

Sustainability of India's Welfare System in the Context of Globalization: A Comparative Study of Maharashtra and Tamil Nadu

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In the globalization–welfare debate, the key questions are whether and how welfare states sustain themselves in the face of increasing international capital mobility and national competitiveness. This article situates the Indian case within the debate by examining India's sub-national welfare programs and systems. By analyzing the Maharashtra Employment Guarantee Scheme and the Tamil Nadu Pension Scheme, the author identifies welfare program design as an important factor in explaining the sustainability of state-level welfare systems. The author argues that the liberal and means-tested feature of the protective regime in Tamil Nadu tends to divide constituents' support for welfare expansion, leading, in turn, to lower public spending. On the other hand, the promotive nature of the welfare system in Maharashtra enhances universal social rights and thus shapes a broad political coalition among social welfare supporters, resulting in higher public spending.

Why the Indian Case Is Important

With the dramatic rise in international capital mobility and steadily upward trends in trade integration since the 1970s, the welfare states of Western countries have faced growing efficiency and financial pressure. In some countries, such as the United Kingdom, welfare benefits—including pensions, unemployment, and social assistance schemes—have, to some extent, been scaled back. In other countries, such as Sweden, the governments have maintained welfare spending in response to negative aspects of globalization. Accordingly, sustainability of welfare states has become the subject of controversy in the ongoing globalization–welfare debate. However, neither empirical research nor theoretical debate focuses on the welfare systems of non-Western countries such as India.

In the Indian case, the government welfare system has seemed to decline since the 1991 reforms, as implied by declines in both the Social Sector Expenditure (SSE)–GDP ratio and the SSE–Total Expenditure (TE)

ratio. The share of social-sector expenditure in total expenditures declined from 38.5 percent in 1990–91 to 29.7 percent in 2004–5. As a ratio of GDP, too, social-sector expenditure declined during that same period, from 6.1 percent to 5.4 percent. However, one methodological question has to be dealt with before one can conclude that India has retrenched social spending during the post-reform period. In India, the state governments—rather than the central government—incur the bulk of social-sector expenditures. The percentage shares of the states and of the center in the early and late 1990s are compared in table 1, where the contribution of the sub-national governments to social-sector expenditures is substantial and much larger than that of the center.

After this methodological adjustment, one important fact about the Indian case attracts attention: Despite an overall declining trend, the fiscal priority for the social sectors (indicated by SSE–TE and per capita SSE) has shown a divergent trend across the states in the post-reform years. Some states, such as Maharashtra (in western India), have shown a rare increase in shares of social-sector expenditure in total expenditures, while other “traditional welfare states,” such as Tamil Nadu (in southeast India), have faced a clear decline in similar areas. This article explores the welfare programs and systems at the sub-national level in India.

This piece is structured as follows: The next section offers a review of relevant literature and presents a framework for the analysis of welfare program sustainability. After that, the history and designs of two state-specific programs are discussed, and their effects on the sustainability of the programs are compared. The subsequent section constructs a welfare-spending index in order to conceptualize the welfare regimes in Tamil Nadu and Maharashtra. The final portion presents concluding remarks, caveats, and directions for future work.

Welfare State & Literature Review

The Globalization–Welfare Debate

A large body of work has focused on the globalization–welfare debate. The theoretical basis for this debate was laid by Karl Polanyi (1886–1964) and advanced by John Ruggie through the concept of “embedded liberalism” (Polanyi 1944; Ruggie 1982). They have separately conjectured that the state must make a broader commitment to social welfare in order to temper the “pernicious effects” of international markets. Their concerns have stimulated theoretical and empirical enthusiasm about the consequences of globalization on welfare states and their policies. Thus far, three main arguments have been made concerning the relationship between globalization and social welfare spending: the “efficiency thesis,” the “compensation thesis,” and the “statist thesis.” Conventional wisdom—the efficiency thesis—

TABLE 1 Share of States in Total Social-Sector Expenditures in India

Category	Share of States (%)	
	1990-91	1998-99
Medical & public health	90.7	89.3
Education, art & culture	90.3	88.1
Water supply & sanitation; family welfare	93.5	85.9
Housing	71.4	44.6
Urban development	85.7	93.1
Labor & employment	60.3	60.4
Social security & welfare	92.3	89.2
Other ^a	18.4	21.2
<i>Subtotal</i> for social services	84.4	82.3
Rural development	90.3	64.2
<i>Total</i>	85.2	80.0

SOURCE: Sen (2003, 151), Table 6.2.1. Values originally computed from data available in the *Indian Public Finance Statistics*, Ministry of Finance, Government of India, 1995, 2001.

