerged partly as a result of a new middle class activism attempted to move the country towards Weberian good governance. It gave considerable powers to the Prime Minister with voting rules that made it easier for a single party to win. It also attempted to increase accountability through checks and balances. The middle class expected the new constitution to result in the emergence of good governance appropriate for a Weberian state, and the beginning of an end to the ‘money politics’ and clientelism of the past.

Thaksin’s victory in 2001 with his Thai Rak Thai Party was a turning point for Thailand. It marked the end of the first period of competitive clientelism. But while his party had a manifesto, and actually delivered on it, it also had to operate through
patron-client networks. In terms of Erreur ! Source du renvoi introuvable. Thaksin’s coalition was a dominant party ruling coalition, and not a party of the type that we would expect to see in a capitalist political settlement. Paradoxically, the construction of this dominant party was to have seriously adverse implications for Thailand’s productive sector, and eventually for its constitution. Though initially a capitalist-led response to the 1997 crisis, the diversity of interests within the large ruling coalition led to early failures in evolving a productive economic response. The party’s failure to enforce discipline on capitalist interests who needed to be assisted out of the debts they had incurred during the financial crisis happened at the same time as Thaksin and his clique discovered they could, instead, access significant unproductive rents for themselves. The result was that capitalists and the middle class rapidly lost access to political power and the party turned to overtly populist strategies to stay in power. This proved to be wildly successful as an electoral strategy allowing rent capture for powerful interests within the ruling coalition. Despite the presence of a sophisticated capitalist sector, there was a significantly adverse shift in the political settlement from the perspective of enforcing institutions supportive of productive investments and long run growth.

Thaksin’s electoral strategy was so compelling that his re-named party was re-elected even after it was dislodged by a desperate coup backed by the middle class. It was finally dismissed only after extra-constitutional violence and disruption and sustained judicial action following the monarch’s advice to judges to save the country. A new government led by the Democrat Party was cobbled together through considerable horse trading in December 2008. This government was not an outcome of an election but relied on the disqualification of some elected MPs and the buying in of others. In terms of Erreur ! Source du renvoi introuvable., despite the fact that the Prime Minister was an educated and likeable leader of Thailand’s oldest political party, it was effectively a (temporary) return to a form of authoritarian rule with a democratic face. The new ruling coalition was constructed with the overt support of strong military-bureaucratic intervention. Factions led by Thaksin supporters who had successfully, if cynically, mobilized rural interests and the poor were forcefully excluded by administrative and military action.

Clearly, the attempt to create a self-regulating party structure that would operate through the protection of formal dominant economic interests had failed, and our analysis can suggest why the attempt may have been premature. It is too early to tell how long it will take Thailand to reorganize a viable version of competitive clientelism that can incorporate the currently excluded interests so that overt and repeated bureaucratic-military intervention is not necessary. The broad features of the evolution of the political settlement in contemporary Thailand are summarized in Figure 1 and discussed in the subsequent sections. The reader should also refer to Figure 6 in the Appendix summarizing some of our earlier work on changing characteristics of growth and governance in Thailand.
From the 1932 Revolution which ended absolute monarchy till the uprising of 1973, Thai politics was dominated by military-bureaucratic factions and the conflicts between them. In the critical period of the 1960s and 1970s, following Sarit’s coup of 1957, the ruling coalition in Thailand was a vulnerable authoritarian one in terms of Erreur! Source du renvoi introuvable. It was vulnerable because powerful factions within the Thai military and sometimes individuals close to the monarchy were dissatisfied with their relative position or were excluded from the coalition. In addition, Thailand faced a communist insurgency that was used by the ruling coalition to justify clamping down and suppressing demands coming from lower down the social ladder. Emerging leaderships of peasant movements, trade unions and students were repressed, occasionally with violence, and potentially powerful factions were thereby systematically excluded.

Nevertheless, the ruling coalition never acquired the cohesive characteristics of a developmental coalition. This was primarily because the army itself was factionalized and competing generals were building their economic power bases by allying with particular businessmen from a very early stage. In the 1960s, Thai business interests had low technological capabilities, being mostly based in trading and light manufacturing. In addition, because most capitalists were of Chinese origin, they were relatively weak in their bargaining power with the military factions running the country. In terms of Erreur! Source du renvoi introuvable., Thai business at the time could be characterized as located in between the two bottom row boxes: having moderate to low technological capabilities (but probably high entrepreneurial capabilities!) and with very limited holding power. But while business interests had little autonomous bargaining power, networks emerged from the earliest days with military-bureaucratic factions who exchanged favours and contracts for kickbacks on terms determined by the military-bureaucratic elites running the country (Riggs 1966).
The factions within the army and bureaucracy meant that the generals and bureaucrats did not act like a coherent developmental ruling group. Significant potential opposition from excluded groups like peasants, students and the small but growing numbers of capitalists and the middle class meant that the leadership could not afford to take on the generals too. The tradition in Thailand since the 1930s was for generals to freely participate in business contracts, get appointed to boards of companies and generally take any kickbacks they could negotiate on their own. Coups were frequent. Sarit’s coup in 1957 was one of many before and after. While Sarit’s period of rule till 1963 was one of relative coherence, subsequent military-led ruling coalitions were more vulnerable and less able to impose discipline within the coalition. In particular, generals and bureaucrats increasingly had their own business clients (Phongpaichit and Baker 1997: 244-322).

These characteristics of the political settlement of the 1960s and early 1970s can help to explain the institutional performance and rents that we observe over this period. On the negative side, it explains why despite much talk of developmental priorities and the apparent existence of an authoritarian state, there were no moves towards the type of industrial policy observed in South Korea or Taiwan. Industrial policy institutions based on conditional and selective assistance and technology acquisition would have been difficult to impose as any capitalist was likely to be the client of a powerful general. Disciplining a particular capitalist by any central authority on grounds of non-performance or selecting a particular capitalist on the grounds of technological capability would have faced high internal transition costs in the political settlement described. Although capitalists were weakly organized and did not have significant network power of their own to have blocked the effective implementation of industrial policy institutions, the ruling coalition was not appropriate for a low transition cost introduction or implementation of effective industrial policy.

However, the political settlement was very conducive for some types of formal and informal institutions that were significantly growth-enhancing in the context of very limited industrialization. Primitive accumulation that significantly enhanced the capital base of emerging capitalists required the granting of favourable government contracts for construction, imports and exports, and the organization of grey trade in areas like logging. With a political settlement that excluded significant outsiders challenging the allocation of these rents, and weak lower level clients (the emerging business interests), the ruling coalition had clear opportunities and strong incentives to expand and encourage the entry of new businesses. It helped that the ruling coalition was not so vulnerable that it took an excessively short term view. Relatively long-term relationships were set up with emerging businesses, encouraging both sides to invest in productive relationships. For businesses this made sense because they needed to generate income to sustain their relationships with power groups. For the generals, allowing productive investments by their clients enhanced their long-term interests. Thus, the informal ‘institutional arrangements’ through which primitive accumulation was organized were effectively enforced and introduced at low transition cost. The growth-stability trade-off for formal and informal institutions supporting accumulation was very favourable.

Another formal institution during this period was the introduction and operation of import-substituting industrialization policy. This too faced little political resistance
and was effectively implemented. This is consistent with the relevant characteristics of the political settlement during this period. As long as import substitution was general and the strategy allowed any businessman with connections to enter and operate, there was little opposition. If basic import substitution had attempted to move further into a more disciplined technology acquisition strategy, our understanding of the political settlement suggests there would have been potentially high transition costs of moving in that direction.

A general feature of the authoritarian political settlement in Thailand is that entry by individual capitalists was relatively easy provided they could pay for informal protection and support offered by the ruling coalition. This feature became even more pronounced as the loose authoritarianism of the 1960s merged into a more systematic competitive clientelism in the 1970s. The ease of entry of potential capitalists into the processes enabling primitive accumulation and providing startup support meant that early growth was very rapid. This helped to accelerate Thailand’s growth into manufacturing from the mid-1950s, and particularly in the 1960s. By the mid-1970s a significant industrial base had emerged based around light manufacturing. As we summarized in an earlier paper and now reproduce in Figure 6 in our Appendix, the rents that drove growth in Thailand during this early period (shown in the first row) were associated with the informal organization of rapid primitive accumulation. The political settlement of this period helps to explain why the institutional arrangements responsible for these rents were easy to create and rapidly expand, and also why more effective industrial policy did not emerge.

Summary
The 1960s and 1970s were characterized by an authoritarian clientelist settlement with moderately capable but politically weak productive entrepreneurs. The characteristics of this political settlement made it easy to introduce formal and informal institutions that enabled rapid growth through primitive accumulation and the introduction of relatively simple manufacturing technologies. The introduction of institutions with developmental characteristics faced adverse growth-stability trade-offs. More interestingly, the political settlement was undermined by the growth of factionalism within the ruling coalition and the emergence of powerful coalitions outside.

Competitive Clientelism: Mid-1970s to 2001
In 1968, a worried monarch responding to growing social tensions pressed the military to legalize political parties and organize limited elections. In 1969, tightly controlled elections were held, which a party set up by the military won. However, dissent was growing, and with it the strength of social coalitions outside the ruling coalition. Mass student-led protests and then bloody repression in 1973 were followed by an intensification of the Communist insurgency in rural areas. In this context, the pressure for ‘democracy’ led the already factionalized military junta to come apart with generals identifying with rival parties and businessmen choosing their patrons. A gradual transition to competitive clientelism began. The 1975 elections marked the transition to a party-based organization of factions, with the Democrat Party winning the largest number of seats. It failed to form a coalition big enough to form the government, and in any case a coup in 1976 further delayed the transition. The constitution was re-written in 1978 to enable a strong military role in parliament, allowing serving military and bureaucratic personnel to serve as Prime Ministers or in
the Cabinet. With these adjustments, Thailand embarked on a long period of parliamentary rule from 1979 till the short-lived coup of 1991-2 (Phongpaichit and Baker 1997: 323-66). Following the brief coup, which was overturned by massive street protests, parliamentary rule re-emerged till the shock of the 1997 crisis began to significantly change the political settlement once again.

The characteristics of this emergent competitive clientelist political settlement that are relevant for us were the following. First, the ruling coalition no longer tried either to include within it all possible factions with the power to inflict high costs, nor exclude them permanently by force or constitutional arrangements. Rather, the characteristic of competitive clientelism is that the ruling coalition is one of many possible permutations, and the particular coalition emerges through a competitive process both of coalition formation and electoral selection. Each coalition is formed out of lower level factions, as we have described earlier. Stability emerges in this system from an understanding between factions that the ruling faction will make money, but other factions are free to organize and even to woo coalitions within the ruling coalition to improve their chances of winning the next selection game. As long as insiders do not try to block the chances of outsiders too significantly, competitive clientelism can provide tolerable stability through the use of informal power and rent generation for a sequential selection of powerful groups.

In terms of Erreur ! Source du renvoi introuvable., any particular ruling coalition will face significant excluded coalitions who are always mobilizing support to gain enough holding power to win the next elections. The excluded coalitions are not necessarily engaging in excessive violence or inflicting serious costs as long as the implicit rules of the game are adhered to. The ruling coalition also faces strong lower level factions within because the ruling coalition is now dependent on buying in a significant number of lower level factions to form an electoral block that can rule. As a result, the higher levels are continuously engaged in negotiations with lower factions to keep them in the bigger coalition, given that the opposition is always trying to woo away significant factions. This structural feature of competitive clientelism increases the bargaining power of lower level factions and further limits the ability of the ruling group to enforce discipline within itself, even compared to weak authoritarianism. The power of lower level factions also has a tendency to increase over repeated rounds of coalition formation over a number of election cycles. The competition for coalition formation can induce the entry of a greater number of ambitious faction leaders at the local level, increasing the bargaining strength of existing factions and enabling small factions to extract holdup payoffs for joining the winning coalition.

The specific feature of Thai competitive clientelism was, however, the growing strength of business interests. Even during the authoritarian period, business was becoming economically stronger and politically more confident. With the onset of competitive clientelism, the resources big business could deploy became very important for setting up winning coalitions. Lower level factions were increasingly dependent on business support. Thailand did not have strong intermediate classes providing leadership to factions because it did not have a colonial history where these classes were created for colonial political management. This helped Thai business to initially establish its dominance over factions rather easily. Initially, the consolidation of competitive clientelism strengthened the presence of business in politics. Prior to
1969, lawyers and bureaucrats had dominated in the Assembly. But after 1969, the share of business in the Assembly rose rapidly to around one half of the seats. By the 1980s, just under half the Cabinet consisted of businessmen, with the share reaching over 70 per cent in the late 1980s (Phongpaichit and Baker 1997: Tables 10.1 and 10.2). The businessmen in question were not all big businessmen, and there was a growing entry of provincial business interests into politics. Nevertheless, at the higher levels, Thailand was becoming increasingly sophisticated in its industrial structure, as we have described in earlier papers (Khan 2008, 2009b). The organizational structure of business interests was therefore one of moderate to high capability business closely linked to particular factions, the top left hand square in Erreur ! Source du renvoi introuvable.

This combination of characteristics imply some specific features of the clientelist political settlement that are relevant for understanding Thailand’s economic performance in the 1980s. The free-entry rent seeking that favoured business interests already characterized Thailand’s political economy and continued despite the more open political system because of the dominance of business interests in the organization of factional politics. It was relatively difficult for oligopolistic interests to convert themselves into monopolistic ones as entry could not be prevented for already existing and powerfully networked competitors. It was equally difficult for ruling coalitions to expropriate capitalists or to seriously restrict their rent seeking. This also meant that significant industrial policy initiatives would remain difficult.

Despite the dominance of capitalist interests and a political system in which they had considerable voice, the structure of competitive clientelism, and paradoxically the very dominance of capitalist interests in the organization of factions meant that it was very unlikely that capitalists could be disciplined by institutions that provided conditional rents. The potential growth-stability trade-off faced by institutions supporting learning strategies remained very adverse. A partial exception to this was probably the long-running premiership of General Prem Tinsulanond, from 1980 to 1988. Prem’s governments included significant numbers of businessmen, but his strong roots in the army (he was an unelected premier) and his reliance on technocrats gave his government a somewhat more developmental character than the others. He was less worried about opposing factions as he had the capability to repeatedly construct a ruling coalition, and he was therefore more able to contain his own clients and those of others. The limited industrial policy experiments that we see in Thailand in the 1980s, summarized in Figure 6, happen mostly during his tenure (Doner and Ramsay 2000; Rock 2000; Khan 2008).

Thailand’s economic performance in the 1980s was also assisted by strong bureaucratic capabilities in sectors like the central bank and the Ministry of Finance. The dominance of capitalist interests in competitive factions helped to ensure that factional polices did not invade these technocratic spaces as the consequences for capitalists in the ruling coalition as well as effective opposition factions would be significant. This ensured that rent seeking did not initially result in fiscal irresponsibility. However, as factions became increasingly driven by provincial and lower-level business interests in the 1990s, these characteristics of relative probity changed. Big business became increasingly unrestrained by factional competition because opposition factions were no longer driven by productive business interests.
The characteristics that ensured that the Thai political settlement had significant growth-enhancing characteristics began to be slowly undermined by both domestic and international factors. At home, the growth of provincial interests meant a growing factionalization of politics and the displacement of big capitalist interests within the factions. This weakened the hold of big capitalist interests on factions, and made parties more interested in rent creation for rural elites and emerging provincial businessmen. This weakened the technocrats and industrial policies moved further down the list of priorities. The second and equally important trend was globalization and the Japanese entry into South East Asia which brought unprecedented volumes of foreign capital into Thailand in the late 1980s. The ruling coalition now had an easy option for supporting growth: make Thailand attractive to foreign investors and forget about the difficult task of developing domestic technological capabilities. As the institutional changes which made Thailand more accessible for foreign capital did not challenge any of the rents that new powerful interests in the political settlement were reliant on, the introduction of these changes faced no significant stability trade-off. The changes in rent strategies in the late 1980s are also summarized in Figure 6.

However, while the introduction of institutional changes that enabled the entry of foreign capital was relatively easy, the creation of institutions that could appropriately manage these capital flows was not. With inflating capital values, stock markets and property prices, it would have been difficult for any regime to introduce effective institutions to keep track of what was real and what was a bubble. For competitive clientelism it was even more difficult. The economic implications of the 1997 crash have been discussed in an earlier paper (Khan 2008). We now turn to the significant implications of the 1997 crash on the political settlement in Thailand.

**Summary**

The competitive clientelism of the mid-1970s to the late 1990s was characterized by a competitive clientelist ruling coalition and technologically sophisticated and politically powerful entrepreneurs. Free entry into manufacturing was accelerated with the growth of relatively sophisticated manufacturing capabilities. For a while, developmental industrial policy initiatives were also attempted by a ruling coalition in the 1980s with some developmental characteristics. However, industrial policy initiatives generally faced adverse growth-stability trade-offs and poor implementation. The competitive clientelist settlement was undermined by the growth of rural business-led coalitions which had adverse effects on the efficiency of formal technocratic institutions. The financial crisis of 1997 fatally undermined the political arrangements underpinning the competitive clientelist settlement.

**The ‘Unproductive’ Dominant Party: 2001-2008**

The rise of Thaksin and the constitutional crisis that eventually engulfed Thailand is a complex story (Phongpaichit and Baker 2009). We will focus only on the broad outlines and the way they affected the political settlement. The crisis of 1997 was an important turning point in a number of ways. The crash destroyed the confidence of the Thai business class in globalization and created a nationalist demand to protect domestic industry. The frustration of domestic capitalists became particularly intense after the Democrat Party agreed to accept western advice coming from the IMF and other bodies that transferred significant Thai assets into the hands of foreigners at very low prices. At the same time, the crash brought to a head long simmering discontent and mobilization by the increasingly assertive and self-confident middle
classes for constitutional reform that would see out ‘money politics’. A broad social
movement that had forced parliament to allow the drafting of a constitution by
consultation had produced a document that was initially opposed by most in the
establishment as impossibly radical. But the collapse of confidence in the entire
political system in 1997 enabled the new constitution to be rapidly adopted.

