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GROWTH, INEQUALITY, AND NATIONALISM

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In order to understand contemporary India's economy and its relationship with democracy, it helps to start with the nation's threefold economic structure. For nearly a decade now, India has had the world's fourth-largest concentration of dollar billionaires (after the United States, China, and Russia),¹ its third-largest middle class (after China and the United States), and its single largest concentration of poor people. This tripartite structure is new. During much of the British period of Indian history (1757–1947), the economic structure featured a thin but opulent layer of *rajas* and *maharajas* (princes and kings), a tiny middle class, and a huge mass of people who lived in poverty.

In their accumulation of income and wealth, India's billionaires today have left the princes and kings far behind. The middle class is no longer minuscule, and the poor, though smaller as a share of the populace than ever before in the last two centuries, continue to be a huge group in absolute numbers. India is thus simultaneously rich and poor. Moreover, while economic power is highly unequal, the franchise is universal, which gives the poor considerable voting weight in the polity. Unlike their counterparts in the West, India's poor have of late been voting nearly as much as its middle classes, if not more.

How does India's economy, so marked by inequalities, interact with its democratic polity, where the vote of the poor is quite consequential? Basically, for the last three to four decades, governments in India have had to walk on two legs. They have had to promote economic growth, *and* they have had to attend to the welfare of the low-income segments of society. The two legs can work together, of course. Only high growth can generate the resources required for a systematic engagement with mass welfare.

TABLE 1—INDIA'S GROWTH RATES, 1950–2015 (YEARLY AVERAGE)

Years	Economic	Population	GNP per Capita
1950–80	3.5%	2.5%	1.0%
1980–2015	6.3%	1.8%	4.5%

Source: Calculated from various *Economic Surveys*, Government of India.

The balance between growth and welfare, however, can be struck in different ways. Narendra Modi of the Bharatiya Janata Party (BJP) became prime minister in mid-2014, after leading his coalition to an election victory over its rival, the coalition led by the Indian National Congress (INC or Congress party). The Congress party government that Modi and the BJP bested had come under widespread criticism for having leaned too far toward welfare. Many thought that Modi would swing back toward growth. As we pass his third anniversary in power, however, it is clear that the main aim of his policies is not growth but mass welfare. The primary reason for this is political. In popular perception, India's strong economic growth over the last several decades has left too many behind. Elected governments must show that they are at least trying to do something about this. No government can let itself be seen as too aligned with the affluent, even though the rich, especially businessmen, fund the election campaigns of political parties.² Paradoxically, India's democratic polity relies on the nation's businessmen even as it tries to keep them at a certain distance.

Before analyzing Modi's economic policies, it will be best to present a historical overview of India's economy.³ Although assessments of India's economic performance often begin with independence in 1947, or compare what happened after that with the last few decades of British rule, the country's pre-British economic history merits brief consideration. Economic historians have shown that before the British conquest India's economy, like China's, was among the most manufacturing-oriented of its time. In 1750, for example, India accounted for 24.5 percent of the world's manufacturing output (China produced another 32.8 percent). Essentially, India's economic decline coincided with the British conquest. This also means that India's pre-British economic structure was probably thinner at its lower end. During the British period, a new (and small) middle class may have been born, but mass poverty in all likelihood increased. After having accounted for nearly a quarter of world manufacturing at the midpoint of the eighteenth century, India at the dawn of the twentieth put out a bare 1.7 percent.⁴ During the years from 1900 to 1946—the last half-century of British rule—the Indian economy was virtually stagnant.⁵

Only after independence did growth start again. The postindependence economy is normally split into two periods: the years from 1950 to 1980, and those since 1980. As Table 1 shows, the first period saw an average annual economic-growth rate of 3.5 percent. With population

TABLE 2—SIZE OF NATIONAL ECONOMIES

Country	GDP (US\$ Trillions, 2016)
United States	18.6
China	11.2
Japan	4.9
Germany	3.5
United Kingdom	2.6
France	2.5
India	2.3
Italy	1.9
Brazil	1.8
Canada	1.5

Source: International Monetary Fund, World Outlook Database, April 2017, www.imf.org/external/pubs/ft/weo/2017/01/weodata/weoselgr.aspx.