NOTE: Information in the table reflects percentages of actual expenditures by the center and state.

^aIncludes scientific services & research, broadcasting, information & publicity.

suggests that all states, regardless of their partisan compositions and national differences, would embrace neo-liberal policies in order to maintain international competitiveness in a globalizing world. As a consequence, governments would find it more difficult to protect citizens from market-generated risks and inequalities.

The compensation thesis challenges this argument by demonstrating that international market exposure actually induces greater government spending on redistribution programs that compensate for market-generated inequalities. Cameron (1978), Katzenstein (1985), and Rodrik (1998) have demonstrated that there has been a positive relationship between trade exposure and government social spending throughout much of the twentieth century. Garrett (1998) extended these arguments by analyzing the ability of labor-market institutions. He argued that globalization has in fact strengthened left-labor movements; and, if labor markets are highly centralized and well developed, labor and government can effectively coordinate economic performance with redistribution policies.

As distinct from scholars who put labor at the center of studies, members of the third group of scholars (e.g., Swank 2002) think of state institutions as a more important factor, thus advancing the statist thesis. Swank disputed the systematic and direct linkage between international capital mobility and social welfare policies by examining the national institutions of three different types of welfare states.¹ He concluded that the domestic political institutions in these countries (e.g., national electoral systems and decision-making mechanisms) mediate the adverse influences on social welfare from globalization.

The Search for an Indian Welfare Model

The above-mentioned arguments apply only to developed countries and do not sufficiently explain the changing trend of welfare spending in the Less Developed Countries (LDCs), such as India. This thesis is worth exploring because there has been a good deal of discussion about an Indian model of economic development, yet analysis of its welfare components is still in its infancy.

In Indian studies, two broad categories of explanations have been offered to explain variation in macroeconomic policy outputs. One category of explanations takes a bottom-up approach, indicating that redistributive policies are promoted along social cleavages, such as by caste, religion, and language. In the case of welfare-policy making, social institutions are employed, such as trade unions and labor movements, in explaining the possible expenditure patterns of labor welfare. Scholarship on trade unions argues that in the LDCs, such as India, unions are less capable of defending their welfare benefits than their European counterparts because of collective-action problems (Rudra 2002).² Rudolph and Rudolph (1987) referred to this situation as “involutional pluralism,” arguing that fragmentation and multiplicity certainly complicate labor-management negotiations and are often exploited by management. However, this categorization operates at the national level and thus robs social welfare programs of variation at the state level. For example, in Kerala (in southwestern India), trade unions have historically been successful in collective bargaining with the state government in terms of social welfare issues, while Tamil Nadu cannot even see short-lived unity among its extremely fragmented trade unions. Moreover, this labor-centered literature, which maintains that the growth of a welfare state depends on a well-organized labor movement, ignores the fact that Indian labor unions are socially weak, given that most of them represent merely formal-sector workers, excluding large numbers of informal-sector workers. These unorganized laborers, which account for over 90 percent of the workforce, are the most disadvantaged by privatization and globalization and lack formal democratic means by which to negotiate with governments (Candland 2001).

The second category of explanations is based on a top-down model, emphasizing the role of the state apparatus—the polity's systems of collective group and electoral interest representation, as well as its structure of decision-making authority. Proponents of these explanations claim that the performance of governments is related either to the strong-soft state distinction (Rudolph and Rudolph 1987) or to the extent of deinstitutionalization of the Indian state (Kohli 1991) or specific party organizations (Kohli 1987) and party systems (Chibber and Nooruddin 2004; Palshikar and Yadav 2003). The most recent literature (Jenkins 2004; Sinha 2005) has found that lower levels of government, with their autonomy and capacity, have an independent or even intervening impact on the formulation and implementation of economic policy. However, these arguments are mainly focused on economic growth and investment flows in the reform years, leaving important welfare aspects of economic reforms untouched.

Rather than following the above-mentioned literature and treating policy as the result of political forces, I take policy as the *cause* of those forces: it often dramatically reshapes social, economic, and political conditions. Using past major policies as starting points, I argue that the long-term adoption of specific public policies provides incentives and resources for particular groups and that such policy responses lead to unintended consequences. According to Skocpol (1992), two major types of policy feedback are, first, the transformation of state capacities and, second, changes in social groups and their political goals and capabilities. The former type of policy feedback changes the incentives/resources of government elites, who create administrative possibilities to affect future prospects for new policies. The latter type of policy feedback provides motivations/resources for beneficiaries to mobilize in favor of programmatic maintenance or expansion. Over time, policy regimes will come into being with specific mechanisms, influencing the policy options in current and future years. The following section discusses the design of two state-specific welfare programs in India. Under the higher demand for reallocation of social spending in response to globalization, how does welfare-program design accordingly affect the welfare supply?