The constitution deliberately sought to create a modern political system where strong
parties would contest on manifestos. It tried to reduce the weight of clientelist
provincial interests by introducing a number of seats to be allocated by party lists. It
tried to reduce competitive clientelist lobbying by increasing the power of the Prime
Minister over the party, for instance by stipulating that when ministers resigned, they
would lose their parliamentary seat, making ministers more likely to stay with the
party. The Prime Minister could call an election with forty five days notice, but a
candidate had to be a member of a party for ninety days to stand for election. This was
to reduce the threat of defections. A number of independent bodies were also created
to check and balance political representatives. However, the framers of the
constitution did not understand that constitutional rules cannot change the
fundamentally clientelist nature of a political settlement. Ironically, these
constitutional rules helped to create a dominant party that was in many respects worse
for the middle class framers of the constitution and for many of the capitalists who
initially supported Thaksin’s party than the competitive clientelism that it replaced.

Thaksin was a well-connected businessman who had dabbled in many things without
making any significant money. His fortune changed in the early 1990s when he
managed to get the concession for a mobile service and a paging service from the
Telephone Organization of Thailand (TOT). In a couple of years he was a baht
billionaire, riding on the mobile boom that took his net worth through the roof
(Phongpaichit and Baker 2009: 25-61). When Thaksin set up the Thai Rak Thai Party
in 1998, his agenda was strongly influenced by the crisis. He spoke of the need to
protect Thailand’s competitiveness, respond to the aggressive behaviour of global
competitors, and to have business values and attitudes replace bureaucratic ones in the
running of the country. This struck a chord with both the middle classes who saw the
old bureaucratic polity as a cause of the economic mismanagement for which the
whole society was paying a price as well as the stricken Thai businesses looking for
support and salvation on a scale that the IMF would not recommend. As an intuitive
politician, Thaksin also recognized that a focus on big business would not sell and so
his rhetoric turned rapidly to the small entrepreneur and the farmer. A rural uplift
programme based on debt relief, spending programmes and the 30-baht health cover
plan emerged.

The 2001 elections were a combination of new manifesto politics combined with old-
style faction building. Thaksin showed that he understood how to do both, creating a
winning combination. His party won 248 out of 500 seats but this soon ballooned into
a massive majority as a number of smaller parties merged into the Thai Rak Thai. By
2002 he controlled 364 seats. This, combined with the powers the constitution gave
the Prime Minister converted Thaksin into a presidential style leader of a massive
patron-client coalition. In terms of our classification of organizations of the ruling
coalition in Erreur ! Source du renvoi introuvable., this was a moderately strong
dominant party. The excluded factions had little power, but Thaksin had bought in
many factions into his grand coalition and insider factions did have significant bargaining power. This proved to be significant as we shall see.

The organization of business interests during this period is interesting and paradoxical. Initially, business interests were keen to see a businessman in charge of the country at a point of crisis. In his first term, there were attempts made to revitalize the economy and even to define feasible industrial policy. Indeed, many business interests were close to factions within the dominant coalition. Economic growth sharply increased as a result of Keynesian spending programmes focused on rural spending. The budget deficit did not grow and actually began to shrink as growth picked up because the initial spending was financed by borrowing the vast underused deposits of banks that had stopped lending.

More interestingly, Thaksin started talking about developmental interventions to develop the competitiveness and capabilities of Thai business. Some preparatory actions were taken. The US consultant Michael Porter was paid a million dollars to identify sectors and policies for Thailand to develop competitive niches. By mid-2002 he had identified five unsurprising sectors: tourism, fashion, food, computer graphics and automobiles. Porter provided general and sometimes contradictory recommendations like more openness and an end to ‘business connections with government’ but also micro-level support for specific sectors and firms. He also recommended a free trade agreement with the US without explaining how this might affect industrial policy interventions.

In the end, the experience of the government with the bailouts organized by the Thailand Asset Management Corporation (TAMC) showed why industrial policy would almost certainly not have worked without a reorganization of political arrangements. These limited experiments in the direction of industrial policy were critical for Thailand and the early compromises were possibly a lost opportunity. The experience may even have dampened any interest on the part of the leadership to proceed in this direction. The TAMC was set up by Thaksin to assist the recovery from crisis by taking up bad loans from banks and to lend to priority sectors. But the immediate lending of state banks and of the TAMC showed the enormous power of factions within the ruling coalition. Phongpaichit and Baker (2009: 112) provide examples of several big businessmen who received billions of bahts of loans and debt forgiveness for dubious business ventures when they were clearly not short of money given their lavish spending on buying golf courses and other activities that were simultaneously going on. The explanation was that these individuals were connected to powerful factions that were part of the new ruling coalition.

Thus, the ruling coalition attempted to implement its industrial policy by engaging in significant compromises with powerful factions within the dominant party from the very outset. In terms of Erreur ! Source du renvoi introuvable., the compromise strategy with powerful factions led to the easy implementation of aspects of the policy (the bailout) because this faced virtually no resistance from any powerful group. However, the growth implications were limited. The bailouts prevented some enterprises going under. But unlike early industrial policy where the allocation of resources to powerful businessmen at least creates new capacity, in the case of bailouts the growth effects were more limited. But more seriously, the compromise strategy had serious negative implication for the future of industrial policy. The
recognition of factional power within the party amounted to a significant worsening of the trade-off facing potential industrial policy interventions in the way suggested in *Erreur ! Source du renvoi introuvable.*

Given the electoral strength of the dominant party, a more confrontational but incremental strategy of implementation as in *Erreur ! Source du renvoi introuvable* may have resulted in less significant progress at first, but may have enabled incremental improvements over time. In practice this would have meant a more limited programme of support to particular enterprises with conditions that were enforced even at the cost of some conflict. Whether the leadership turned away from industrial policy options as a result of its negative experiences with bailouts, we do not know. But had the Thai Rak Thai party proceeded with industrial policy, it would have had to address possible internal conflicts given the evidence we have about the operation of its internal patron-client structures. Thaksin would have had to take on some factions politically, which would have meant slower incremental progress, or risk poor enforcement and outcomes.

As it turned out, Thaksin’s response was two-fold. First, his own appropriation strategies involving his close family and friends became more open and intense. It could be that he was so hopelessly venal that the acceleration of unproductive rent appropriation by his family would have happened anyway. But if a developmental strategy was not possible because of the internal structure of the party, becoming the biggest of a gang of profiteers also made sense. Secondly, economic nationalism and industrial policy was quietly dropped and replaced with a more populist support for the poor, for rural interests and the small businessman combined with a growing openness to foreign capital as a way of sustaining growth.

By the time of the second election of 2005, Thaksin had re-invented himself and his party. He was no longer the business leader of Thailand Inc., but a champion of the small farmer and the poor and an enemy of the ‘influential figures’ in the old bureaucratic polity. He used his powers to pack his supporters in key positions in the bureaucracy and the army, bought in rural power brokers on a massive scale and offered them a winning formula they could not refuse. The Party would continue to build its appeal to the poor with its rural spending and cheap health programmes. Rural faction leaders belonging to the party therefore had a high chance of winning and a very low chance if they stayed out. The ruling coalition was now virtually free of any constraint from either the bureaucratic caste or business, and could create significant rents through their control over the political process. Given the absence of strong internal party discipline which is a prerequisite for creating productive rents, the ruling coalition was likely to create and capture unproductive rents based on government construction contracts (like the new airport) or asset sales. The ultimate losers were the middle classes, but paradoxically they had little voice under a dominant party with a huge parliamentary majority.

The outcome was the most crushing single-party victory in Thailand’s political history. In the 2005 elections Thai Rak Thai won 377 out of 500 seats, and it looked like this was going to be the beginning of a long period of rule. In terms of the political settlement, the second election definitively established that the organizations of big capitalists were now largely excluded from power. The factions organized by Thaksin relied on rural organizers and some provincial small capitalist interests, and
some business interests closely linked to his network. Excluded businesses lost access. So did the urban middle class. The combination of a dominant party with relatively high capability capitalists who were effectively politically excluded was both new and unexpected. The introduction of formal and informal institutions that squeezed business and middle class interests now faced little resistance. Tax collection from business and middle classes was tightened to finance the new populist schemes in the countryside. Rents were created in government contracts that made infrastructure expensive for business. Any possibility of industrial policy was off the agenda. The growth-stability trade-off suddenly became very adverse for growth-enhancing institutional changes, though Keynesian expansion combined with a return of foreign investment was sustaining overall growth. It is in this context that the last row in Figure 6 makes sense.

Despite Thaksin’s nationalist origins, growth in the 2000s was increasingly based on foreign investors, while domestic capital and the middle classes faced worsening institutional conditions. And despite the hopes of the framers of the 1997 constitution, Thailand was not only still a clientelist polity, the dominant party system provided a significantly worse method of constructing the ruling coalition given the particular configuration of power that had emerged. The growth-stability trade-off was now worse, on top of the repression felt by the middle classes and the economic squeeze that they feared would get worse over time.

Summary
The dominant party period of the 2000s under Thaksin was one of a single party ruling coalition based on rural factions to the exclusion of most factions based on business interests. High capability Thai capitalists unexpectedly found themselves politically excluded, as did the middle class. The organization of the ruling coalition and the exclusion of business interests implied a significant worsening of the growth-stability trade-off. Damaging institutional interventions were introduced with little resistance. The ruling coalition engaged created damaging rents for itself and yet maintained massive popularity at the polls. It could only be unseated with significant bureaucratic-military intervention supported by the middle classes, a possibility the middle class framers of the 1997 constitution had probably never envisaged.

The Backlash: Authoritarianism with a Democratic Face 2008
The middle class backlash began with a successful mobilization against Thaksin’s many acts of corruption and misuse of power. Thaksin’s tax evasion in a multi-billion dollar sale of his stake in Shin Corp. (whose major asset was the mobile company) to Temasek Holdings of Singapore provoked a concerted public protest. Knowing he would win again, Thaksin called elections in February 2006. The opposition boycotted the polls and though Thaksin won unopposed parliament could not be called because of a technicality. The constitution requires a candidate to win at least 20 per cent of the registered votes and as Thaksin was weak in the South, parliament could not be called because of a number of unfilled seats. In September 2006 in the face of a growing middle class mobilization against Thaksin, the army staged a coup. In May 2007, the Thai Rak Thai party was legally dissolved. However, the coup-makers and the middle class did not have an answer to the basic problem that the party was simply a coalition of factions and these factions still had a winning strategy.
In late 2007 the factions that Thaksin had put together took over a small party called the People’s Power Party (PPP) to contest the upcoming elections. Despite the absence of Thaksin, who was in exile, the PPP won the biggest number of seats and was just 8 short of an absolute majority. It formed a government with other parties. A new round of mobilizations by the urban middle class began. The middle class opposition appealed to the monarch, distinguished themselves as ‘yellow shirts’ (the royal colour) and began increasingly violent civil disobedience movements against the ‘red shirts’ of Thaksin. In a series of moves that verged on both the farcical and the dangerous, the middle class, supported by the army and a resurgent bureaucracy struck back to remove the PPP by any means available. This included removing the sitting Prime Minister for appearing on a television cooking programme and accepting trivial expenses and working behind the scenes to prevent action against increasingly costly occupations of airports and government offices by the yellow shirts that brought the economy to its knees without any response from the law enforcement agencies. A series of court cases also found key Thaksin associates, Thaksin himself and his wife guilty of various tax evasion cases, and finally the PPP itself was dissolved while it was ruling as the governing party on the grounds that several of its MPs had engaged in electoral fraud.

The remaining MPs in parliament were corralled under the Democrat Party to form a government in December 2008 under the likeable Oxford educated Abhisit Vijajey. Despite the external facade, this was clearly a ruling coalition set up and supported by powerful interests in the army and bureaucracy. They in turn were acting with the support of the resurgent and increasingly class-conscious middle classes appealing to the monarch to save ‘the country’. Although the Democrat Party is hardly an authoritarian party, the ruling coalition has features of the authoritarian model in [*Erreur! Source du renvoi introuvable.*]. Powerful coalitions were excluded by administrative and legal means, backed by the threat of force. This is unlikely to be a sustainable situation. Unlike the 1960s, the excluded factions in the rural areas and the urban poor are not likely to remain quiescent for very long. There are also powerful organizers who have tasted power and rents and it is a question of time before they begin to assert themselves.

The growth-stability trade-off facing specific institutions during this transition period is not likely to remain relevant for long. Excluded business groups are likely to have increased their access to political power but it is not clear to what extent. The real challenge facing Thailand’s polity is how it will respond to accommodate the now powerful excluded factions mobilizing the rural poor, provincial elites and other groups that Thaksin so successfully mobilized. If business and middle class led political factions can incorporate them, a new variant of competitive clientelism could begin to emerge where rents will have to be created for a new and significant block of informal power. If the middle class and business interests attempt to keep this block out by force, Thailand could face more serious crises of adjustments in the future. The relevant feature of this experience of general interest is that it demonstrates the importance of understanding developing country politics from the perspective of clientelist political settlements. Political reform has to be embedded in the resolution of distributive conflicts based on informal power, and different mechanisms of addressing these problems have very different growth implications. The Thaksin experiment showed that an electorally unassailable ruling coalition can be constructed in a clientelist political settlement that has seriously adverse implications for growth.
Summary
The 2008 ‘victory’ of the Democrat Party was effectively a return to a version of an authoritarian ruling coalition because powerful coalitions were excluded by military-bureaucratic interventions. In the context of an empowered rural factional structure and expectations of the poor, the sustainability of this ruling coalition is questionable. In the meantime, some of the more adverse informal institutional arrangements for rent capture by the ruling coalition were reversed. The growth-stability trade-off is less adverse for the operation of the institutional arrangements of competitive entry for high capability firms compared to the dominant party period. But the political settlement is vulnerable to the emergence of new conflicts as powerful factions were excluded by administrative mechanisms.

2. Maharashtra: From Dominant Party to Competitive Clientelism
Maharashtra’s strong position in manufacturing in India has a history that goes back to the development of the Bombay textile industry in the mid-nineteenth century (Khan 2008). The location of much of early industrial production in Bombay (later called Mumbai) meant that Maharashtra acquired at a very early stage the biggest concentration of industrial capitalists from all over India. This created a relatively sophisticated capitalist class in the state that was soon closely networked into the factional structures of the Congress Party even before independence in 1947. But it also created tensions with the indigenous Marathi speaking population who were not well-represented amongst the industrial capitalists. For a time, the Congress dominant party system managed to square this circle by combining a successful factional strategy that gave it the rural vote while remaining responsive to and strongly supportive of politically powerful urban capitalist interests. But by the late 1980s the dominant party ruling coalition began to fall apart. Tensions had begun to grow much earlier with the growing mobilization of groups who were excluded by the Congress factional compromises. But now opposition parties like the BJP and Shiv Sena began to capitalize on and organize the excluded groups, making significant gains in the 1989 elections. In 1995 Congress lost the state Assembly elections and in 1996 the Lok Sabha (national assembly) elections, marking the end of the dominant party system. Though Congress eventually made a comeback, the Maharashtrian political system is now much more fragmented, with coalitions and alliances of parties ruling in a competitive clientelist structure.

To a large extent the collapse of the dominant party ruling coalition in Maharashtra mirrors the fate of the Congress as a dominant party across India. The exponential growth in the organizational power of excluded groups across India from the 1960s onwards created strains that the Congress dominant party structure could not accommodate. From the end of Indira Gandhi’s Emergency which saw Congress lose power at the centre for the first time in 1977, the dominant party structure was effectively over, and variants of competitive clientelism begin to emerge both at the centre and in most states in India. However, the class origins and organization of the excluded groups differ significantly across India, as does the political strength and capabilities of the capitalist classes. In terms of our classification of characteristics of the political settlement, Maharashtra moved from a dominant party system with technologically advanced and politically well-connected capitalists to a competitive clientelist system where the capitalists retained their political power and access.
Unlike Thailand, in Maharashtra competitive clientelism achieved a less favourable political settlement from the perspective of growth compared to the possibilities under the Congress dominant party system. This shows once again the non-linear relationships between institutional and political settlement variables. The difference emerges because in Maharashtra capitalists were politically powerful and had close access to the ruling coalitions in both the dominant party and the competitive clientelist periods. But in the former, the longer time horizon of political leaders allowed both sides to follow informal rules of resource allocation that were more conducive for long-term investments. With the advent of competitive clientelism the business relationships with politicians were more difficult to convert into informal but long-term arrangements of mutual support and this resulted in less favourable institutional arrangements from the perspective of growth. The changes in the political settlement and the implications for institutional efficiency and growth-stability trade-offs closely coincide with the changes in the rents affecting the productive sector in Maharashtra. The broad features of the evolution of the political settlement in Maharashtra are summarized in Figure 2 and discussed in subsequent sections. Readers should also refer to Figure 7 in the Appendix reproduced from Khan (2008).

### MAHARASHTRA

<table>
<thead>
<tr>
<th>CHARACTERISTICS OF POLITICAL SETTLEMENT</th>
<th>BROAD FEATURES OF INSTITUTIONS AND GROWTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Congress Dominant Party System with moderate capability / powerful capitalists: 1947-1980s</td>
<td>Institutions support rapid extensive growth in manufacturing and partial implementation of industrial policy</td>
</tr>
<tr>
<td>Competitive Clientelism with moderate to-high-capability / powerful capitalists: 1990-</td>
<td>Effectiveness of support for long-term investments decline but pockets of high growth are sustained</td>
</tr>
</tbody>
</table>

Figure 2 Evolution of Political Settlement in Contemporary Maharashtra


The Indian National Congress was organized as an inclusive party to fight for Indian independence. Its aim was to include all relevant factions within one umbrella such that the excluded were not significant for the maintenance of political stability or the achievement of economic goals. The strategy of inclusion was never perfect and indeed failed to satisfy many significant minorities, most importantly the Muslims who lived in Muslim-minority provinces of India. The growing discontent of these factions was organized in the Muslim League, which originally operated as a group within the Congress. The demand for Pakistan came from Muslim political elites in central and western India where Muslims were a minority. In particular, Jinnah used the demand for Pakistan as a bargaining tool to try and achieve a guarantee of federalism which he believed would ensure that Muslims all over India could exercise significant voice in an independent India (Jalal 1985: 258). When Nehru and the Congress Party failed to reach an agreement with Jinnah along these lines, and particularly after Nehru rejected the Cabinet Mission Plan proposal for a federal structure for India in 1946, Pakistan suddenly became inevitable. After this
catastrophic and possibly avoidable failure of inclusion, Congress was nevertheless able to recover its inclusive strategy in post-independence India.