Note: GDP data represented in current dollars for 2016.

growth averaging 2.5 percent a year during that era, per capita income rose at the meager rate of just 1 percent annually. Since 1980, the average annual economic-growth rate has climbed to 6.3 percent, while the average annual rate of population growth has fallen to 1.8 percent. This puts the growth rate of per capita income since 1980 at 4.5 percent a year, or four and a half times the rate seen over the first period.

The acceleration was especially strong between 2003 and 2015, when average annual growth surged to 7.7

percent.⁶ Over this same period, the world economy as a whole grew at roughly 4 percent a year. Among major economies, only China's growth outstripped India's. Then in 2015, the International Monetary Fund announced that it expected India to grow more rapidly than China for the indefinite future. For the last two years, that forecast has held true.

By 2016, as Table 2 shows, India's GDP was worth US\$2.3 trillion, giving the country the world's seventh-largest economy—larger than those of Italy and Canada and only slightly smaller than those of the United Kingdom and France.⁷

What accounts for India's economic turnaround? How inclusive has its growth been? What changes has Prime Minister Modi introduced on the economic front? Let us now turn to these questions.

India's sluggish performance over its first three postindependence decades was the product of national policy choices. India had a socialist orientation. It was inward-looking and pessimistic about international trade. It did not abolish the private sector, as China under Mao Zedong did, but it placed restrictions on private initiative. The centerpiece of internal controls was the industrial-licensing system—also known as the “permit raj”—which told private entrepreneurs what they could invest in, how much, where, and using what technology, while the government also decided what they could charge for their products. Meanwhile, exchange-rate and foreign-investment controls sapped India's relationship to the world economy. Self-reliance was postcolonial India's overarching economic goal, but pursuing it came at a cost to economic vitality and dynamism.

After stirrings of liberalization in the 1980s, real reform began in

1991. The industrial-licensing system was abolished, giving private investors more freedom to make their own economic decisions. Exchange-rate liberalization and the lifting of restrictions on cross-border capital flows ushered in a new era of overseas trade and began India's integration into the world economy.

A few statistics convey the transformation that ensued. In the early 1990s, trade was less than a fifth (18 percent) of India's GDP. By 2013, that figure had rocketed to 55 percent, exceeding for the first time the trade-to-GDP ratio of China. Information technology and software became India's most widely noted exports, as goods from China—which has a GDP almost five times larger than India's—continued to flood world markets and render Indian goods somewhat “invisible” by comparison.

Similarly, foreign direct investment (FDI) averaged a mere \$100 million per year in the 1980s. In the early 2010s, annual FDI often crossed the \$25 billion or even \$30 billion mark, rising still further after Modi came to power. By Chinese standards, this is modest, but by historical Indian standards, it is massive. Moreover, before 1993, foreign companies could not even invest in India's capital markets. By 2000, foreign investors had started sending capital to India in a big way.

In short, in the second period of its postindependence economic history India has become much more market-oriented and globalized. Indeed, it is no exaggeration to say that over the last three decades the Indian economy has been one of globalization's leading beneficiaries. Will the emergence of antiglobalization politics in Europe and the United States change India's experience of globalization in a major way? It is too early to say.

Growth: Inclusionary or Exclusionary?

When we turn to the topic of inclusion, India's growth story begins to take on darker shadings. Inequalities remain significant and take several forms. They are interregional, intersectoral, and interpersonal. Let us consider each in turn.

Interregional disparities have been growing in India. Coastal states such as Andhra Pradesh, Gujarat, Karnataka, Kerala, Maharashtra, and Tamil Nadu have generally expanded faster than inland states.⁸ At one level, this is surprising: In development circles, the broad expectation is that as a nation develops, its states and regions begin to converge. But there is as yet no convergence in India with respect to per capita income or consumption rates, and the reasons remain murky.⁹ On the whole, the west and south are surging ahead while the north and east are falling behind. While the economic picture is clear, the political implications of this divergence are not.

When it comes to intersectoral disparities, both the politics and the

economics are clearer. Agriculture now accounts for only about 14 percent of GDP; in the early 1990s, when reforms began, that share was 29 percent. It is well known that agriculture simply cannot grow as fast as industry and services can. Therefore, as economic development gets underway, the agricultural slice of national income tends to shrink.¹⁰ The problem in India is not that agriculture's share of GDP has gone down. Rather, the issue is that instead of finding employment in the higher-productivity nonagricultural sectors—something that has happened in China—almost half of India's labor force still depends on agricultural work. Rural India, in short, is caught in an unproductive trap, and serious economic imbalances between cities and the countryside are emerging.