The trauma of partition probably made Congress much more sensitive to the costs of ignoring demands of factional leaders mobilizing significant constituencies on grounds of exclusion. As early as the 1950s, Nehru gave in to demands for a linguistic reorganization of Indian states even though initially he had been reluctant to concede linguistic identities on the grounds that this would create competing identities. Nevertheless, once the principle was conceded, the unwieldy bilingual state of Bombay, the successor of the even bigger Bombay Presidency of the British, became an obvious target for reorganization. The northern Gujarati speaking part was poorer but Gujarati traders and businessmen were more advanced and entrenched in Bombay city compared to those from the southern Marathi speaking part of the state which claimed Bombay as its own. Indeed, Bombay as one of the earliest hubs of capitalist development in India was home to businesses from all over India, with a significant presence of Parsis and Marwaris in the business community and working people from virtually everywhere. But Marathi business was relatively much less developed.

Given the significant gap between the sources of economic and political power in the state, Congress was remarkably successful in constructing a strategy of incorporating the Marathi intermediate classes in its political structure. This allowed Congress to continue as the dominant party after Maharashtra emerged as a linguistic state on 1st May 1960. Its strategy was helped by the caste composition of the Marathi population, which had a significant intermediate caste that Congress successfully targeted as its organizational constituency. Congress remained the dominant party in Bombay and then Maharashtra from 1947 till the late 1980s, with a brief spell out of power after Indira’s Emergency ended in Congress defeats between 1978 and 1980. By the late 1980s powerful factions had been organized outside the Congress Party who posed credible threats to Congress rule. The dominant party system was clearly coming to an end.

The salience of caste in Indian politics is that political organizers from a particular caste find it easier and cheaper (in terms of the rents it is necessary to deliver) to organize people of their own caste. If the caste structure is itself very fragmented, it makes the organization of factions somewhat more difficult in terms of transaction costs. In the 1930s, before the advent of electoral politics, the Congress Party in Bombay-Maharashtra, as in many parts of India was dominated by the tiny Brahmin caste. In modern Maharashtra, Brahmins are barely four percent of the population. But by the mid-1930s as electoral politics began, the Congress had to find a leadership that could organize and mobilize potential voters. The next rung of the caste hierarchy in Maharashtra consists of an agrarian intermediate caste called the Marathas (not to be confused with Marathi as a language) and the slightly lower-status but closely related Kunbis. The Maratha-Kunbi group alone accounts for over 30 per cent of the population. With such a significant intermediate class group that could serve as organizers and faction leaders, it was obvious where Congress would have to focus to construct its factions for a dominant party. In addition, the most famous Maratha in history was Shivaji, the seventeenth century warrior who fought against the Mughal Empire in Delhi and asserted for a while the dream of Maratha supremacy across India. The Marathas were therefore the obvious social group to provide Congress its faction leaders (Palshikar and Deshpande 1999).
By wooing leaders from the Maratha-Kunbi caste, Congress built up a class of faction leaders who could potentially deliver the ‘bahujan samaj’ or ordinary folk (though the term often excludes dalits as a special category). The faction-building strategy was particularly successful because the Congress also had access to significant informal funds that it could use for the informal distribution networks on which patron-client factions are based. These funds came from the organization of sugar cooperatives in the state from the 1950s onwards (Banerjee, et al. 2001; Roy 2010). Maharashtra is India’s biggest sugar producing state, producing about a third of the national output, and over 90 per cent of this comes from the cooperatives. These were set up to help small producers, who were previously captive to local private monopsonies as there are significant scale economies in sugar crushing and refining and sugarcane needs to be crushed soon after harvest. The cooperatives were set up to be monopsonies that were controlled by small farmers and would in theory offer the best prices.

However, as we would expect, those with the greatest organizational power in the local economy end up controlling the cooperatives. The people who control the cooperatives turn out to be the intermediate class Maratha organizers on whose capabilities Congress began to depend. Control over the cooperatives provided significant sources of rents for the organizers as long as they received informal institutional support from the ruling coalition. Support from the ruling coalition was necessary because the cooperatives were tightly regulated by government. With this support, the cooperative leadership could first set a purchase price of cane at a low enough level to leave large implicit rents remain in their hands. The buying price was a bargaining game between the leadership and small farmer members. There were limits to how low the price could be set because the leadership also required recognition as leaders. But the price would not be so high that no rents existed.

A further source of rents comes from the fact that the cooperatives raise their working capital from the state’s district cooperative banks. The ruling coalition controls these banks and some senior politicians sit on their boards. Repayment of loans is traditionally not very good because of the many uses that are made of cooperative funds. By 2007, of the 182 sugar cooperative factories, nearly 40 percent were losing money and finding it difficult to service their loans (Kaur 2007). However, with good political connections cooperatives can keep going. The sugar cooperative leaders were expected to use these rents both to satisfy themselves as well as to deliver significant vote banks that ensured Congress victories in the countryside, and therefore political power in the state as a whole. This created strong incentives for loyalty to the Congress and created a stable ruling coalition as long as the coalitions excluded by these arrangements remained weak.

Not only were the financial rents from the cooperatives used to fund the personal and political ambitions of cooperative leaders, the capital equipment of cooperatives like cars and trucks were openly used in election campaigns. Between the 1960s and 1980s, one sugar factory (cooperative) provided 200 trucks, 100 cars and various other vehicles for the election campaign of the local Congress MP (Sirsikar 1995: 121). The Congress Party would also have access to the manpower of the cooperatives during election campaigns with all the costs being covered by the cooperative (Sirsikar 1995: 86). In addition, the fact that the leaders of the cooperative supported or were standing for election on Congress tickets made it very unlikely that too many
of the thousands of small farmers in a cooperative and their families would vote any other way. Most of the leading Congress Party leaders of the time including Sharad Pawar and Vasandada Patil were closely associated with the sugar cooperatives. Just one of the cooperatives controlled by Sharad Pawar, the Malegaon Sugar Factory, has ten thousand member families, with the typical factory having twenty thousand (Roy 2010). Congress rule in Maharashtra appeared to be impregnable.

The construction of this successful dominant party ruling coalition based on caste and sugar rents had a different outcome in Maharashtra compared to Thailand’s dominant party experience because the well-established capitalists of Maharashtra continued to maintain strong links to the heart of political power. Here, the political stability that the Congress enjoyed allowed long-term relationships to be developed between individual Congress politicians and big capitalists in Mumbai. This was a continuation of a long tradition in Bombay Presidency politics where politicians provided licenses and favours to capitalists and in exchange capitalists kicked back benefits over time. As long as the relationship was a long-term one and capitalists were under no pressure to kickback large amounts immediately, the informal relationships were potentially and in many cases actually very productive. They allowed capitalists to engage in long-term investments and provided politicians with growing assets to call upon in the future. These features of the political settlement in Maharashtra can explain the dynamism it enjoyed in industrial growth all through the 1950s to the late 1980s. The major rent allocations that were consistent with that growth are summarized in the first two rows of Figure 7 in our Appendix.

The long term informal relationships between politicians and businessmen were more important than the formal structure of licensing in explaining Maharashtra’s much greater success in industrial growth from 1950 to 1980. The allocation of formal licenses was in fact guided by informal processes within the licensing system, and Maharashtrian business was much more successful in getting more than their share of India’s industrial development licenses during the license raj period (Khan 2008). The political settlement in Maharashtra can explain why formal institutions worked so effectively in Maharashtra’s favour during this period. The informal exercise of power that allowed Maharashtrian business to get these formal rents was an important, if hidden, part of the story. Perhaps even more interestingly, the long-term informal relationships that were possible in Maharashtra because of its political settlement allowed business to plan long term. Big business houses like Ambani and Bajaj had close links with politicians but could take long-term investment decisions because their relationships with their politician networks were themselves long-term. Moreover, as we outlined in Khan (2008), big business benefited enormously from the clustering and supply chains that were made possible by the strong intervention of bodies like the Maharashtra Industrial Development Corporation (MIDC) that made available high quality land and infrastructure for industrial clusters to develop.

These characteristics of the political settlement can explain why a number of critical formal and informal institutions worked in growth-enhancing ways in Maharashtra from the 1950s right to the 1980s. These institutions provided significant investment opportunities to established capitalists and facilitated clustering and other linkages through land acquisition and infrastructure provision. Their implementation was not threatening the distributive interests of any powerful coalition, and indeed could further the mutual interests of dominant capitalists and politicians. We would
therefore expect their implementation to be relatively efficient and that they would face very flat growth-stability trade-off curves. However, moving beyond resource provision and the facilitation of investment to active industrial policy was not likely with this political settlement given the adverse growth-stability trade-offs such interventions would be likely to face. The very networks that worked to facilitate licensing and land acquisition would stand in the way of effective disciplining.

This is one reason why the failure of the industrial policy regime in India is often misunderstood. The introduction of industrial policy was from the beginning undertaken with the active participation of capitalists. Indeed the Bombay Plan published in 1944 by seven leading Indian industrialists outlined the initial strategy of state support that they envisaged would assist India to industrialize. The close networks of Indian capitalists with politicians and bureaucrats ensured that the introduction of the capacity development and investment aspects of industrial planning would be relatively easy, but if the state ever attempted to enforce discipline the growth-stability trade-off could become very adverse. The characteristics of the political settlement would ensure that many politicians would assist in blocking the implementation of discipline on the particular capitalists who happened to be their allies.

Once again, Error! Source du renvoi introuvable. can help to explain the relative success of the expansionist aspects of industrial policy because the implementation of this part of industrial policy compromised with and indeed was driven by the interests of powerful capitalists. Yet, these very compromises ensured that the transition costs facing institutions attempting to discipline and ensure productivity growth would be very high. In Maharashtra, the political settlement was particularly conducive for the accumulation and expansion aspects of industrial policy. Its political settlement enabled the state to benefit the most from the national licensing policy. The fact that some of its capitalists were significantly sophisticated meant that in some pockets Maharashtra would eventually achieve global competitiveness. But the disciplining aspects of industrial policy were not attempted in Maharashtra or indeed anywhere else in India.

Summary
The relatively effective implementation of the formal and informal interventions that supported growth in Maharashtra till the late 1980s (summarized in Figure 7) are explained by the characteristics of its political settlement. Both during the licensing period and afterwards, till the late 1980s, Maharashtra had a political settlement where a dominant party coalition enjoyed stability because of the way in which the ruling coalition was constructed. In addition, the political power and access to particular politicians enjoyed by a sophisticated and organized capitalist class based around Mumbai ensured that growth-enhancing institutions were possible and would be in the interests of the ruling coalition. The political settlement explains why the formal and informal institutional arrangements supporting extensive growth were delivered at little cost in terms of political stability and were well-enforced.

The Rise of Competitive Clientelism 1990-
The stability of the dominant party was undermined by economic and demographic changes that altered the distribution of power between classes and groups in Maharashtrian society. This then allowed excluded political factions to enhance their
organizational power by mobilizing and organizing these excluded groups. The sugar cooperatives did not do much for the overall poverty of Maharashtra’s agriculture and absolute poverty in the state remained worse than the national average in the 1980s despite its overall wealth due to its industrial and service sectors (Khan 2008). The Maratha caste itself was becoming increasingly divided and those who were not directly benefiting from Congress rent strategies were looking for other organizations to support. Below the Marathas, other castes became restive, known collectively as Other Backward Castes (OBCs) and below them the Dalits as well. The pull of so many different forces and organizations demanding inclusion could not be accommodated by the Congress system.

In the 1970s Indira Gandhi precipitated the decline of the ruling dominant party coalition by attacking the mainstream Maratha hold over the state Congress Party. As in other parts of India, her strategy in Maharashtra was to support factions (in this case the marginal Maratha leader S.B. Chavan) against powerful factions (Y.B. Chavan and sugar cooperative bosses like Vasantdada Patil) (Palshikar and Deshpande 1999). This was partly because the growing voices of the excluded were getting stronger, partly because Indira wanted to be the arbiter of state-level conflicts in the fashion of older divide and rule strategies. In the end, the growing confusion across India led to the Emergency of 1975-77. After that, the Maharashtra Congress split and the government from 1978 to 1980 was led by Congress defectors including Sharad Pawar. When Indira Gandhi returned in 1980 she dismissed the state government and imposed her own non-Maratha loyalists. As the Maratha coalition split, other castes and social mobilizations entered the social fray.

The coming together of two Hindu fundamentalist forces, the Bharatiya Janata Party (BJP) and the Shiv Sena (SS) provided the strongest challenge to the Congress because these two parties appealed to very different Hindu constituencies. The BJP appealed to the upper castes and the more educated middle class voters, many urban, who were dissatisfied with the corruption of Congress and who also wanted a Hindu cultural and political revival. The SS in contrast appealed to a much lower group of social discontent, ranging from disgruntled lower-level Marathas and Kunbis, the OBC urban poor, the urban unemployed and even gangsters and the underworld. This was a new kind of politics that openly combined violence and gangsterism, and generated rents from activities like slum clearance. It openly used a demonization of Muslims to mobilize Hindus, but was also against Dalits because many were Buddhists (Katzenstein, et al. 1997). It also openly celebrated violence and proudly declared, for instance, that it had orchestrated the January 1993 anti-Muslim riots in Mumbai which created 200,000 internally displaced people (Lele 1995).

The combination of the two forces created a significant challenge for Congress in the late 1980s. Its hold was now based on a fine balance of factional forces and could be upset by relatively small re-allocations of factional support or voting choices of electors. The 1995 state assembly elections and the 1996 national Lok Sabha elections were both won by the BJP-SS coalition. While Congress came back in 1998, it was a different, coalition-dependent Congress. The political settlement acquired and has retained all the characteristics of the competitive clientelism described in Error! Source du renvoi introuvable.. Capitalists have retained their political capabilities and now operate through factions in different parties, instead of the same one. While
this may appear not to have changed things very fundamentally, it has actually had some important effects.

Neither capitalists nor their political allies can afford any longer to take very long-term bets. The result is that business-government relationships are now less about long-term investments in industry and more likely to be about urban property development or the allocation of infrastructure construction contracts where rents and kickbacks are rapidly achieved. The gradual shift of sectoral specialization in Maharashtra towards a much greater emphasis on services happens exactly in the 1990s. This could partly be because the institutional structures required for assisting productivity growth and technology acquisition in industry were in any case weak. But in addition, the long-term informal arrangements backing investment strategies that were possible under the dominant party political settlement now lack credibility. If Maharashtra’s politics remains fragmented and competitive this may have important implications for its ability to sustain historical patterns of industrial growth without significant changes in its institutional structure that are effective in the new political settlement.

Summary
The social and economic changes that led to a growth of organizational capabilities outside the ruling coalition could not be accommodated by the Congress Party. Its failure to move rapidly enough allowed its competitors, particularly in Hindu fundamentalist parties, to make big inroads into Maharashtrian politics. The political settlement changed to one of a ruling coalition that faces competitive clientelism. The political power of capitalists in Maharashtra and their technological sophistication remained constant or even increased. Nevertheless, the new political settlement made unworkable many of the informal arrangements through which industrial capital operated in Maharashtra. The effectiveness of these institutional arrangements declined, and short-term rent appropriation became easier and more attractive. The growth-stability trade-off became relatively adverse, enabling damaging rents to be more easily created, while the informal institutions that supported growth have become more difficult to sustain.

3. West Bengal: The Limits of a Progressive Dominant Party
The partition of India had traumatic effects on West Bengal and Bangladesh as Bengal was partitioned (along with Punjab). At that time, Bengal was ranked equal to the Bombay Presidency in terms of industrial development. But partition had deep and lasting effects not only on trade and inter-sectoral links, but also on class and organizational evolution whose political effects are still unfolding. Initially, West Bengal appeared to have come out better because it inherited Calcutta (now Kolkata) and the industrial base around it. Bangladesh was entirely an agricultural hinterland. But fifty years later, West Bengal had dropped down the state list in India in terms of industrial development to near the bottom of the big states and its per capita income in 2010 is barely above that of Bangladesh. The political settlement as it developed in West Bengal has a role to play in explaining its relative decline, and partition has a role in understanding its evolution.

Congress failed to construct a dominant party coalition in Bengal, either before or after partition. One reason for this was that unlike Maharashtra, the intermediate
classes in Bengal did not belong to a single coherent Hindu caste which could be mobilized to organize political stability. The majority of the Bengal peasantry, including the rich peasantry, had converted to Islam. Islamic influences in Bengal are noted from the tenth century, but significant numbers of Muslims are only referred to from the sixteenth. The first British census in Bengal in 1872 established the presence of a Muslim majority in Bengal, but concentrated in the East (Eaton 1993: 113-34). The growth of intermediate class peasant mobilizations in Bengal in the early twentieth century involved in the main the Muslim East, where agrarian Bengal was concentrated. The Hindu intermediate castes were, of course, also mobilized. But unlike Maharashtra, the Hindu intermediate castes were themselves fragmented. While some of these intermediate castes had significant numbers in particular districts, no particular Hindu intermediate caste had significant numbers across the province as a whole. Moreover, and again unlike Maharashtra, castes below the intermediate were well-organized in Bengal, and fragmented into different groups. These were the Scheduled Castes, the equivalent of the dalits in Maharashtra (Chatterjee 1997: 69-80).

The organization of an inclusive dominant coalition of intermediate class organizers which were split up in these complex ways did not add up to an acceptable equation within the Congress Party. Given the fragmentation of the Hindu intermediate castes and the overall Muslim majority, the equivalent of a Maratha base would have put Muslims in a dominant position within the Congress. Unlike the Marathas who were antagonistic to Brahmin dominance in the Maharashtra Congress, Hindu Bengali intermediate castes were willing to work under the leadership of upper castes in the Bengal Congress. The Muslims apparently were not and the Muslim political leadership of Bengal exited from the Congress as early as the 1920s. Paradoxically, this further strengthened the Hindu upper caste control of the Congress because they were now dominant in the numerous East Bengal districts even though without the Muslim intermediate class faction leaders Congress had little effective power in these districts (Chatterjee 1997: 79).

The departing Muslim intermediate class leadership did not initiate separatist or religious political parties. Their secular Krishok Proja (or Peasants) Party represented typical middle and rich peasant interests (against the zamindari landlords in the first instance) and provided a platform for organizers from the Muslim intermediate classes to organize their own upward mobility (Umar 1980a, 1980b; Rahman and Azad 1990; Hashmi 1994). The Muslim rich peasants were not interested in separatism or partition because in the limited democracy that was allowed after 1935, their electoral advantage allowed their party, the Krishok Proja Party to form governments in Bengal. The partition of Bengal in 1947 was largely the result of all-India events and the failure of negotiations between the Congress and the Muslim League. The latter mostly represented Muslims in the Muslim-minority provinces of India. Nehru’s failure to continue negotiations on the basis of the Cabinet Mission Plan, the final federal deal that could have averted partition, resulted in a panic within the League. At that critical juncture, the absence in Bengal of an inclusive organization incorporating powerful organizers from both communities had a significant role to play in allowing the panic and rioting to go out of control in 1946. In the violence that followed, partition briefly became a desirable outcome, but one with many negative long-term ramifications.
The departure of the Muslim intermediate classes in 1947 should have left West Bengal with a simpler task of organizing a ruling coalition. But this was not the case. Constructing a dominant party in a clientelist political settlement requires some mechanism for identifying a limited number of organizationally powerful leaders who are able to effectively organize political stability. Too few and political stability becomes problematic. Too many and the coalition has insufficient rents to distribute and starts to break up. Moreover, for a stable dominant party, the excluded faction leaders must be unable to organize enough power to threaten the ruling coalition. Congress found it much more difficult in West Bengal (compared to Maharashtra) to construct a dominant party with a clearly defined group of insider leaders who could provide it with even a few decades of stability. A number of features of the class and caste organization of West Bengal can help to explain this.

First, caste and class did not map very neatly in Bengal. If the upper caste Hindus (less than ten per cent of the population) had been closely associated with a landlord identity, the rich peasant intermediate castes could have united against them to form a dominant ruling coalition. The economics of landlordism had disappeared anyway, but the upper castes, certainly in the important conurbation of Kolkata, did not even have a landlord identity. They were typically educated professionals and administrators, the proverbial bhadrolok or gentrified Bengali. Hindu upper caste faction leaders in Bengal, unlike most other places in India, provided effective and legitimate leadership to all types of movements, including anti-landlord movements representing intermediate class or working class interests. But the loss of East Bengal paradoxically weakened the upper caste leadership of Congress as their strength was based on their control of the defunct Congress organizations in the East.

Secondly, the complex mix of upper and intermediate castes that had organizational power in West Bengal did not provide clear markers about how to identify the dominant insiders and outsiders in the ruling coalition. Even competitive clientelism requires the identification of two or more factional ‘tribes’ who can each try to cobble together viable ruling coalitions. These markers did not exist in the chaos following partition so the selection of insiders and the resources they could demand required much negotiation. These features of caste and class help to explain why the West Bengal Congress found it so difficult to construct a stable dominant party. It also explains why caste politics never played the same role in defining ruling coalitions in West Bengal as it did in most other Indian states.

On the other hand, the departure of the Krishok Proja Party and the Muslim League meant that most factional organizers were now affiliated to the Congress so only a Congress government was likely. Secondly, the weakening of the Kolkata-based upper caste Congress leadership (as a result of the loss of their power base in the East) allowed rich peasant leaderships in West Bengal districts (with mixed caste leadership) to assert themselves. The result was a period of intense faction fighting through which a distribution of power and rents was achieved within the Congress and allowed it to operate for a while as a weak dominant party. These internal compromises were not based on caste, ideological or other markers and were therefore necessarily vulnerable to constant renegotiation. Congress continued to operate as a weak dominant party ruling coalition in West Bengal till the mid-1970s. Towards the end it was collapsing into competitive clientelism and a brief attempt at authoritarianism under Indira’s Emergency finally destroyed the Congress hold on
power. In 1977 a new dominant party, the Communist Party (Marxist) or CPM, emerged. This was a new phenomenon: a progressive dominant party voted in again and again for more than three decades.

Throughout this period, the political power of big capitalists remained weak and declined over time, in contrast to Maharashtra. As in Maharashtra, the dominant big capitalists in West Bengal were not ethnically from the state. But in Maharashtra capitalists initially had long-term relationships with Congress politicians and the latter typically played an important role in the national Congress party. This was not the case in West Bengal. Congress politicians in Bengal did not have a significant presence at the centre, and were in any case too busy keeping a weak coalition together. Long-term relationships between Congress politicians and business houses were therefore less in evidence compared to Maharashtra. With the advent of the CPM, with its focus on an agrarian constituency, the access of business to political power declined further. This aspect of the political settlement meant that the dominant party system in West Bengal was much less successful in developing long-term informal relationships with business. The broad features of the evolution of the political settlement in West Bengal are summarized in Figure 3 and discussed in subsequent sections. Readers should also refer to Figure 8 in the Appendix reproduced from Khan (2008) which summarizes aspects of governance and rents linked to the evolution of the political settlement.

<table>
<thead>
<tr>
<th>WEST BENGAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CHARACTERISTICS OF POLITICAL SETTLEMENT</strong></td>
</tr>
<tr>
<td>Weak Congress Dominant Party with moderate capability / weak capitalists: 1947-1970s</td>
</tr>
<tr>
<td>Strong Dominant Party Left Front Coalition with moderate-to-high capability / weak capitalists: 1977-</td>
</tr>
<tr>
<td><strong>BROAD FEATURES OF INSTITUTIONS AND GROWTH</strong></td>
</tr>
<tr>
<td>Weak support for accumulation and limited benefits from industrial policy</td>
</tr>
<tr>
<td>Weak institutional support for industry and de-industrialization. Rapid agricultural growth. CPM turn to industrialization in 2000s blocked by high transition costs</td>
</tr>
</tbody>
</table>

**Figure 3 Evolution of Political Settlement in Contemporary West Bengal**


It took skilled Congress tacticians like Atulya Ghosh several years of horse-trading, bargaining and reorganizing the party internally to achieve a modicum of stability as a dominant party by 1949. The distribution of power between factions had radically changed with the partition of the province, new expectations and mobilizations had emerged and the province was faced with the economic and political incorporation of a mass of Hindu refugees from East Pakistan. Although there were obviously incidents of violence against Muslims in West Bengal, post-partition violence was significantly less than in Indian Punjab. As a result there was no wholesale migration of Bengali Muslims to Pakistan on the scale seen in western India. Indeed, the significant population transfers to East Pakistan came from Bihar and other Indian states further to the west. The Hindu Bengali bhodrolok had voted to partition Bengal because they could not envisage living under the political rule of the intermediate
classes of the East (Chatterji 1995). But their subsequent actions show that they did not harbour any deeper resentment of the Muslims and they certainly did not attempt to carry out any ethnic cleansing.

Congress’s immediate problem was to accommodate the large numbers of Hindu migrants from the East who left because they felt threatened by the fact that Pakistan was emerging as an Islamic Republic. The hold on power of emerging Congress leaders was relatively weak because the new coalitions within the Congress were not very stable. A further problem was that the Bengal Congress had been treated with suspicion by the centre, and particularly by Nehru and Gandhi, ever since their conflict with Subhas Chandra Bose in the 1930s. There were few senior Bengal Congress politicians who were close to the centre in the early days. From the perspective of Bengal’s Congress politicians in these early days, nurturing and developing long-term relationships with business interests was not their immediate priority. The internal weakness of the Congress coalitions is demonstrated by the collapse of these arrangements by the late 1960s and the emergence of open competition between competing factions along the lines of competitive clientelism.

From the perspective of big businesses, which were mostly run by non-Bengalis, local Congress politicians appeared to be too weak and not very influential at the centre. Big business focused their efforts on achieving direct links with central politicians but already began to feel distant from the mechanisms of state-level power. Interestingly, the smaller-scale Bengali capitalist class was also slow to develop and was not significantly assisted by state policies. The West Bengal Industrial Development Corporation, the WBIDC (unlike its equivalent the MIDC in Maharashtra) was not backed by Congress politicians to promote industrial zones and encourage the clustering of small businesses which the big business houses could draw on.

The contrast with the dominant Congress coalition in Maharashtra is therefore significant. In Maharashtra, Congress discovered a stable winning formula based on caste and sugar rents to sustain a dominant coalition in power through the 1960s and 1970s. This left Congress politicians free to pursue longer term interests, nurture long-term relationships with businessmen (which already existed) and use institutions like the MIDC to further enhance the profitability of business and their own long-term access to rents. In West Bengal, Congress also cobbled together a dominant party coalition but it was not based on a neat arrangement. The internal arrangements were more fluid, based on shifting allocations of different types of rents to different rural coalitions. Factional leaders did not have the long-term security to develop long-term relationships with business (Bengali or otherwise) and there was therefore no motivation to use collective political authority to develop local capitalism using institutions like the WBIDC.

This combination of characteristics of the political settlement can explain why West Bengal politicians did not try to or did not actually succeed in aggressively getting licenses for businesses based in the state. Throughout the 1950s and 1960s, West Bengal got around half the industrial licenses that went to Maharashtra, despite both states having equally big industrial bases in 1947 (Khan 2008). The ruling coalition was not only too weak to achieve any significant industrial policy interventions, it was too weak relative to the central government and too weakly connected with local business to have a credible strategy of enhancing state-level accumulation. They
failed to get a fair share of implicit central government subsidies attached to industrial licenses. They also showed little interest in developing formal or informal institutions to accelerate the development of a Bengali capitalist class.

Congress dominance in West Bengal collapsed a decade before it did in Maharashtra. It was precipitated by the growing inability of Congress to respond to rural poverty and the growing violence coming from the Naxal uprising. In 1967 Congress was defeated by a United Front which included the CPM and a breakaway faction of the Congress called the Bangla Congress which represented middle peasant interests. But this loose coalition collapsed in 1970. Another loose coalition of some of the same parties again collapsed in 1971. The 1972 elections brought the Congress back to power in an election that was widely felt to have been extensively rigged. Naxal violence continued to escalate and Indira Gandhi’s Emergency in 1975 was a last authoritarian attempt to preserve Congress rule. It marked a symbolic turning point in West Bengal. The 1977 elections saw a resounding victory for the CPM-led Left Front. Congress would be out of power for at least the next three decades and even after the Left Front started weakening in 2010, the Congress on its own is nowhere close to having the support necessary to form a government again.

Summary
The Congress dominant party system from 1947 till its final collapse in the 1970s was internally weak, weakly connected to the centre and weakly connected to business interests. It could not influence the informal institutional arrangements through which industrial licenses were allocated by the centre. The growth-stability trade-off was adverse in the sense that if the state leadership pushed big business interests through formal institutions they would very likely confront opposition from internal factions desperate to capture rents for their own survival, and would possibly have to confront powerful interests in central government who were allocating licenses to their clients in other states. Big business did not invest much in building long-term relationships with local Congress politicians either, and were already looking elsewhere for their long-term locational decisions.

The CPM: A Progressive Dominant Party 1977-
The CPM represents a number of paradoxes that are relevant for understanding the political settlement during its long tenure. It was a Communist Party with an ideological commitment to revolution that was repeatedly voted in by election. Despite its significant electoral mandate it did not try very hard to change the distribution of assets or power in ways that could be described as revolutionary. Yet, with rather limited implementation of land reform legislation and the registration of sharecroppers, it appeared to get the undying loyalty of the poor for over three decades. It operated what appeared to be a modern disciplined party machine in a social context where power and personal relationships were dominant organizational forces. It is the last that is of greatest significance for us, and understanding this paradox a little better can help to shed light on the other questions.

These paradoxes can be understood by recognizing that at its grassroots level the CPM could not be acting in a way that was entirely contrary to the requirements of operating in a clientelist political settlement. Its party organizers mobilized power by organizing supporters at the village level in the same way as other faction leaders would do. They also used this power to act in ways that informally changed the way
formal institutions operated, or to enforce formal institutions (such as land ceiling legislation) better using this informal power. The use of power as an instrument to create and capture rents for organizers and supporters is of course the typical characteristic of a political organization in a clientelist political settlement. The CPM shared all of these characteristics with any other party operating in such a context.

But there were significant differences as well. Ideology matters and the ideological label that the CPM used to distinguish its ruling coalition from others was initially very useful in creating a dominant party coalition that was big enough to rule (and with enough support to keep winning elections), but not so big that all potential organizers could join. Its ideology also determined its primary clients and this was important in empowering large sections of the poor as clients who benefited from the protection and mobilization that CPM cadres offered. By incorporating a significant chunk of rural middle caste and bhodrolok organizers into a single party, the CPM achieved significant political stability and was more successful in countering violence against the poor and against minorities than most other Indian states. However, its huge base in rural middle-peasant organizers also limited its economic strategies in a negative way, and we will turn to this problem later. And finally, the CPM was also a disciplined and modern party machine that combined very modern aspects of organization with an ability to penetrate and operate in rural power structures. It was this combination of modernity with a ‘traditional’ ability to play rural power games that gave the CPM incredible longevity as a progressive dominant party structure.

In his detailed analysis of the operation of the CPM in the Burdwan district of West Bengal in the late 1960s and early 1970s, Ruud (1994) provides many examples of the ways in which the party combined aspects of the informal organization of power in what we describe as a clientelist political settlement with new elements of Marxist ideology and modern party organization. The party’s cadres or core organizers were obviously from the socially powerful intermediate classes as only these individuals had the organizational capabilities, education and indeed the free time and resources to invest in political and organizational activity. Party organizers in this case had their close followers but they also appealed to a broader category of the poor to become clients and provide significant organizational power to the faction. The poor would benefit because the party could deploy power to solve their legal and formal institutional problems. For instance, if the faction could deploy hundreds of peasants armed with sticks, the organization could be used to gherao (surround) landlords who were not complying with existing laws recognizing sharecropper rights or land ceilings. The organization could also be used to gherao police officers who were refusing to enforce the formal law.

These and other examples demonstrate how at the grass-root level the party mobilized informal power primarily to resolve conflicts in favour of supporters and often to enforce formal laws when its clients were adversely affected. Its appeal to the poorer peasants who were mobilized was that belonging to this faction would offer them greater protection as well as rents through the marginally better enforcement of formal laws, or through the resolution of their conflicts in ways advantageous to party supporters. In a general context of poorly defined rights, there was plenty of scope for that. It was the deployment of informal power in these ways rather than changing formal laws or rights that provided the party with its support. The details of Marxist theory also mattered little, except that the overall thrust of policy was to organize the
poorer to protect them against the richer. But this did not necessarily stop horizontal conflicts frequently being resolved in favour of party supporters. The operation of the party as an effective organizer of power can help to explain why its policies were not revolutionary and yet attracted a large factional loyalty from the poor for so long.

What is missing from Ruud’s story is what the organizers and faction leaders got from the party. Some were no doubt motivated by a social conscience and a core of supporters came from the party’s revolutionary and idealistic past. But the party also rapidly grew in the context of the election victories of 1967 and 1971. For instance, from 1968 to 1969, party membership more than doubled from around 10,000 to 23,000 (Ruud 1994: 366). As older party cadres pointed out about the new members, their general education, let alone knowledge of the principles of Marxism, was often very poor. Many of the new people joining were themselves organizers and we can assume they hoped to get something by joining the new winning faction. Initially, this is likely to have been exactly what all factional organizers hope to achieve: social power and prestige, and an ability to resolve conflicts including their own on terms that give organizers access to rents. Over time, the success of the CPM was also based for a time on agrarian strategies that gave middle and rich peasants opportunities for agrarian growth through better access to fertilizers, rural infrastructure and credit.

The party also had distinctive characteristics which should not be ignored. Its ideology was appealing for many. It also introduced higher levels of discipline and inner-party democracy, which were both appealing and effective. In election campaigns, its ability to mobilize large numbers of cadres and general supporters in a disciplined way no doubt contributed to some of its success (Chatterjee 1997: 137-82). But neither should these aspects of the party be exaggerated. The structure of the party relevant for its day to day operation was highly decentralized. Party units in different villages and regions effectively operated as locally based factions addressing very local problems and using locally mobilized power.

However, aspects of the ‘modern’ organization of the CPM can help to explain why a significant block of intermediate class organizers could be organized in this way when the Congress had so signally failed. The Congress lacked any principle, caste or otherwise for defining who were the insiders. In the absence of a principle, the number of permutations of factions and the distribution of rents between them become difficult to manage. Congress could have organized a party appropriate for a competitive clientelist context, but it failed to sustain a dominant party in West Bengal. In contrast, the CPM defined a set of principles that initially attracted a relatively small number of organizers. As they proved enormously successful in mobilizing the poor to deliver effective rents from protection and conflict resolution, they became an electoral force. New organizers flooded in, and here the modern organizational structure of the party and its hierarchical discipline served to create a natural and legitimate mechanism of limiting the number of faction leaders. Newcomers had to wait their turn to rise through the party ranks. The anarchic entry and squabbling typical of more open parties was less in evidence. By then, a successful electoral strategy and a large number of effective faction leaders created a sustainable and effective dominant party ruling coalition in alliance with the Left Front partners of the party.
The overall strategy proved to be enormously successful in constructing a dominant party coalition that was unprecedented in its longevity. There were some other features of the social context that probably helped as well. The CPM did not just assist party supporters and the poor to address local problems using local informal power. This was perhaps the most important part of the party’s everyday presence but not the full story. In a land scarce poor agriculture, where the poor have no self-respect, the party gave a sense of belonging, for a time at least, to a large number of people. After 1977, its formal policies of limited enforcement of land redistribution and sharecropper registration did make a difference at the margin to poorer sections of the rural population. However, as we summarized in an earlier paper (Khan 2008), the effect on poverty reduction was small and certainly not revolutionary. The more significant effect of the CPM’s strategy was to direct resources to middle and rich peasants. This strategy drove high levels of agrarian growth for over a decade beginning in the 1980s.

The CPM faced several problems over time. It was effectively a dominant party in a clientelist settlement and so over time, many aspiring and entrepreneurial organizers felt excluded or blocked in their progress. The method of exclusion was subtle and based on the formal organizational structure of the party. Nevertheless, over time, ambitious organizers found it was less attractive to join the party and more hopeful to stay outside and organize against it. It is important that even at the height of its successes, the Left Front’s vote share was always around fifty per cent. The first past the post system ensured this was enough to define a dominant coalition, but relatively small declines in voting support could equally have disproportionately large effects. When the tide started turning against the CPM in the late 2000s after the crises at Nandigram and Singur, a seven percent drop in the vote share for the Left Front in the 2009 general elections translated into its Lok Sabha seats dropping from 35 (out of 42) to only fifteen.