Urban India, where a third of the populace lives, now produces more than three-fifths of GDP.¹¹ In politics, however, the proportions flip, as the two-thirds of India that lives in the countryside has greater electoral weight. If in economic terms urban India is surging, in political terms its significance is much lower than that of rural India, which remains the main focus of elections and party campaigns. A peculiar result of this is that rural local governments are generally stronger, both politically and economically, than urban municipalities. Normalizing for the respective sizes of the populations they serve, India's Ministry of Rural Development has more resources than its Ministry of Urban Development. Cities may be richer, but the rural focus and weight of Indian democracy continues unchanged—substantially, if not entirely.

Of all forms of inequality, the interpersonal kind has drawn the most comment. Disaggregated income data are hard to come by in developing countries, and India is no exception. Yet the basic story is clear. High economic-growth rates have produced one of the world's largest concentrations of dollar billionaires. *Forbes* magazine reported not a single billionaire in India before 1993. The post-1991 economic policies, with their greater friendliness to markets and globalization, are almost certainly linked to the rise of a supremely affluent class.

Turning to the other end of the socioeconomic spectrum, we note that poverty has declined, but the rate of that decline remains unimpressive. In 1983–84, about 44 percent of all Indians lived below the poverty line; by 2011–12, that proportion had halved (which, in absolute terms, meant that there were still nearly a quarter-billion poor people).¹² If one includes those who live only slightly above the poverty line, the number of those having low incomes begins to look truly immense.

A clearer picture of the deprivation at the bottom comes into focus through the lenses of India's performance in promoting literacy and health. The 2011 census found that a little over a fourth of all Indians could not read or write.¹³ The country's health indicators by now lag behind those of neighboring Bangladesh, where per capita income is considerably lower. That is why some leading scholars find India's eco-

conomic rise unimpressive.¹⁴ The gains for the rich and the middle classes have been enormous, those for the poor meager.

As already indicated, India's low-income groups are not only numerically huge—they vote. In Western democracies, rich people are more likely to vote than are the poor, but in India (at least since 1989), the poor have voted at rates equaling if not exceeding those of their more prosperous fellow citizens.¹⁵ As a result, no democratically elected government in India can consider growth promotion as its only economic task. If it wants to keep office, it must also show that it is trying to address the concerns of the subaltern classes.

When Modi came to power in 2014, the expectations in some economic circles, especially on the right, were that he would pursue growth more vigorously than had the outgoing Congress-led government, and that his approach to boosting growth would be more market-oriented. These circles believed that the previous government had retreated from markets and gone too far in the direction of mass welfare, bringing a rights-based welfare regime into being for the first time in India's history.

The severest criticism targeted three rights that the previous government had turned into laws by acts of Parliament. These were the rights to food, to education, and to rural employment. The right to food guaranteed public provision of a minimum bundle of food and nutrition to any household unable to buy enough on the open market. The right to education forced private schools to reserve places for children from deprived backgrounds; the law covered private schools because there are not enough government schools to educate everyone. The right to rural employment guaranteed at least a hundred days per year of paid labor on public-works programs to at least one member of each rural household. Critics charged that these schemes were premature. Only at considerably higher levels of income than India currently has, they argued, have societies been able to build welfare states. They also contended that heavy state involvement would mean more corruption and resource leakage in the delivery of public services, while programs urgently needed to lift economic growth would go wanting.

Eventually, Modi went for a combination of growth and welfare that departed from these expectations. With some exceptions, his growth-promotion policies have been investment-driven rather than market-driven. They have sought to mobilize capital, instead of freeing up markets to increase efficiency. Modi also does not talk much about these policies, preferring to reserve most of the rhetorical fanfare for his mass-welfare programs and his attacks on corruption.