The second and more significant problem was the effect on capitalist access to political power. The organization of a factional structure that was largely focused on a rural constituency meant that big business’s access to political power was now even more constrained. Moreover, the combination of a left-leaning ideology which led to a formal support for trade union rights and the fact that big business in West Bengal was largely non-Bengali constrained the open support that the CPM could offer big business. Nevertheless, in private long-term relationships did develop, but it was mostly used for solving labour disputes rather than positively assisting business to accelerate accumulation or develop into new areas. The high capability big business sector was less powerful in West Bengal than before, and this had significant implications for the strategic choices made by both sides, and the types of formal and informal institutions that the Left Front could introduce and enforce.

The growth-stability trade-off facing formal or informal institutions affecting the modern industrial sector therefore became significantly more adverse. Ironically, this was most damaging for the CPM itself. In the 2000s, its agrarian strategy ran out of steam and the party decided to promote industrialization. A series of miscalculations in its formal and informal interventions in land acquisitions for big industry led to a significant decline in stability and undermined the government. We described these governance crises in detail in Khan (2009a). The constitution of the political settlement explains why the growth-stability trade-off was so adverse. It also suggests
that the CPM’s own analysis of the situation did not warn it about the nature of the political settlement it was operating in and the likely effects of its overt institutional interventions. It appeared to have underestimated both the strength of the opposition factions that were now ranged against it and the ease with which they could inflict transition costs when the CPM appeared to be attempting the enforcement of institutions that hurt some of its own core constituents.

With hindsight, it is easy to say that much longer preparation was required to build and justify the political links with business and to involve its core factional base in constructing formal and informal institutions that would have enabled core organizers to share the gains from industrialization. Sadly, the signs of discontent were there for some time and the party ignored them at its peril. Whether an electoral recovery can still be staged remains to be seen. If not, the configuration of parties suggests that some variant of competitive clientelism will emerge in West Bengal. This would be a loss for West Bengal because the dominant party structure with its discipline and commitment to growth could have created a political settlement that was conducive to some variants of industrial policy. This would have required a pro-active relationship with business and would have required satisfying the core organizers of the CPM through new formal or informal arrangements for sharing the benefits of industrialization. The fact that big business was not well connected to political power in West Bengal may actually have helped in the imposition of conditions, for instance for backward linkages to an emerging Bengali small business sector in exchange for strong state support and implicit subsidies.

**Summary**

The dominant coalition constructed by the CPM with its Left Front allies was a stable dominant party ruling coalition. Despite its appeal to Marxist ideology and modern party organization, it was essentially an extremely successful factional coalition operating in a clientelist political settlement, with a progressive ideology and some positive effects for the poor. Its real constituency was its rural intermediate class organizers and its economic strategies most benefited this group. However, a characteristic of the political settlement was that powerful business interests were not linked into the ruling coalition. This did not have any effect on the implementation of the CPM’s successful agrarian strategies, but when the party turned to an industrial strategy without adequately preparing its internal factions and constructing alternative informal distributions of benefits, it ran into serious trouble. Opposition factions took advantage of the disarray within the party when it attempted to enforce its pro-business land acquisition strategies. The result was not only a failure in the implementation of these institutions, but also a significant worsening of stability and of the Left Front’s electoral prospects.

**4. Bangladesh: From Authoritarian Rule to Competitive Clientelism**

Bangladesh was carved out as East Pakistan, when Bengal was partitioned in 1947. Unlike West Bengal which was significantly industrialized, East Bengal was almost entirely an agrarian economy growing rice and jute. In the 1960s after very limited industrialization had been achieved, another set of violent confrontations between incumbent and emergent elites in Pakistan culminated in 1971 in the separation of East Pakistan as Bangladesh. This was followed by more violence, an attempted imposition of a one-party state, the assassinations of two heads of state, periods of
military rule and finally the emergence of a competitive clientelism that faces occasional crises when parties refuse to accept (often with good reason) the organization or results of elections. Nevertheless, despite its apparently dysfunctional governance, Bangladesh has emerged in recent years as a relatively high-growth developing country with a significant base in manufacturing based on the garments and textile industries. With so many dramatic changes, its political settlement has also been changing rapidly over time.

The political settlement evolved in four main phases, each with implications for institutional performance relevant for growth and stability. The first phase, from 1958 to 1971, during the Pakistan period, was an authoritarian political settlement. The two wings of Pakistan shared little in common and had not engaged in a common struggle to achieve Pakistan. Pakistan was the outcome of a failure that primarily involved Nehru and Jinnah, neither of whom came from the territories that became Pakistan. Nevertheless, once Pakistan was created, the elites of the East and West had to find a way of sharing power and rents to live together. They tried for a decade and failed. The outcome in 1958 was a military government that engaged in formal and informal interventions to sustain a vulnerable authoritarian rule. Nevertheless, it was during this phase that Pakistan’s industrial policy was most effective, with significant industrialization, mostly in the West, but some in the East as well.

The growth-stability trade-off was relatively favourable for extensive growth through industrial policy. As in India, emerging capitalists were well connected to factions, this time within the authoritarian state, making disciplining difficult and limiting the prospects of industrial policy. The first phase came to an end because industrial policy created a distribution of benefits between East and West Pakistan that was politically unsustainable. The East’s population was bigger than the West, and when an embattled military government allowed elections in 1970, the East Pakistan based Awami League won a majority of seats in the Pakistan parliament on a programme of radical federalization. Once again, a failure to agree about federalization resulted in a further partition, and again with much violence.

The second phase from 1971 to 1975 was a turbulent and violent one as new elites with significant political and organizational power but few economic assets came to power. The gap between formal rights and informal power was now almost unbridgeable. The result was intense primitive accumulation: the capture of assets using political power. The dominant party that had won the election faced the prospect of political and economic collapse. The growth-stability trade-off was not only adverse; it was worsening to a position where the achievement of the minimum economic and political viability conditions was threatened. Famine struck. The response of the ruling coalition was to amend the constitution to create a one-party state. In terms of our Erreur! Source du renvoi introuvable., the use of administrative measures to define insiders and outsiders gave the ruling coalition authoritarian characteristics. The actual fragmentation of power in Bangladesh at that time was such that an authoritarian state of this type would probably not have lasted very long. But in fact it could not be fully implemented because President Mujib-ur-Rahman was assassinated.

The third phase from 1975 to 1990 was a transitional phase towards full competitive clientelism. This was a form of authoritarianism but with already with some
characteristics of competitive clientelism. Military backed political parties engaged in electoral competition with other parties with no formal restrictions on the latter. In fact, of course, everyone knew that winning these elections was impossible for the opposition because of informal administrative measures. But nevertheless, successive ruling parties were constructed out of factions from other parties, and so engaging in political competition was a way of increasing the price which powerful coalitions could demand for joining the ruling coalition.

This was a period when Bangladesh began to slowly recover from years of conflict. The military rulers and military-backed parties began a slow process of privatization, opening up and encouraging industrialization. The garment sector takeoff began in the late 1970s, with institutional innovations under President Zia-ur-Rahman. The growth-stability trade-off began to improve but growth was still sluggish. The entrepreneurial class was weak in terms of technological capabilities but had access to political power, and this assisted a slow recovery through gradual pro-business interventions. But the political arrangements were unsustainable because excluded factions were growing stronger and would not accept the rules of the game set by clientelist authoritarianism. After a series of intense confrontations, the second military ruler, President Ershad, was forced to step down in 1990 and the period of open competitive clientelism began.

The fourth and final period of competitive clientelism witnessed a steady increase in the growth rate. This was probably because the garment industry, after steadily acquiring capabilities, took off in the mid to late 1980s and became a major foreign currency earner. The growth of this sector has been an important contributor to overall growth. Political competition was organized around two major parties distinguished by very deeply felt differences in the way they defined the ‘nation’. These differences had trivial implications for practical policy issues but allowed the definition of two coalitions big enough to form ruling coalitions. The major political problem was to ensure elections were not manipulated by incumbents to the extent that the excluded faction refused to participate in elections. Business groups became increasingly strong and had influence in and access to both major parties.

The growth-stability trade-off depends on the institutions being examined. For sectors where entrepreneurs had sufficient capabilities to be internationally competitive, the growth-stability trade-off was quite favourable. Institutions that appeared to be dysfunctional were often made to work through informal means and payments. On the other hand, acquiring technological capabilities in new sectors faced significant market failures. Since responding to these market failures typically involves the creation of policy-induced rents, success required the management of productive rents using formal or informal mechanisms. Here, strong connections between capitalists and powerful factions constrained the growth-stability trade-off.

A serious problem facing Bangladesh is that existing political institutions have proved inadequate for constraining the competing parties during elections. An outcome of an election is acceptable if the winner is actually the coalition that can field greater organizational power. But since the incumbent can leverage administrative and policing instruments to tilt the outcome slightly, the result can often be justifiably rejected by the loser if the winner is the incumbent. The attempt to solve this problem through the constitutional mechanism of caretaker governments organizing elections
worked for three successive elections but failed in 2007. The sustainability of the competitive clientelist political settlement requires a solution that credibly ensures the possibility of factions cycling through elections. The broad outlines of the evolution are summarized in Figure 4, and a summary of the evolution of rents examined in earlier work is reproduced in Figure 9 in the Appendix.

<table>
<thead>
<tr>
<th>CHARACTERISTICS OF POLITICAL SETTLEMENT</th>
<th>BROAD FEATURES OF INSTITUTIONS AND GROWTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military Authoritarianism with weak-moderate capability / powerful capitalists: 1958-1971</td>
<td>Rapid extensive growth, limited implementation of industrial policy. Unsustainable regional imbalances</td>
</tr>
<tr>
<td>Dominant Party Authoritarianism with low capability / powerful ‘entrepreneurs’: 1972-1975</td>
<td>Intense Primitive Accumulation with steep collapse of economic and political viability</td>
</tr>
<tr>
<td>Clientelistic Authoritarianism with low to moderate capability / powerful capitalists: 1975-1990</td>
<td>Faction-driven rent-seeking drives growth, MFA rents allow emergence of dynamic garments sector</td>
</tr>
<tr>
<td>Competitive Clientelism with low to moderate capability / powerful capitalists: 1990-</td>
<td>Institutional support for low-technology manufacturing growth, no industrial policy and constrained infrastructure investments</td>
</tr>
</tbody>
</table>

Figure 4 Evolution of Political Settlement in Contemporary Bangladesh

**Military Authoritarianism: 1958-1971**

The deep political and economic crisis in Pakistan at the end of British rule was not accidental. The economic underdevelopment of the region was bad enough but in addition trade links with industrial areas elsewhere in India were severed. The reasons behind the political crisis were even deeper. A constitutional crisis in the newly independent Pakistan was almost inevitable given the way in which the country was created. East Pakistan was poorer and less developed, had virtually no indigenous capitalists, and virtually no senior bureaucrats or army officers. West Pakistan too was underdeveloped compared to more advanced areas of India, but many of the immigrant Muslim businessmen and senior bureaucrats from other parts of India settled in West Pakistan as they were culturally closer to that region. The army too was largely drawn from the Punjab region of West Pakistan.

The irony was that the indigenous elites in neither wing of Pakistan had been strongly behind the idea of Pakistan. The two most important Muslim-majority areas of India were Punjab (whose western part became the heart of West Pakistan) and Bengal (whose eastern part became East Pakistan). The demographic dominance of Muslims in these provinces meant that Muslims already enjoyed substantial power under the electoral system introduced by the British in 1936. They were not supporters of the Muslim League and had generally not been preparing or mobilizing for partition. When partition suddenly took place in 1947 as a result of a last minute failure in negotiations between Jinnah and Nehru, the two main provinces were unprepared for statehood.
The Muslim League was not organizationally strong in either Bengal or Punjab and faced serious problems in trying to cobble together a Pakistani state. However, West Pakistan’s largely Punjabi elites soon discovered they were the dominant group in the new state and this helped many of them to buy into the idea of Pakistan. In contrast, East Pakistan elites remained embroiled in conflicts with the central leadership. As a result of these tensions, the new state of Pakistan faced serious conflicts between elites from the outset and a decade of constitutional discussions failed to resolve formal sharing of power between the two wings.

A central problem was that the relatively poorer and less developed East Pakistan had at that time a bigger population, making it difficult for the economically dominant West Pakistani elites to be assured that they would be able to ensure their political dominance through the electoral system. Even though East Pakistan was relatively underdeveloped compared to the West, its intermediate class political organizers were more organized as it had a longer history of mobilization against colonial rule. Moreover, rich peasants in East Bengal had been in power in the province since the 1936 reforms through parties like the secular Krishok Proja Party. East Bengal’s political organizers could mobilize large numbers of people, possibly more than the political elites in West Pakistan could. These asymmetries in the economic, political and organizational capabilities of the two wings made a constitutional settlement virtually impossible. The military coup of Ayub Khan in 1958 was the result.

The imposition of martial law curtailed the organizational freedom to set up political organizations. At the same time, the military realized that economic growth was vital for the survival of the country and so they fostered strong ‘political’ links with the West Pakistan-based business elites. Rents were now controlled by a dominant coalition consisting of the military-bureaucratic elite and their close business allies. For a while, the threat of force disrupted the ability of excluded organizers to pose a significant threat to the ruling coalition. At the same time control over access to foreign exchange, the exchange rate, interest rates and tariffs and quotas allowed the state to create rents for privileged business elites. The initial effect was not only greater political stability but also a sustained growth spurt that lasted through much of the 1960s. But the location of political power and entrepreneurial capabilities meant that almost all the manufacturing growth was located in West Pakistan.

The military could not rule without some organization of political forces. The major institutional mechanism for purchasing and organizing stability was the so-called Basic Democracy system that Ayub innovated in 1959, one of the first acts of his regime. This attempted to by-pass the established political organizers based in the towns by creating a new constituency of cheaper organizers in the villages. A system of 80,000 ‘basic democrats’ were elected on a non-party basis and they were the electoral college for electing members of parliament. The Basic Democrats also directly elected the President. Authoritarian regimes have often used this tactic of going over the heads of their immediate opponents and appealing to the interests of those below them. The latter initially demand a lower price and the authoritarian leader often believes they will be easier to control. The provision of relatively limited rents to this large army of rural representatives through rural infrastructure construction programmes and Food for Work programmes for a time created a
countervailing source of support for the regime that made it difficult to organize dissent (Sobhan 1968).

In the end, Basic Democracy was self-defeating for the regime. As the rural basic democrats became more confident and ambitious, they saw obvious opportunities in throwing their lot in with the growing dissent in the towns. When this began to happen in the late 1960s, not only did the ‘hot house’ economic development come under threat, the social order was fundamentally challenged as there were no easy ways of incorporating excluded elites into the system quickly enough. Under pressure in both wings of Pakistan, the military government allowed elections in 1970. They did not foresee that the East Pakistan based Awami League would gain an absolute majority in parliament as the East had a majority of seats in the central legislature. This led to an even more serious constitutional crisis as West Pakistan based elites were unwilling to let an East Pakistan party form the government. The last desperate act of the authoritarian regime was a bloody crackdown on political organizers and their intellectual supporters in East Pakistan in March 1971. As the conflict became increasingly bloody, the political settlement collapsed. The civil disobedience intensified and transformed into a war for liberation and independence. Pakistan’s historic enemy India intervened to assist the Bengali struggle for independence and the independent country of Bangladesh was born in 1971.

While it worked, the authoritarian ruling coalition, combined with the significant political access and power of emerging capitalist groups created a feasible political settlement for the rapid imposition of industrial policy. Extensive growth was rapid, as outlined in our earlier paper (Khan 2008). But as in contemporary India with its dominant party coalition, the fact that powerful business groups were strongly networked with particular politicians, and in the case of Pakistan initially with particular bureaucrats or generals, meant that disciplining and resource re-allocation faced very adverse growth-stability trade-offs. The Pakistan experience is particularly interesting because here despite an export-promotion strategy, individual capitalists could still block resource re-allocations away from themselves just as much as in India. This is relevant for an evaluation of Chibber’s (2003) thesis discussed earlier. The experience also challenges the thesis that authoritarian regimes are able to exercise their ‘autonomy’ to implement industrial policy effectively. It also meant that the locus of political power in the West resulted in unsustainable regional imbalances.

The Basic Democrats provided inadequate feedback about the strength of organized resistance building up below. The military government went too far and too fast in pushing accumulation by a small number of capable capitalists. The response to the absence of significant numbers of capitalists in the East who could undertake large-scale investments with state assistance should have been more assistance to the East or a slower pace of change overall. In the event, the forced accumulation by a small group who were entirely from the West created pent-up dissatisfaction that political organizers could suddenly mobilize with disastrous consequences for the country.

General features of this problem were described in Erreur ! Source du renvoi introuvable, which showed that a big or ‘discontinuous’ institutional jump (such as the rapid creation of enormous wealth in the hands of a handful of capitalists) can appear to result in a relatively small decline in stability at first, but lead to a collapse of the trade-off once new organizers capitalize on growing social resentment. This is a
simplified but plausible description of Pakistan in the 1960s where there was little initial resistance to the institutions that drove growth but was followed by a precipitous decline in stability in both West and East Pakistan from 1968 onwards. A more gradual or incremental set of industrial policy interventions could, with hindsight, have resulted in a more sustainable growth path. Sudden and significant changes in the distribution of benefits in a society, particularly if they are achieved under authoritarian limitations on mobilization can obviously result in misleadingly limited opposition at first, but erupt in significant explosions later. This is more likely if the emerging class inequalities overlap with national, religious or other cleavages that organizers can use to mobilize coalitions in a clientelist settlement.

Summary
The authoritarian ruling coalition from 1958 to 1971 together with a small number of moderately capable and politically connected capitalists defined a political settlement which was initially very favourable for growth-enhancing institutional changes. However, like India, the political power of capitalists prevented disciplining and limited productivity growth. The imposition of discipline on the privileged new capitalists may have made them somewhat more legitimate in the eyes of the population. As it happened, the initial (limited) decline in stability, in a context of effective authoritarianism, hid deep dissatisfaction lower down, particularly with regional imbalances. By the late 1960s, a new generation of organizers emerged who could mobilize the growing dissatisfaction with disastrous consequences for the overall stability of the system.