Although Modi had raised his voice against state-guaranteed rural employment, complaining that it led to corruption while doing little to improve welfare, as prime minister he has ended neither that scheme nor the food and education rights. Indeed, he has added two vast new programs to aid the poor. The first is the Swachh Bharat (Clean In-

dia) campaign, which seeks to provide modern sanitation to the lower-income segments of society. The second is called Jan Dhan (roughly, People's Money). This program forces public-sector banks to open accounts for the poor even if such accounts make no commercial sense for the bank. Such a policy is clearly not market-friendly. Nonetheless, Modi has argued that bringing the poor out of informal credit markets and giving them access to formal banking services will enhance their welfare. Many of their payments and benefits can go directly to their bank accounts, reducing opportunities for graft. The poor can receive what they are owed, with no skimming by middlemen.

Among the market-oriented policies that Modi has pursued, two invite special attention. The first is his strengthening of bankruptcy laws. It had been virtually impossible for an Indian business, even one that had stopped turning a profit, to declare bankruptcy. This situation had bred manifold inefficiencies in product, labor, and capital markets. The new rules have made it easier for businesses to cease activities that they deem bereft of profitable prospects.

The second Modi growth policy worth noting is his effort to eliminate the irrationalities that have long plagued interstate commerce. To assuage states' independence-era anxieties about federal power, Article 304 of the 1950 Constitution allows each state to "impose such reasonable restrictions on the freedom of trade, commerce or intercourse with or within that State as may be required in the public interest." Under this "reasonable restrictions" clause, Indian states have long levied taxes and charges on a whole range of goods, limiting interstate trade and blocking the formation of a single market that spans the whole country. When in opposition, Modi had spoken against what has come to be called the common Goods and Services Tax (GST), but when he came to power he changed course and began pressing for it. Parliament has now passed GST legislation that aims to replace the web of state-level restrictions with a nationwide common market. Implementing it fully will take time, but interstate commerce is plainly on a path to greater freedom. The value that this adds to India's economy may be significant.

Demonetization and Majoritarianism

On 8 November 2016, in a wholly unexpected move, Modi announced his biggest economic-policy initiative to date. He declared that India's two largest-denomination bills, the notes worth 500 and 1,000 rupees (equaling roughly US\$7.50 and \$15 at the time) would no longer be legal tender. With this move, he instantly withdrew 86 percent of all cash circulating in India.¹⁶ Over the next two months, a fourfold rationale evolved. The demonetization of large currency notes, argued Modi and his adherents, was needed to 1) attack corruption and "black money" used in the illegal economy; 2) strip counterfeiters of the notes that they

especially like to fake; 3) cut terrorists off from their favorite financing methods; and 4) encourage Indians to switch to the more efficient “cashless economy” of electronic transactions.

Some of the world’s leading monetary economists commented negatively on Modi’s astonishing policy move. The critics included figures such as Kenneth Rogoff who have in the past backed the idea of banning big notes, saying that they make life too easy for criminals and tax evaders while being of scant use to normal citizens. The principal criticisms of Modi’s move were two. First, an overnight ban as opposed to a gradual phase-out did too much “collateral damage.” Nearly 93 percent of Indian workers toil in the informal economy, where cash is the dominant mode of transaction. Demonetization hurt this whole sector and not just criminals, cheats, and swindlers. Second, a cashless economy is viable only in rich countries, where most economic transactions are in the formal sector and technologies such as credit-card networks and online banking are ubiquitous. In a country struggling with 20 or 25 percent illiteracy, where Internet connectivity is spotty and privacy laws are unclear, a cashless economy is impractical.¹⁷

The long-term implications of demonetization remain unclear. The near-term effects, however, have been painfully evident. “Short-term costs have taken the form of inconvenience and hardship, especially [for] those in the informal and cash-intensive sectors of the economy who have lost income and employment,” admits the government’s own assessment.¹⁸

The government report moves on to a confident claim that demonetization’s costs will prove merely transitory, but the evaluation makes it plain that the low-income segments, almost all in the informal sector, were hurt more than others. The rich were little affected, for it is well known that they keep their “black money” mostly in real estate, gold, and foreign accounts rather than Indian rupees.

If the pain that demonetization caused the poor was not surprising, the lack of ensuing protests was. What accounts for the quiescent reaction?