The Rise and Fall of Dominant Party Authoritarianism 1972-1975
The victory of the excluded Bengali political organizers in 1971 created a new crisis. The Awami League, which won virtually every seat in East Pakistan in the 1970 elections, was clearly for the moment a dominant party. But the aspirations of the new coalition with political power were so extravagant that even the formal rights of existing Bengali capitalists could not be protected. Not only were abandoned Pakistani assets the target of acquisition by the new coalition, almost all significant assets of Bengali capitalists were also nationalized to construct ‘socialism’. Gross over-employment in the now dominant public sector, corruption, looting of products and spares, and the conversion of public property into private property were mechanisms used for rapid primitive accumulation. Entirely new classes of the newly rich rapidly emerged. Paradoxically, under pressure from this emerging class ceilings on private investments were also rapidly being raised (Khan 2008). But the cost was a steep decline in economic performance and growing political conflicts within the dominant party as different groups contested for power and resources.

Behind this crisis was a rapidly evolving political settlement. The dominant party was facing internal collapse with intense conflicts. As early as 1972 a significant section of the ‘left-wing’ of the Awami League left to form the Jatiyo Shomajtantrik Dal, JSD. If the distribution of rents between internal factions depends on the decisions of a supreme leader, all coalitions have to be confident of their access to that leader, and the leader has to have sufficient authority to impose decisions once taken. The dominant party’s factions were already refusing to accept these decisions and some had already left to oppose and unseat the ruling coalition. Mujib’s decision that a one-party system could be achieved by constitutional amendment and then enforced using the policing apparatus of the state was therefore a significant gamble. It is not at all
clear that Mujib had the authority or the physical force to ensure that all individual organizers would come under a single party structure and then accept the distribution of rents that he imposed.

A related problem was to define the limits of the dominant coalition. There are potentially indefinite numbers of organizers ‘out there’ who believe they have the capacity to organize for a share of the rents. However, the more organizers who are included, the smaller the rents that existing organizers can capture. The problem for a formal and well-defined ruling coalition in a constitutional one-party state is that it defines insiders and outsiders clearly and creates strong incentives for outsiders to unite against insiders. The one-party state is therefore a particularly difficult type of authoritarian ruling coalition to operate. It creates very strong incentives for outsiders to unite but if it includes too many it undermines the rents of insiders. Successful one-party authoritarian regimes have to have some special feature that allows them to either keep outsiders out, or absorb them at a slow rate. For instance, they could have significant natural resource rents that could be used to finance a credible monopoly of violence at the centre. Or they could be developmental states with a disciplined party structure, where new entrants are offered relatively little but can expect a ‘career path’ in the party and share the benefits of growth over time. The Awami League in 1975 had no special features which might have sustained one-party authoritarianism.

Despite these dangers, and perhaps because the economic situation was unsustainable (Khan 2008), Mujib moved ahead with the ‘Second Revolution’ to create a one-party state. In January 1975, Mujib pushed through the fourth amendment to the constitution by threatening to resign in the face of opposition from his own party (Karim 2005: 348). The constitutional amendment changed Bangladesh to a presidential system, with power concentrated in the hands of Mujib who became the president. The amendment provided for the creation of a ‘national party’ with the sole right to engage in political activity, and all members of parliament and the president had to belong to this party. In February all parties were suspended and the national party launched. This was the Bangladesh Krishok Sromik Awami League (Workers and Peasants Awami League) or BAKSAL (Mascarenhas 1986: 57).

While there was little public demonstration against the constitutional amendment, the climate of fear was not appropriate for the free expression of views. In secret, many different groups began to plot Mujib’s violent removal (Mascarenhas 1986: 64). Mujib himself was aware that the fourth amendment could not represent a permanent solution and was an emergency response to a situation going out of control: ‘This one-party arrangement is purely temporary. Once I have saved the country from counter-revolution I will restore multi-party democracy’ (quoted in Karim 2005: 258). Mujib’s enemies were not only based in other parties and in the army, but within his own party. Many ‘rightist’ members of his cabinet and indeed some foreign embassies were aware that a strike was being planned against him and his family (Lifschultz 1979; Mascarenhas 1986). And so it was that on the 15th of August 1975, less than four years after achieving independence, the founding father and president of the new country was assassinated.

Summary
The dominant party that won freedom in 1971 failed to establish one-party authoritarianism even though moves in that direction began in 1975. The conflicts
within the party were intense and time horizons of factions short. Implementation capabilities for enforcing formal institutions were weak for the same reason. The power of capitalists had been severely curtailed. Bengali capital too was almost fully expropriated. But a new proto-capitalist class was rapidly emerging through primitive accumulation. But during the lifetime of the regime the political settlement was very adverse for growth and the growth-stability trade-off was probably entirely below the minimum viability conditions of growth and stability. Mujib’s desperate constitutional one-party state may not have worked but it reflected an awareness of the seriousness of the situation.

**Clientelistic Authoritarianism 1975-1990**

Mujib’s assassination brought the military to power through a series of bloody coups and counter-coups. But the military leadership knew by now that neither the Pakistani authoritarian model based on the exclusion of intermediate class organizers by a small military-bureaucratic clique nor the authoritarian one-party model of Mujib would work in Bangladesh. General Zia, who formally became president in 1977 was a decorated freedom fighter and widely popular. He took care to construct a strong constituency of supporters for his rule by constructing a political party that eventually became the Bangladesh Nationalist Party (BNP). It remains one of the two dominant parties in contemporary Bangladesh. The new strategy for constructing the ruling coalition had a number of important features distinct from the earlier phases.

First, the terms on which individual coalition leaders joined the ruling coalition were individually bargained. The terms were simple: the national leader wanted to incorporate the largest number of the most important organizers at the lowest price in terms of the rents that they demanded. A broad ideology of development and nationalism defining the new party allowed organizers from the far left to the far right to seek terms for entry. The price they could extract in terms of their access to future rents depended on their proven organizational capabilities and the significance of their departure for undermining their erstwhile parties. As other parties were no longer banned, organizers had the chance of proving their abilities outside the BNP before negotiating incorporation. Opposition parties were allowed to set up, operate and contest elections. The only limitation was that the top job was not up for grabs because the dominant party was unlikely to be defeated given its control over the administration. This implicit administrative control defined the ruling coalition as authoritarian, even though formally multi-party democracy was reintroduced with the repeal of the fourth amendment.

Secondly, no attempt was made to define ex ante the boundaries of the ruling coalition. The regime maintained the right to calibrate the size of the ruling coalition through a competitive process of assessment and negotiation. This too ensured that excluded elites had an expectation that they may be included on appropriate terms in the future if they played according to the rules of the game. The combination of these two characteristics ensured that the minimum required rents were competitively allocated to the most important political organizers, helping to maintain political stability.

Finally, both Zia and Ershad attempted to check the power of established political organizers by creating new rural voices through ‘decentralization’. These strategies were quite similar to the Basic Democracy strategy of the Pakistani period, but now
they were a complementary part of a broader strategy and not the exclusive strategy for organizing stability. Even so, these strategies, particularly Ershad’s attempt to create a new class of political representatives in the newly created ‘upazillas’ (a tier of government constituting a small number of villages), was strongly opposed by urban political organizers. They had a limited effect in enhancing overall political stability, and the attempt to force them through possibly had a negative effect.

The period remained on the whole considerably unstable. Violence continued for a while, particularly within the army, where coups were frequently attempted. Nevertheless, the strategy of ensuring entry to political organizers through individual negotiations proved to be a viable strategy for constructing coalitions. It remains the strategy through which competing political parties in the fourth ‘democratic’ phase construct the coalitions that sustain their power. The strategy implied that the ruling coalition would be turbulent with constant negotiations, infighting and sometimes violence both within the coalition and against those out of power. But in the absence of any better method of determining a distribution of rents in line with organizational power, this has emerged as the operative default mode for constructing ruling coalitions.

Secondly, the openness of the boundaries of the ruling coalition proved to be extremely useful in managing the entry of new aspirants. This allowed the system to respond to changes in organizational capabilities in society. On the other hand, it could not deal with aspirations to become the President. This meant the system was unsustainable in the long run. For instance, it created strong incentives for ambitious officers within the army to try and replace the supreme leader. There were frequent coup attempts under Zia in particular. In fact, Zia was finally killed in a coup in 1981. Eventually it also resulted in strong civilian opposition being organized by ambitious political organizers in other parties. Opposition to clientelistic authoritarianism came to a head during Ershad’s rule. Increasingly intense and violent mobilizations resulted in Ershad being deposed in 1990, marking the end of clientelistic military rule.

A number of important economic changes happened during this period. The most predatory types of primitive accumulation began to die down after most abandoned assets were appropriated. The beneficiaries of the primitive accumulation and the older capitalists gradually regrouped during this period and established political connections with factions within the ruling parties. As many of the new ‘capitalists’ were direct beneficiaries of ‘political accumulation’, they were closely networked into existing factional structures. However, damaging politically-created rents continued to be created as part of political stabilization strategies. These included, for instance, rents distributed to supporters of the ruling coalition in government construction contracts, or in import contracts for scarce commodities like sugar and cement.

An important change with the Pakistani period was that rents were no longer seen as having any potentially productive purpose. The state stopped trying to create or allocate rents as part of an explicit industrial policy. Subsidies, for instance to agriculture or on fuel prices were justified on welfare grounds. Market failure justifications for infant industry protection or technology acquisition disappeared. This was partly because of the memory of the political fight against Pakistan and the ‘socialism’ of the Awami League, and partly because the international climate of economic opinion informing policy in Bangladesh had also changed radically in the
1980s. Zia was an advocate of privatization for all these reasons. The rents that public sector industries and the newly privatized industries continued to receive was because the state was too weak to remove these rents from powerful clients, not because the ruling coalition believed that this would accelerate the modernization of the economy. Ironically, as we described in earlier papers, the garment industry takeoff in Bangladesh depended on the presence of a critical set of international rents and institutional innovations that Zia undertook to support the sector (Khan 2008, 2009b). The political settlement allowed the rapid introduction of institutional innovations like the back-to-back LC and the bonded warehouse system, both vital for the garment industry.

Summary
An emerging capitalist sector was now closely networked with the political leadership. The clientelistic authoritarian leaderships had sufficiently long time horizons to build relationships with capitalists and support them to a limited extent. Mutually beneficial relationships developed which supported accelerated accumulation. Technology acquisition could not be properly supported under this settlement but the existence of globally generated MFA rents did allow technology acquisition and disciplined learning in low technology sectors like garments. The political settlement was much more promising for growth than before, and for the first time a Bengali capitalist sector began to grow. Growth-stability trade-offs were favourable for the support and promotion of limited formal institutions supporting specific accumulation strategies.

Competitive Clientelism 1990-
The overthrow of Ershad and the holding of elections under a caretaker government converted the authoritarian clientelistic system into a proper competitive clientelism. The new ruling coalitions had all the characteristics of competitive clientelism summarized in Erreur! Source du renvoi introuvable.. Capitalists were well-organized and closely networked with political parties, often keeping good relationships with more than one, as parties regularly cycled in and out of power. A fair election has come to mean that the outcome reflects the balance of forces on the ground without the interference of bureaucratic or military officials administering the police, the polling booths and the process of counting the votes. If these administrative tools are controlled by one side or the other, the outcome may not reflect the balance of forces and will then not achieve stability.

The objective of a fair election is not to discover the true preferences of the electorate, partly because true preferences may not exist given the absence of serious differences in the policies that the parties are likely to implement. Rather, elections are processes through which the organizational strengths of the competing coalitions are revealed. Stability is likely to be achieved if the party with a demonstrable superiority in organizational strength wins the elections. The requirement is that no party should be able to leverage its strength by using the administrative apparatus to give it an electoral advantage that is unrelated to its strength on the ground.

To solve this problem, the competing parties in Bangladesh amended the constitution in the mid-1990s in the 13th Amendment that set up a permanent institution of the Caretaker Government. A neutral government was to be set up at the end of every government’s term with the last Chief Justice of the Supreme Court becoming the
interim head of government. This was a unique institutional experiment to create a credible electoral process for competing coalitions. However, this institutional arrangement was clearly not buttressed by a deeper set of political agreements. The caretaker government system worked for two subsequent elections, despite minor attempts by both parties to interfere in the elections when they were in power.

The constitutional arrangements collapsed in the run-up to the 2007 elections when the incumbent BNP went too far and appeared to interfere with the dates of retirement of Supreme Court judges so that its preferred candidate could head the caretaker government. The result was an increasingly violent standoff which resulted in a series of general strikes (hartals) and violent street confrontations. In a context of increasing uncertainty a group of bureaucrats backed by the military and the international donor community took over power on the 11th of January 2007 as a new emergency interim government. Under the constitution, the caretaker government has to organize an election within two months, but this caretaker government stayed in power for two years under emergency powers it gave itself.

The emergency caretaker government turned out to have been a significant wasted opportunity. The emerging system of competitive clientelism had clearly not yet acquired a set of politically sustainable checks and balances to be fully self-sustaining. The emergency could have been an opportunity for investigating and establishing credible checks and balances and for establishing the precedent that if parties could not agree other institutions in the country would intervene to break the deadlock. But instead, the caretaker government, headed by an ex-World Bank bureaucrat and backed by an army that was closely tied to the ‘international community’ through its lucrative involvement in international peacekeeping missions took a ‘good governance’ perspective on how to solve the problem. Their interpretation (no doubt strongly influenced by dominant international policy perceptions) was that the instability was caused by political corruption. The opportunity for political corruption created distorted incentives for politicians to interfere with electoral outcomes. This analysis suggested that if political corruption could be rooted out and if parties could be made to compete on the basis of alternative manifestos of delivering public goods the problem of electoral violence and standoffs could be rooted out.

For the next two years the emergency caretaker government attempted to address the problem through ‘good governance’ reforms, and in particular through a focus on corruption, believing that the source of political violence was the engagement of political leaders in corruption. Hundreds and possibly thousands of political activists were arrested and incarcerated, including the leaders of the two main parties on charges of corruption. Hundreds of businessmen were arrested and some of them handed over millions of dollars to the new government as ‘ill-gotten gains’ under pressure (which later on turned out to include torture). Thousands of cases of corruption and extortion were introduced in the courts. The whole exercise was deeply flawed not only from the perspective of its flawed understanding of a clientelist political settlement but even in terms of the formal legal procedures that were followed. In the end, almost all the cases had to be abandoned on the grounds that evidence was missing or inadmissible. The experience of anti-corruption cases globally suggests that even a single successful prosecution is very difficult. Not surprisingly, the military caretaker government’s attempt to address the problem in
this way failed dismally. The two arrested leaders of the main political parties had to be released, and one of them was elected prime minister in the 2009 elections.

The main effect of the two-year experiment was a collapse in investor confidence. The two main parties whose intransigence and violence had caused the problem in the first place did indeed receive a shock, but in itself this is unlikely to have a lasting positive effect. Without a credible mechanism for organizing elections, the competitive clientelist system cannot deliver political stability and is therefore not sustainable. If we include the experience of the 2007 debacle, competitive clientelism has not worked too well in Bangladesh. The overall implications for growth-enhancing institutional change have been negatively affected by long periods of strife which have mostly been about the political institutions organizing transfers of power rather than conflicts over the implementation of particular economic institutions. The former are obviously more important in ensuring that benefits are distributed over time in line with organizational power, and are therefore critical institutions for sustaining a viable competitive clientelism.

The lack of credibility that elections will deliver the appropriate ruling coalition can result in short-termism and conflict as elections approach. This has indirect effects on long-term investments, particularly where government contracts are involved. For instance, it has proved to be very difficult to get private investors to invest in the power sector. This is an area where future income streams depend on subsequent governments honouring contracts made by previous governments. But one credible threat against incumbent governments is for the opposition to challenge their legitimacy. This makes investors wary of making up-front investments in sectors like power. Thus, vulnerable competitive clientelism can create high transaction costs for some types of contracts and some investments may not be possible at all. Governments have had to bribe investors in sectors like power with excessively large tariffs and other conditions in countries like Bangladesh, with obvious efficiency and growth implications for the broader economy.

Other types of investments and contracts can operate reasonably well with competitive clientelism, even with the degree of instability observed in Bangladesh, as long as the future income streams in question do not depend directly on payments from the government exchequer. But since infrastructure and power sector investments do require government guarantees for future payments, a vital set of contracts are adversely affected. On the other hand, competitive clientelism provides political access to competing businesses and helps competitive entry into many sectors. This is efficiency-enhancing in low technology sectors. These aspects of the political settlement can help to accelerate accumulation and create conditions sustaining growth.

Summary
The competitive clientelist period after 1990 has had a mixed record. The difficulty of ensuring credible rules for the removal of ruling coalitions has created periods of intense conflict and instability. It has also raised the transaction costs facing some types of vital long-term contracts to the detriment of growth. On the other hand, other institutions have performed well and their implementation enjoys favourable growth-stability trade-offs. The challenge of technology upgrading and industrial policy has not gone away, but has become more difficult to organize. The real challenge for
sustaining competitive clientelism is to achieve more credible and less violent methods of ensuring the replacement of ruling coalitions.

5. Tanzania: From Authoritarian One-Party to Stable Dominant Party

Tanzania is the ‘newest’ of our nations, achieving independence from Britain only in 1961 as Tanganyika, and merging with Zanzibar in 1964 to become modern Tanzania. It has also had the least turbulent political history amongst our countries, with the party of independence creating a nation initially using relatively soft authoritarian methods. The party of independence, the Tanganyika African National Union (TANU) also became, under the leadership of Nyerere, the party of nation-building. Nyerere stepped down from the Presidency in 1962 to concentrate on building the party, and through it the institutions, power structures and even the language that would eventually bind the country together. In 1963, Nyerere declared Tanzania was to be a one-party state. The authoritarianism of the early years did not result in significant resistance or violence because excluded social groups (like the non-African capitalists) were weak or lacked political legitimacy. In 1977 the name of the party was changed to Chama Cha Mapinduzi (CCM) after TANU merged with the Afro-Shirazi Party with its power base in Zanzibar. In 1992 the Constitution was amended to enable multi-party elections and Tanzania made a relatively smooth transition to sustain its already existing ruling coalition through a dominant party. The CCM then proceeded to comfortably win the elections of 1995, 2000 and 2005.

The transition from a single-party state sustained by constitutional limitations on other organizations to a multi-party state with the same party emerging as the dominant party is an unusual one. It suggests that the transition was not driven by internal pressure and mobilization from excluded factions. If excluded factions had been internally strong enough to have forced a change in the constitution, we would expect to see an effect of this on the outcomes of subsequent elections. Rather, the 1992 change is more likely to have been driven by external pressures and expectations. In the early 1990s Tanzania was receiving aid equivalent to almost 30 per cent of its national income and many donors agencies find it difficult to justify to their own parliaments why significant amounts of aid should be given to a one-party state. However, while the combination of significant aid rents with a lifting of formal restrictions on organization may have allowed the same ruling coalition to stay in power, the open electoral system is likely to have an effect on the organization of the political settlement in Tanzania over the longer term. Lower level factions are likely to become more powerful over time, and there is some indication that this is happening.

The Tanzanian political settlement has also been characterized by the weakness of indigenous African capitalists. Not only was capitalism very underdeveloped in pre-independence Tanzania, the post-independence strategies of socialist communitarianism further slowed down the development of a black African capitalist class. The most capable capitalists were and still are members of other ethnic groups like Indians, Arabs and Europeans. Over time the access of business to decision-making politicians has increased. But the political constraints have kept relationships short term and reliant on the generation of quick payoffs for both sides. Despite the growing evidence of business influence on policy, other factors, in particular the ethnicity of capitalists and the political difficulties this raises can explain why the
networks of capitalists with the ruling coalition are relatively weak. This explains the prevalence of decisions where quick profits are made, often with damaging economic and social ramifications. It also helps to explain the relative weakness of long-term support for investors, even those engaged in low technology investments which do not require demanding capabilities of disciplining rents over time.

Thus, the political settlement in Tanzania has been characterized by a one-party version of an authoritarian ruling coalition, which later converted itself into a dominant party ruling coalition in a context of substantial aid and natural resource rents. The weakness of capitalists and indeed the overt anti-capitalism of the early Tanzanian state is also a distinctive feature of the Tanzanian political settlement. The construction of the ruling coalition, particularly in the early days was based on important compromises as well as the repression of organized interests that could threaten the unity of the party, which was equated with the nation. These nation-building compromises did achieve a more united and internally integrated African country than many others, but also slowed down processes of class differentiation and the evolution of potential African capitalists. The growth-stability trade-off was therefore adverse during the early years of nation-building under Nyerere because authoritarianism was used for nation-building rather than industrialization. The difference with Pakistan’s authoritarianism of the 1960s could not be starker.

Even after the turn towards liberalization and the private sector in the mid-1980s, the basic characteristics of the political settlement have not significantly changed in ways that might be more conducive for growth-enhancing institutions. The composition of the ruling coalition has of course changed a little with the transition to a nominal multi-party system and the political tolerance for economic differentiation and emerging capitalism has dramatically increased. But in other respects social compromises and distributions of benefits that maintain social stability remain the priority for the party and constrain how far it is willing to go with institutional changes that can create significant transition costs. On the one hand, the organization of social resistance by independent political organizers is still weak, but growing, particularly with greater political openness. The weakness of political organizers mobilizing social dissent should make it easier for Tanzania to push in the direction of growth-enhancing institutional changes if the ruling coalition supports it. But on the other hand, if such changes empower capitalists of non-African ethnicity across a broad front, this can raise significant problems of political management in the future.

Tanzanian leaders cannot be unaware of problems in neighbouring Uganda or Kenya with non-African capitalists. Tanzania’s endowment of black African capitalists is significantly more adverse compared to say Kenya. These aspects of the political settlement are important for understanding why the ruling coalition in Tanzania has been relatively forthcoming in supporting a small number of high-rent foreign investments in minerals, but not very forthcoming about supporting institutional changes which would assist the development of broad-based capitalism in industry or agriculture. The latter strategy, in the absence of strong industrial policies promoting black African capitalism, would almost certainly produce a domestic capitalism with a non-African face. This in turn would be difficult to manage politically. This constraint may help to explain why Tanzania appears to be failing to capitalize on its superior political stability and effective party machine to accelerate an economic transition in the 1980s and beyond. The summary of institutional strategies and rents in Figure 10,
based on Khan (2008), is consistent with this picture, as is the analysis of land rights in Khan (2009a). Land rights in mining can often be created very rapidly for major foreign investors, but in villages where there is a possibility of encouraging a capitalist organization of farming in certain areas, change is very gradual and incremental and what is worse from the perspective of investors, institutional arrangements like land grants often appear to be reversible in the face of pressure.

The development of a broad-based capitalism that is based on emerging African entrepreneurs is preferable on many grounds but is not likely to happen without very active industrial policy. Ironically, the new dominant party ruling coalition may be a less favourable arrangement for managing industrial policy compared to the previous constitutional one-party state. But a dominant party system may still be better than a competitive clientelism that is likely to emerge over the coming years. A better understanding of its political settlement may assist Tanzania to leverage its political unity and its relatively well-coordinated political organizations to develop an industrial policy before further changes in the organization of the ruling coalition make this even more difficult. The broad features of the political settlement in Tanzania are summarized in Figure 5, which should be looked at in conjunction with Figure 10 in the Appendix which draws on earlier work. The periods are discussed further below.

| TANZANIA |
|------------------|------------------|
| CHARACTERISTICS OF POLITICAL SETTLEMENT | BROAD FEATURES OF INSTITUTIONS AND GROWTH |
| Dominant Party Coalition with weak capability domestic capitalists and high capability foreign investors / weak political access: 1992- | Moderate institutional support for big foreign investments but weak support for broad-based capitalist growth |

Figure 5 Evolution of Political Settlement in Contemporary Tanzania

One Party Authoritarianism and Nation-Building 1962-1992
Compared to South Asia, Tanzania had both significant advantages as well as disadvantages in constructing a ruling coalition after independence. On the one hand, Tanzania’s agrarian society was not significantly differentiated and indeed areas of long-settled agriculture were limited. As a result, the fine distinctions between layers of society distinguished by class (and also usually by caste) that we observe in South Asia were simply not there (Daley 2005a). Colonial powers seeking to manage the economy did create structures of ‘traditional authority’ but they did not develop the complex social governance structures based on empowering and checking and balancing different groups of the intermediate classes in a way that we see in India (Khan 2009a). The intermediate class-led mass social movements and parties that had dominated Indian politics since the 1930s and provided the different streams out of which umbrella nationalist movements were constructed were less developed in Africa in general and Tanzania in particular. The less complex political landscape was
an advantage in a relative comparison for constructing the nation and a ruling coalition after independence.

On the other hand, the weakness of the intermediate classes and of potential productive sectors in the economy also created serious problems for constructing a new nation. At independence in 1962, there were only twenty Tanganyikan African students studying for university degrees (Coulson 1982: 90). There were only 3,100 individuals employed in professional, administrative and technical jobs in 1962 and only 1,300 of these were held by Africans, of which 1,100 were teachers, medical technicians or nurses (Pratt 1976). The leadership of the independence movement came from this tiny class of educated Africans. By the 1950s TANU had recruited broadly and had as many as 200,000 members, drawing on the members of new cooperative societies and unions. But organizational power was concentrated with the professional leadership. There was little evidence of mass mobilizations organized directly by intermediate class organizers from below. Nevertheless, by the 1960s colonial powers like Britain had little appetite for prolonging the inevitable and the independence struggle in Tanzania was relatively short. After TANU won all the African seats in the multi-racial elections held in 1958, the transfer of power was achieved relatively quickly by 1962.

The challenge for Nyerere was to construct a national identity and a cohesive nation out a country with a thin population, 127 ethnic groups, a potentially divisive mix of Christian, Muslim and indigenous religions and without a long history of struggle against colonialism which could have united all these disparate forces. It is not surprising that nation-building should have been the top priority. The instrument chosen was the party, and the inclusion of all groups on terms that were centrally determined was perceived to be vital for the integrity of the country. This can explain why the party in those early years behaved in an authoritarian way both against capitalists (who were mainly non-black) and whose freedoms were incrementally restricted but also equally strongly against unions and other organizations (Shivji 1976). After a wave of strikes in 1962, independent unions were outlawed in 1964 and replaced with an official party-affiliated union. Following the Arusha Declaration of 1967, the party became overtly anti-capitalist. In particular, non-black African capitalists were made to understand that their privileges were unacceptable in the new social order and policies for correcting inequalities would be adopted. The villagization programme that was implemented with significant authoritarianism and violence in the 1970s also has to be seen as part of a strategy of constructing a settled society that could be controlled and therefore integrated.

The distinctive features of Tanzanian authoritarianism was that it was not in the first place an attempt by a ruling coalition to exclude other already existing factions by legal or administrative means backed by a monopolization of force. Excluded political factions that could form an alternative ruling coalition were virtually non-existent. The authoritarian limitations of organizational rights that the Tanzanian ruling coalition imposed during this period therefore only make sense as a pre-emptive strike against potentially divisive organizations that could in the future be parallel coalitions challenging the ruling coalition. The justification, not implausible, was that a competition between coalitions at that stage of Tanzanian development would have destroyed the nation given the weakness of its national identity and the weakness of its economy. Rather, the perceived problem was that Tanzanian society was
excessively fragmented, that freely organized social organizations could pull it further apart, and that the presence, let alone the further development of the capitalist sector, would be divisive for social integrity.

In terms of our classification of ruling coalitions in Error! Source du renvoi introuvable., the Tanzanian ruling coalition actually had characteristics that would put it quite close to a potentially developmental coalition. It faced very weak horizontal opposition from other already-existing political factions and relatively weak demands from lower-level factions and faction-leaders. But this was partly because the economy was relatively underdeveloped and society was disorganized. The perception of the ruling coalition (accurate or otherwise) was that challenges could rapidly be mounted against it if it did not move fast. This persuaded the ruling coalition to focus on limiting organizational and political activities to ensure that alternative factions did not emerge. Nevertheless, the ruling coalition was actually relatively strong and had characteristics close to our definition of a potential developmental coalition. But for it to have capitalized on these coalition characteristics and engaged in a developmental strategy would also have required a rapprochement with capitalists and conditional assistance to develop an employment-generating capitalism. The strategy of development actually adopted, based on public sector companies and the restriction of capitalist rights, was not likely to be developmental. It was pursued largely as part of the same strategy of developing social cohesion rather than economic growth.

The party was the state during this period as the bureaucracy and the army were incorporated into the party. Public ownership makes sense from a perspective of nation-building as it was a mechanism of spreading the benefits of new investments across the core constituencies of the party: the middle class bureaucrats and professionals. The social engineering intended to create a distribution of social benefits at each level of society that was relatively egalitarian so that no particular ethnic, regional or other group felt excluded from a ‘stake’ in the emerging society. From this perspective, the ruling coalition was successful. Tanzania emerged as one of the most socially integrated African countries by the 1980s, with higher levels of literacy and access to basic amenities in rural areas than the African average. On the other hand, this political settlement had adverse implications for economic growth, discussed in Khan (2008) and some of these characteristics are summarized in the first row of Figure 10 which is reproduced in the Appendix from the earlier paper.

Summary
The authoritarian one-party state from 1962-1992 had a ruling coalition that had characteristics of authoritarianism, and in terms of the distribution of power affecting the ruling coalition, it was in fact close to that of a developmental state. However, the ruling coalition was motivated by a perception of a rapid potential fragmentation of society. It used administrative and political power to restrict organizational rights to reconstruct society in what it perceived to be a more cohesive and communitarian way. The authoritarian aspects of the ruling coalition were therefore used for nation-building rather than to sustain a growth-based developmental policy. The capitalist class was in any case underdeveloped to begin with, but under the new strategy faced increasingly overt restrictions. The overall characteristics of the political settlement were not conducive for the support of growth-enhancing economic institutions and created new political configurations in society that would imply very adverse growth-
stability trade-offs for many types of growth-enhancing institutional changes in the future.

**The Limits of the Dominant Party Coalition 1992**

In the late 1980s, economic conditions made Tanzania increasingly dependent on both aid and the advice of donors, including the World Bank and the IMF. The abandonment of its constitutional one-party state in 1992 has to be understood in this context. A presidential commission headed by Chief Justice Francis Nyalali toured the country, discovered that 77 per cent of the people it talked to wanted to retain the one-party system, but decided in any case to recommend in 1992 that Tanzania should move to a competitive multi-party system (Kelsall 2003: 56). It is very likely that the move to the multi-party system was driven mainly by the concerns of the ‘international community’ and less by the internal pressure from political organizations and factions that were excluded by the constitutional arrangements. In any case, new parties failed to make much headway, and the CCM now emerged as the dominant party ruling coalition.

A number of features of the Tanzanian economy and polity help to explain the smoothness of this transition. But these features also explain why the fundamental characteristics of the political settlement have not significantly changed either. First, the social engineering of the previous three decades was very successful in ensuring that no independent organizations or factional mobilizations exist which could easily be absorbed into a new umbrella coalition. The management of social order has been organized in Tanzania through the distribution of formal and informal political benefits through state bodies like village government structures rather than to distinct factional groups competing for benefits. The legal ban on setting up trade unions, political parties and other organizations meant that individuals and groups organized very loosely around state institutions to negotiate and capture benefits appropriate to their usefulness for the state-party. It is very difficult for an alternative party to delink some of these coalitions under an entirely new banner to contest for a different distribution of benefits.

With the emergence of greater economic differentiation, distribution of power and therefore the benefits that different groups can claim have also changed in subtle ways. But even after the constitutional changes of 1992, individuals at the village level have bargained for their rents by being linked with different networks within the state-party structures, and have not found it beneficial to set up clearly separate independent local factions contesting for rents (Daley 2005b). The state and the dominant party still controls vital rents and delinking from factions within the party and setting up a completely separate faction faces a significant collective action problem. The independent faction may have zero bargaining power till many other such factions emerge in other villages and towns with whom umbrella factions of significant holding power can be constructed. Not surprisingly, opposition parties have largely remained relatively hollow shells.

Tanzanian society also sets some hurdles for the construction of new factional parties. The ethnic, regional and religious diversity of the country means that a new party that wants to achieve a critical minimum size has to be significantly diverse in its leadership appeal, regional representation and so on. This gives a huge advantage to the incumbent CCM and works against other parties. Again there is a collective action
problem. If many major factions already existed a new faction could ally with some of them to form a new umbrella. Otherwise, a regional or ethnic group that decided to vote for a faction can find itself out in the cold (Kelsall 2003: 60).

However, the lifting of formal limits to organization and the growth of economic differentiation is slowly changing the distribution of power affecting the ruling coalition in the directions we expect. Normally, a dominant party ruling coalition emerges because a ruling coalition succeeds in including many or most of the most powerful lower level organizers in that society within a single organization. A dominant party ruling coalition is therefore likely to have fairly powerful lower level factions, which allows it to win in contests against other potential coalitions. In the case of Tanzania, the sequence has to some extent been reversed. The dominant party coalition emerged as a result of externally inspired changes in rules, but nevertheless, it is likely to have the effect of empowering lower-level party and state officials over time. The party must now be more concerned about keeping its lower constituents satisfied and this is likely to increase their bargaining power.

The change is not likely to be rapid given the factors discussed above, but over time and gradually, we expect to see greater organizational power being exercised by lower level members of the party and state to negotiate benefits for themselves. Projecting even further in a somewhat speculative way, if enough of these lower-level party members become organizers of their own supporters, the possibility of opposition factions absorbing some of them increases, and with it the possibility of a move towards competitive clientelism. The need to raise revenues for running competitive election campaigns is also likely to result in a greater devolution of power to local level organizers who are more successful in raising money through their involvement in economic transactions. Coincidentally, these opportunities are also increasing, largely as a result of a greater tolerance for capitalist investment in sectors where political resistance can be contained.

The greater penetration of foreign investments in sectors like mining and tourism have required the support of local party and state officials, particularly in getting access to land. These acquisitions have often been strongly resisted by local people adversely affected by the changes but where the opposition was localized and involved a single but very big investment, there was an incentive for coalitions of party-state officials from local to very high levels pushing through the required institutional changes for mutual benefit (Kelsall 2003; Khan 2009a). Gradually, these processes have strengthened local and regional party and state officials, whose support and cooperation are required for pushing through mega-projects. Where the benefits are high and the social resistance limited to a particular area, the dominant party has been able to override resistance to particular institutional changes very effectively.

A consequence of the growing power of lower level state and political functionaries is that it is also much easier now for individual investors to suddenly get changes in rules approved or get contracts that then turn out to be very damaging. Examples include the sudden ban in 2000 on the use of Bangladeshi jute bags for packing cashews so that a local but high-cost producer of sisal bags could corner the market. So expensive were the sisal bags and the decision was made so suddenly that many cashew producers could not export their crop (Kelsall 2003: 68). Another example involving a much bigger amount was the long-term power supply contract signed with
the Malaysian firm IPTL in 1995 which turned out to be excessively expensive, was opposed by high level officials, but was nevertheless signed, raising many allegations of corruption (Khan and Gray 2006).

Clearly there is now greater political access of capitalists and their ability to influence decisions in the case of individual projects has increased. However, successful influence appears to be restricted to some types of projects and some types of investors. The case for mega-investors in mining and tourism is clear. Both local and central political and bureaucratic representatives stand to gain much by pushing these projects through because there are significant rents that are involved in approving such decisions. The construct of a dominant party ruling coalition ensures that it is difficult for local opposition to spill over into more serious conflicts, given the absence of credible opposition coalitions who could exploit these grievances. When it comes to smaller projects the principle appears to be the same. The types of projects which appear to get special rules passed, like the sisal bags, are typically rent-generating projects because they create immediate monopoly powers for some investors. These are generally (though not necessarily) economically damaging for the broader economy. It is easy to guess what the mutual calculations may have been. What is not in evidence is a long-term relationship between individual capitalists and political patrons, which results in benefits to capitalist that are repaid over time in the form of political contributions, taxes or other benefits.

The latter type of relationship demonstrates true political access. Given that Tanzania has a stable dominant party that expects to stay in power for some time, the absence of such long-term relationships and calculations must have some explanation. It is possible that such relationships are difficult in Tanzania because a long-term association with particular capitalists cannot be kept secret. As the capitalists are generally not socially legitimate on grounds of their ethnicity, such a relationship with particular politicians may turn out to be a liability for them. This could explain why even though deals are struck on an individual basis, Tanzania-based capitalists of Indian or other backgrounds find political access difficult (Khan 2009b).