Economic policies are normally debated in terms of costs and benefits, but Modi’s political rhetoric wrapped demonetization in nationalism. He and his party repeatedly argued that any organized opposition to demonetization was tantamount to disloyalty to the nation. The opposition parties are currently weak and vulnerable to charges of corruption. Had they mounted protests, they would have faced renewed condemnation as not only corrupt, but disloyal to India. They felt trapped. Civil society organizations also lacked the power to mobilize. We know from experience as well as theory that collective action by the poor and subaltern is hard, if there are no organizations to lead it. In the end, the short-term pain brought by demonetization remained politically unmobilized.

In the months since his late-2016 shock demonetization announcement, Modi’s popularity has remained undimmed. Early 2017 saw him campaigning for his party in state-level elections and winning major victories.

None can outrank the one that the BJP scored in March 2017 in the north-central state of Uttar Pradesh. The largest state in India with a population of roughly two-hundred million (making it about the same size as Brazil), Uttar Pradesh is also one of the poorest and least-industrialized states. Its informal sector is larger than the high national average, meaning that demonetization must have caused considerable misery there. Yet Modi won.

Beyond Economics

The explanation of Modi's political success points us to the noneconomic side of politics, with which economic issues can be joined. At the elite level, economic issues have always mattered in Indian politics. But at the mass level, the drivers of politics have often been noneconomic. Caste and religion, in particular, have served as master narratives for mass politics.¹⁹

The perception that Modi has waged a serious battle against corruption has taken deep hold in mass politics. Many also accept his contention that short-run pain will bring the people long-term benefits. Yet more importantly, Modi's party, with his help, has once again managed to make religious nationalism the main driver of success at the ballot box.

How does a religious turn in mass politics effectively neutralize the significance of economic as well as other issues? The logic of Hindu nationalism has always been clear. The Hindu community is a house divided among the various castes. A Hindu consolidation against the Muslim minority, if it can take place, can push caste differences as well as economic matters into the background. Hindu majoritarianism, if successful, can overcome internal Hindu cleavages and trump any misery that demonetization might cause.

The Hindu nationalists' fight against the Muslim community (about 14 percent of the populace) has a long history. The years since Modi's rise have seen the return to prominence of a number of standard Hindu-nationalist tropes. These include disapproval of Hindu-Muslim romances and marriages; opposition to Muslim divorce laws; claims that Ayodhya's Baburi Mosque (torn down by Hindu nationalists in 1992) was built over a Hindu temple and that the temple ought to be rebuilt; and the Kashmir dispute. Yet it is the cow, sacred to many Hindus, that has become the highest-profile symbol in this latest assertion of Hindu-majoritarian political claims. States under BJP rule have passed laws to ban slaughterhouses, the cattle trade, and even the eating of beef—or have looked the other way while vigilantes have enforced the Hindu-nationalist project with violence, waylaying cattle traders on the roads and assaulting tanners suspected of having killed cows or people accused of keeping beef in their refrigerators.

Muslims are not the only Indians who eat beef, but beef consumption is popular among them. Muslims are also among the biggest players in the cattle trade and own millions of the small businesses that are in-

volved in animal slaughter, especially in the northern and western states. Muslims have thus been among the biggest losers, economically as well as politically, from the reemergence of Hindu nationalism.

Modi has criticized cow vigilantes, but not strongly enough. After the BJP's sweeping win in Uttar Pradesh, Modi picked Yogi Adityanath to serve as chief minister there, giving him the highest-ranking state-level office recognized by the 1950 Constitution. Chief Minister Adityanath not only has sat for years as an elected member of the national Parliament in Delhi, but also heads a Hindu religious order and is the architect of a vigilante organization that uses force on behalf of Hindu religious and cultural values. Upon taking office, his administration's first action was to close slaughterhouses. Adityanath's appointment, with Modi's public endorsement, has an unmistakable signaling effect. It says that Hindu vigilantes can carry out the Hindu-nationalist project on the ground with no need to worry that the central government will get in their way.

We began with the idea that India's elected governments now work under two simultaneous imperatives: to bring about rapid growth, and to provide mass welfare. We saw that the pressure for inclusion in Indian democracy remains a force to be reckoned with. Growth and globalization have produced an enormously wealthy class, but it is numerically tiny and governments cannot afford to identify openly with it even though this class funds parties and campaigns. Political rhetoric in India always concentrates on the people's will, the people's power, the people's mandate, and the people's interest. Although the government programs that have resulted from this powerful political impulse may have failed to lift the masses out of poverty quickly enough, the political imperative behind these programs is real and potent.