Summary
The transition to a dominant party ruling coalition appears not to have had strong internal drivers, and did not result in a change in the ruling coalition. However, more power passed to lower levels of the political and administrative structure. More significantly, there has been improved political access for some big investors in sectors like mining and tourism. These have become easier because there are strong incentives to enable institutions to operate and to change institutions when required to enable these investments and limited political constraints. However, in the more important area of medium-sized domestic capitalists who could drive a broader manufacturing growth, the political settlement remains adverse for the effective operation of the required institutions. These features of the political settlement explain rather well some of the problems identified in earlier papers, summarized in Figure 10. To overcome the political constraints that limit possible support for the productive sector Tanzania may have to be much more pro-active in developing an industrial policy that can promote the development of a black African capitalist class.
6. Conclusions

Political settlements are compatible combinations of institutions and distributions of power that are also sustainable in terms of the economic and political stability requirements of a society. Institutions and distributions of power are interdependent because formal and informal institutions together define distributions of benefits in society. If the latter are out of line with the distribution of power, powerful groups will organize to change the structure of formal and informal institutions. Therefore, an institutional structure has to be compatible with the distribution of power. However, compatibility can be achieved in different ways. Institutions can adapt to the distribution of power, or conflicts can continue till a new distribution of power emerges, or both. An institutional structure with a compatible distribution of power constitutes a political settlement if minimum economic and political stability conditions are also achieved.

For a number of reasons, political settlements in developing countries are significantly different from those in advanced countries. Primarily, this is because in developing countries the size of the formal productive sector (the capitalist sector) is by definition rather small. Therefore, the incomes generated by formal rights cannot be the dominant source of social power in developing countries. Many groups have significant holding power based on organizations that are not strictly part of the formal institutional structure. This implies that informal institutions and the incomes and power distributions sustained by these institutions are a significant part of the ‘institutional structure’ defining the political settlement in developing countries. Another way of saying this is that in developing countries, the achievement of stability requires a parallel distribution of benefits based on activities supported by informal institutions. It is therefore not surprising that without exception, developing countries have economies that are characterized by significant informality and informal institutions that have considerable effects on sustaining the overall distribution of benefits and power.

The operation and effectiveness of particular formal institutions cannot be understood without locating them within this overall context. Informal institutions and the mechanisms through which they sustain distributions of benefits and powers can significantly affect the operation of particular formal institutions. Our theoretical framework provides a general explanation for the phenomenon of informality that is consistent with the observation that informality in developing countries appears to be a general phenomena, and not one that is associated with particular cultures, economic systems or political institutions.

Political settlements in developing countries have general characteristics that lead us to describe them as “clientelist”. In all developing countries informal power organized through organizations broadly described as ‘patron-client’ organizations play a role in sustaining distributions of benefits and power. The significance of informal arrangements in the political settlement also implies that formal institutions operate very differently in developing countries compared to the expectations of narrow transaction cost analysis. This is a critical theoretical result, which allows us to examine differences in institutional performance between countries, and to understand why institutions evolve through very different evolutionary paths in different countries.
By locating the analysis of patron-client relationships in this framework, we also arrive at a broader understanding of patron-client politics and clientelist relationships in general. These are often ‘rational’ arrangements for sustaining significant distributions of benefits and power. In contemporary developing countries patron-client relationships are rarely based on traditional cultural values or weak democratic institutions as some of the older literature on patron-client relationships suggest. These observations also help to explain why Weberian ‘good governance’ strategies are misplaced because they attempt to enforce institutional structures that are structurally unsustainable. A better understanding of clientelist political settlements can help us to identify institutions and reforms that make sense in the context of actually existing political settlements. If some organizations of power are very adverse for economic development, fundamental changes in the political settlement may be required. The framework of analysis suggested here shows why such judgements are deeply political and can result in significant transition costs that have to be factored into an analysis of the desirability of particular directions of institutional change.

While clientelist political settlements share some broad common characteristics, there are significant variations within this group. Clientelist political settlements can range from developmental states at one end of the spectrum to states on the verge of crisis and collapse at the other. We identify two important characteristics which distinguish variations in the mix of formal and informal power within clientelist political settlements. First, there is considerable variation in the distribution of power between the ruling coalition and other factions, and between the ruling coalition and lower factions on whose support it depends. These variations affect the time horizons of the ruling coalition, its capacity to coordinate and its capacity to implement rules that may impact on coalition supporters differently. These characteristics are important for understanding the operation of specific formal institutions in these contexts. Secondly, the political power and technological sophistication of productive entrepreneurs also varies. This determines how capitalists link up with different factions in the ruling coalition, and the likely resistance they and others can mount against the implementation of specific institutions. The relationship between these variables is non-linear so ‘improvements’ along any dimension can have positive or negative effects depending on the characteristics of other variables.

While there are other potentially important aspects of a political settlement, we argue that these characteristics capture significant aspects of the distribution of formal and informal power that helps to explain the operation of particular growth-promoting institutions in developing countries. These features of the political settlement affect the efficiency with which specific institutions can be enforced. They also determine the political costs of trying to improve growth with specific institutions or along specific paths of institutional evolution. This determines what we describe as the growth-stability trade-offs for particular institutions that are operating in specific political settlements.

Using this framework, the paper presents an analysis of how political settlements evolved in our countries in terms of the categories developed in the theoretical framework. The evolution of the political settlement in each case is shown to correlate with changes in institutional strategies in our countries examined in earlier papers in this series, some of which are summarized in the figures attached as an Appendix to
this paper. Although the analysis presented for each country is at an early stage of development, changes in the political settlement in each of our countries helps us to understand better the performance of specific institutional experiments and paths of institutional evolution. The framework opens up a new way of investigating institutional performance and evolution.

7. References


Khan, Mushtaq H. and Hazel Gray 2006. *State Weakness in Developing Countries and Strategies of Institutional Reform: Operational Implications for Anti-Corruption*


### 8. Appendix: Summary Tables on Rent Characteristics from Khan (2008)

<table>
<thead>
<tr>
<th>Policies/Rents</th>
<th>Governance</th>
<th>Outcomes/Vulnerabilities</th>
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<tbody>
<tr>
<td>Rent allocation and rent capture to create domestic conglomerates, 1950-</td>
<td>Competitive Clientelism ensured access to rents was relatively competitive because of competition between patrons. Entry of new clients could not be permanently blocked and together with hard budget constraints for individual factions ensured that clients knew that assets had to become competitive. A permanent flow of rents to particular clients not feasible.</td>
<td>Rapid growth of large domestic conglomerates in relatively low technology manufacturing: Dramatic growth (particularly 1960s onwards) in low-tech sectors where learning periods were short. But competitive clientelism also damaged autonomy of critical agencies: by the late 1980s and 1990s the Bank of Thailand, the NESDB and other agencies became targets of ruling factions.</td>
</tr>
<tr>
<td>Limited Rent allocation by technocratic agencies like Board of Investment (BOI) to accelerate learning and technology acquisition, particularly 1980s</td>
<td>Requires specific technocratic and political (growth-enhancing) governance capabilities</td>
<td>Some upgrading and diversification through conditional support particularly over 1980-97 Examples include diesel engines 1980-85, cathode ray tubes 1985 onwards. But growing politicization of agencies in a context of cheap capital imports limited development of these capabilities. BOI moved to support firms independent of nationality by mid-1980s.</td>
</tr>
<tr>
<td>Non-discriminatory rent allocation to all technology providers including FDI, particularly 1997-</td>
<td>Negotiated through active business-government dialogues and regulated by international agreements such as WTO and FTAs</td>
<td>Rapid growth of FDI in assembly operations where agglomeration economies already exist Automotive sector success story but ownership of technology and bulk of profits is foreign. Growing challenge of increasing low domestic value added. Country vulnerable to relocations of foreign capital. Effects of populist politics pose a continuous danger.</td>
</tr>
<tr>
<td>Formal rents based on fiscal incentives, import and export controls, licensing and zoning laws. Informal rents based on ability to negotiate terms on formal rents, and preferential access including to privatized assets, loans, licenses, natural resources and insider information.</td>
<td>Effective technocratic capabilities existed in some agencies and there were moments of political support for such strategies even in overall context of competitive clientelism.</td>
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<tr>
<td>Examples are targeted BOI incentives for specific technology acquisition strategies including duty concessions, time bound entry barriers, local content conditions supported by specific incentives.</td>
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<tr>
<td>Local content rules, local ownership rules and setting of national technology priorities all abandoned Initially rents for FDI were provided by cutting tariffs and taxes but as these are bid down further incentives require big investments in education and skills. FTAs and WTO limit capability of governments to induce learning-by-doing in new sectors by creating temporary rents. Governance focus shifts to ensuring quality of skills in formal education.</td>
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**Figure 6** Characteristics of Rents and Governance: Thailand

Source: Khan (2008)
<table>
<thead>
<tr>
<th>Policies/Rents</th>
<th>Governance</th>
<th>Outcomes/Vulnerabilities</th>
</tr>
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</table>
| Rent allocation to big business for learning on a significant scale 1950-80 | Affected by common Indian problem of disciplining learning rents BUT significant expansion of industrial base | Deepening Industrialization of Maharashtra  
Maharashtra gets a significant share of industrial licenses.  
High growth of all industrial sectors. |
| Licenses, credit, limited amounts of industrial land allocated to investors. | Big business had long-term relationships of financing politics: As a result both sides could take a long-term pro-industry view. | |
| Rent-creation for growth sectors continues after liberalization based on strong business-politics relationships 1980-90 | Stable and long-term relationships between business groups and key politicians continue | Growth Acceleration in Industry 1985-90  
Driven by higher technology sectors like automobiles and pharmaceuticals. |
| Negotiation of incentives, formal policies, land, and implicit subsidies for technology upgrading continue. | But under growing threat from populist, nativist and exclusivist types of populism playing on persistent and high levels of poverty. | |
| Populist redistributive rent creation by fragmented ruling coalitions 1990- | Traditional parties split and less stable coalition governments emerge | Shift of investors into areas where learning risks and other sources of market failures were lower  
Rapid growth of high-valued services (financial services, software) and deceleration of industrial growth after 1990 |
| Mobilization of intermediate class supporters using budgetary and off-budget rent creation.  
Populist strategies of mobilization such as those based on Marathi nationalism. | Business less able to maintain long-term relationships with politics in this context.  
BJP-Shiv Sena coalition government emerges in 1995 signalling the emergence of new political patterns. | |

Figure 7 Characteristics of Rents and Governance: Maharashtra

Source: Khan (2008)
<table>
<thead>
<tr>
<th>Policies/Rents</th>
<th>Governance</th>
<th>Outcomes/Vulnerabilities</th>
</tr>
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<tbody>
<tr>
<td><strong>Rent allocation to big business for learning but with limited dynamism 1950-80</strong></td>
<td>Affected by common Indian problem of disciplining learning rents PLUS specific state problem of weak long-term relationships with big investors who are often non-Bengalis</td>
<td>‘De-industrialization’ of West Bengal 1950-80</td>
</tr>
<tr>
<td>Licenses, credit, limited amounts of industrial land allocated to investors.</td>
<td>Big investors lack confidence in long term commitment of political process to incentives for industrialization.</td>
<td>West Bengal gets a smaller share of licenses and financing compared to its competitors but its contribution to Indian industry shrinks even more rapidly as domestic business relocates. Growth of small scale and low productivity manufacturing.</td>
</tr>
<tr>
<td><strong>Rent allocation and redistribution of land in agriculture to benefit small and medium peasant constituency 1977-1990</strong></td>
<td>Disciplined mass party organization operating through panchayati system of decentralization</td>
<td>Rapid agricultural growth for a decade</td>
</tr>
<tr>
<td>Ceiling-surplus land redistributed, sharecroppers registered, agricultural subsidies distributed to target recipients through decentralized government.</td>
<td>Effective targeting of rents and asset redistribution to core constituencies of small and medium peasants. Motivated by electoral calculations of ruling Left Front, which remains electorally unbeatable over this period.</td>
<td>Agricultural yields and output increase but hits ceilings due to unfavourable population density, very small size of farms, and poor infrastructure.</td>
</tr>
<tr>
<td><strong>Significant Policy Shift to Big Business: 1994 Industrial Policy</strong></td>
<td>Strong executive support but conflicts emerge with parts of the Left Front’s power base</td>
<td>Rapid growth of industrial approvals in moderately big projects and implementation of at least one mega project in Haldia Petrochemicals in 2001</td>
</tr>
<tr>
<td>Subsidies and incentives for big business plus extra incentives for mega-projects after 2000.</td>
<td>Weakness of Bengali capital continues to obstruct the development of a politically powerful domestic industrial constituency.</td>
<td>Haldia’s success balanced by failures in Singur (Tata Nano) and Nandigram (chemical hub) in 2007-08 when opposition parties successfully mobilize parts of the Left Front constituency.</td>
</tr>
<tr>
<td></td>
<td>Opposition’s ability to mobilize disaffected intermediate classes makes political price of big business policy potentially very high.</td>
<td>Clarity of policy weakened.</td>
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</table>

Figure 8 Characteristics of Rents and Governance: West Bengal

Source: Khan (2008)
<table>
<thead>
<tr>
<th>Policies/Rents</th>
<th>Governance</th>
<th>Outcomes/Vulnerabilities</th>
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<tbody>
<tr>
<td><strong>Ongoing asset and rent capture by emerging propertied classes 1971-</strong></td>
<td>Series of transitions leading to competitive clientelism:</td>
<td>Rapid growth of medium-scale capitalists after 1980s</td>
</tr>
<tr>
<td>Significant acceleration of primitive accumulation by Bengali elites after 1971, continuing with lesser intensity after 1975.</td>
<td>Competitive clientelism weakly institutionalized in the post-1990 democracy, and vulnerable to breakdown during elections.</td>
<td>Competition between factions produced a relatively broad-based capitalism</td>
</tr>
<tr>
<td>Driven by the use of political power to capture or influence the granting of government contracts, land, bank loans and subsidies.</td>
<td>Leads to Emergency of 2007-2008 that attacks political corruption but fails to introduce ‘good governance’.</td>
<td>But aggressive primitive accumulation also source of intense political instability.</td>
</tr>
<tr>
<td><strong>Rent allocation to accelerate learning and technology acquisition since the 1950s but with poor results</strong></td>
<td>Technocratic capabilities weaker since 1971 and political environment unfavourable for rent-creation for growth</td>
<td>Ability of state institutions to implement growth-enhancing policies weakened by factional competition</td>
</tr>
<tr>
<td>Examples include subsidized credit allocation by industrial banks up to the 1980s, tariff protection, subsidies for export promotion.</td>
<td>But occasionally growth-enhancing institutions can emerge with political support: examples include bonded warehouses and back-to-back LCs for the garments sector in the early 1980s.</td>
<td>Formal policies to upgrade technology generally not successful</td>
</tr>
<tr>
<td><strong>Fortuitous learning rents for garment sector created by MFA in the 1980s</strong></td>
<td>Effective because of strong support for the sector by the executive and a supply of entrepreneurs emerging out of primitive accumulation</td>
<td>Rapid growth of garments sector</td>
</tr>
<tr>
<td>Quota rents created by MFA had significant if fortuitous effects for technology acquisition in the garments sector.</td>
<td>MFA created a time-bound set of rents that could not be prolonged through domestic political processes.</td>
<td>Unprecedented growth rates achieved by garments sector, supporting a growth acceleration for the industrial sector as a whole.</td>
</tr>
<tr>
<td></td>
<td>The executive had the capacity to engage in focused institutional innovations with significant effects.</td>
<td>But extensions based on this experience required to achieve technological upgrading and move up the global value chain.</td>
</tr>
</tbody>
</table>

Figure 9 Characteristics of Rents and Governance: Bangladesh

Source: Khan (2008)
<table>
<thead>
<tr>
<th>Policies/Rents</th>
<th>Governance</th>
<th>Outcomes/Vulnerabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ujamaa Socialism: Rent allocation to public sector for learning and collective development 1967-1985</strong></td>
<td>Disciplined one party state but inclusion of all managers within state-party meant disciplining of performance would be weak</td>
<td>Some industrialization 1967-78 but reversed after 1978 Uganda invasion and external shocks</td>
</tr>
<tr>
<td>Industrial development through public sector ‘parastatals’.</td>
<td>In fact, experiment did not last long enough to test if the disciplining of non-performers was possible</td>
<td>Disciplined party and aversion to private accumulation in Ujamaa period meant there were very few black African elites who could become potential capitalists when socialism began to be rolled back.</td>
</tr>
<tr>
<td>Agricultural development through villagization and collective farming.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Liberalization and Privatization 1985-</strong></td>
<td>Arms length formal relationships with business but informal relations probably based on suspicion and short term rent sharing</td>
<td>Rapid growth of mining sector and some growth of manufacturing and utilities particularly with foreign participation</td>
</tr>
<tr>
<td>Privatization of parastatals primarily benefited foreign investors.</td>
<td>Rent sharing in mining weighted towards investors</td>
<td>Significant imbalance in sharing mining rents with foreign investors.</td>
</tr>
<tr>
<td>Significant growth contribution of gold mining due to attractive rent sharing opportunities for foreign investors.</td>
<td>Key challenge of developing dynamic black African capitalist sector not addressed.</td>
<td>Slow growth of manufacturing despite very small base.</td>
</tr>
<tr>
<td><strong>Significant aid rents financing social spending 1990-</strong></td>
<td>Governance reforms aimed at donor community such as PFM, commitment to anti-corruption, progress on multi-party democracy</td>
<td>Significant growth in public spending on health and education</td>
</tr>
<tr>
<td>High rates of growth of public spending arithmetically add to growth rate and could raise social productivity in the long run through health and education.</td>
<td>Efficient service delivery in health and education may not be sufficient for achieving sustainable growth path.</td>
<td>High GDP growth rates sustained by public spending but questions about whether aid at these levels can continue.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expectations of aid financed spending can have damaging political and economic effects if aid is suddenly suspended.</td>
</tr>
</tbody>
</table>

Figure 10 Characteristics of Rents and Governance: Tanzania

Source: Khan (2008)