The idea of the popular will is now drifting toward Hindu majoritarianism. This turn is inherently a turn against India's minorities. If left unchecked, it will spell danger for the health of Indian democracy, whatever its consequences for the economy.

NOTES

1. This is based on the global list of billionaires published annually by *Forbes* magazine. India has been known to trade fourth and fifth position on this roster with Germany, depending on stock-market conditions.

2. Cleaning up political and campaign financing has been on the agenda for some time, but the deep business-politics nexus remains. See M.V. Rajeev Gowda and E. Sridharan, "Reforming India's Party Financing and Election Expenditure Laws," *Election Law Journal* 11 (June 2012): 226–40.

3. Unless otherwise noted, this section contains arguments and data from my book *Battles Half Won: India's Improbable Democracy* (Gurgaon: Penguin, 2014), 278–311. Data not contained there, but mentioned here, are from the World Bank and IMF statistical tables and the Indian government's own *Economic Surveys*.

4. Paul Bairoch, "International Industrialization Levels from 1750 to 1980," *Journal of European Economic History* 11 (Fall 1982): 296, Table 10. See also Prasannan Parthasarathi, *Why Europe Grew Rich and Asia Did Not: Global Economic Divergence, 1600–1850* (New York: Cambridge University Press, 2011).

5. B.R. Tomlinson, *The Economy of Modern India, 1860–1970* (Cambridge: Cambridge University Press, 1993), 5, Table 1.2.

6. This period includes the growth deceleration during the last two years of the most recent Congress-led government, from 2012 to 2014.

7. In 2015, China's GDP, which in nominal terms was second only to that of the United States, was five times bigger than India's, and in real (Purchasing Power Parity) terms, two and a half times bigger.

8. There are exceptions. The seaboard states of West Bengal and Odisha struggle while landlocked Delhi and Haryana thrive.

9. *Economic Survey 2016–17*, ch. 10, http://indiabudget.nic.in/e_survey.asp.

10. Ashutosh Varshney, *Democracy, Development, and the Countryside: Urban–Rural Struggles in India* (New York: Cambridge University Press, 1994), ch. 2.

11. *Economic Survey 2016–17*, 300.

12. There is debate about whether the numbers from the 1980s or 1990s can be compared with those from 2011 and 2012. Technical issues aside, however, it is plain that India still has mass poverty. China has attacked poverty far more effectively with not only higher, but more labor-intensive, growth. India's slower growth, by contrast, has relied more on capital and skills than on the unskilled labor of the masses.

13. In 1951, after nearly two centuries of British rule, India's literacy rate was a paltry 18 percent. The 74 percent literacy rate reached by 2011 is a more than fourfold increase, but many would argue that it could have been substantially higher. A number of societies that were as poor as India in 1951—China and South Korea among them—achieved nearly universal literacy over this period. See *Census of India 2011: Provisional Population Totals, Paper 1 of 2011* (India: Office of the Registrar General & Census Commissioner), ch. 6, http://censusindia.gov.in/2011-prov-results/prov_results_paper1_india.html.

14. For example, Jean Drèze and Amartya Sen, *An Uncertain Glory: India and Its Contradictions* (Princeton: Princeton University Press, 2013).

15. Yogendra Yadav, "Understanding the Second Democratic Upsurge: Trends of Bahujan Participation in Electoral Politics in the 1990s," in Francine R. Frankel et al., eds., *Transforming India: Social and Political Dynamics of Democracy* (New Delhi: Oxford University Press, 2000).

16. "Reserve Bank of India Annual Report, 2015–16," 89, <https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/ORBIAR2016CD93589EC2C4467793892C79FD05555D.PDF>. Those holding the banned currency notes were given till December 30 to exchange them for newer notes, which however could not be printed in sufficient quantity and had to be rationed.

17. Kenneth Rogoff, "India's Cash Bonfire Is Too Much, Too Soon," *Financial Times*, 9 December 2016, www.ft.com/content/59c3e922-bd72-11e6-8b45-b8b81dd5d080.

18. *Economic Survey 2016–17*, 2.

19. How the two can be joined, and how elite politics and mass politics can be driven by different impulses, I discuss in more detail in my 2014 book *Battles Half Won*, ch. 10 (see note 3 above).