A Tale of Two States: Maharashtra & Tamil Nadu

India has achieved a GDP increase of around 6 percent annually since it embarked on economic reforms in the 1990s. However, rapid economic growth has only fueled demands for greater redistribution, especially since this growth is seen as increasing inequality. For instance, high economic growth generated job and income insecurity. Private enterprises used labor-displacing technologies to enhance labor productivity. Private employers who faced the rigid labor market in India favored short-contract and lower-

wage laborers to reduce overall production costs. Employment opportunities were thus reduced, especially for unskilled workers. In fact, employment growth in the formal sector has slowed since the mid-1980s and even stagnated in the 1990s. Casualization of employment increased considerably, from 27.2 percent to 33.2 percent, in the same time period. Another concern is the rising prices for basic goods such as food, water, elementary education, and health. For example, the relatively sharp increase in the prices of food grains has had adverse implications for the income levels of poor households. These changes highlight the imperatives of adequate social-security policies as well as sources to finance them.

Facing substantially increasing demands for social-security policies and funds, Indian state governments have responded differently. While some social programs and related spending have been actively expanded, others have been retrenched. This section takes a closer examination of the globalization-welfare nexus in two selected regional states, Maharashtra and Tamil Nadu, where many social and economic conditions were similar at the early stage of economic reforms, and where the central difference lies in divergent trends of welfare spending.

Maharashtra is India's third-largest state (after Rajasthan and Madhya Pradesh) and is located on the western coast, with Bombay (the Indian financial and business center) as its capital city. Maharashtra had a population of 96 million in 2001. In comparison, Tamil Nadu is less than half the size of Maharashtra yet has about two-thirds of its population. It is a southern state, sited on the eastern coast, with a population of 62 million. Chennai, the capital city, is the base for the large Tamil movie industry. Despite the differences in geographic and demographic terms, Maharashtra and Tamil Nadu are both capital-rich states, accounting for 28.32 percent of total private investments in India (Maharashtra, 18.43 percent; Tamil Nadu, 9.89 percent). They are also similar in terms of levels of human development and fiscal deficits.³ All these factors imply that they are exemplary candidates to test the effects of policy contrasts on social-sector expenditure over the reforming years.

Rather than focusing on general redistribution programs (such as education and health), I focus on two specific programs at the state level which improve the well-being of vulnerable groups: employment guarantee schemes and pension schemes. I examine to what extent the programs are accessible to the poor; how program designs have influenced mobilization of the poor; and how program implementation affects government officials' political calculations.

Maharashtra: Employment Guarantee Scheme

Originating in 1965, the Maharashtra Employment Guarantee Scheme (EGS) was designed as a state-level response to adverse economic and

demographic trends in rural Maharashtra. It guarantees employment at a defined wage, which is fully financed by the state. Since the bulk of the state's cultivated area is located in drought-prone areas, the EGS began as a relief program during the 1970–73 drought years, but it has continued to be used as a long-term anti-poverty program. In 1977 the EGS received statutory basis and has been operative as such from 1979. The law declares that “every adult person in the rural areas in Maharashtra shall have a right to work, that is, a right to get guaranteed employment . . . in accordance with the provision of this Act and the Scheme made thereunder.”⁴ After gaining statutory status, the EGS has consistently claimed between 10 to 14 percent of the total development budget of Maharashtra.⁵

Working as a promoter, the EGS has generated some unexpected benefits. First, by making an employment entitlement, the EGS promoted the rural poor to realize their common interests, to facilitate their collective political action, and to demand employment opportunities directly from the state. Influential organizations were aligned to lobby the government on the EGS and also on other welfare programs for the rural poor. For example, the Lal Nishan (Red Flag Party) in Ahmednagar district has supported the organization of the Ahmednagar Shett Mazdoor Union. Its leaders claim a membership of five thousand, of whom three thousand were organized as EGS workers. The Maharashtra Rajya Shett Mazdoor and Employment Guarantee Scheme Workers Samanvya Samiti were formed in 1981, with communicating with the government on how to resolve continuous local-level conflicts during EGS implementation as the main objective. More practically, the EGS design of concentrating large numbers of workers in one place helped to weaken social differences.⁶ EGS sites thus became starting points for cooperative labor, irrespective of caste and sex. For instance, Joseph (cited in Dev 1995) analyzed the case of Rashin Village of Ahmednagar district, where the Dalit workers were organized not only to prevent caste discrimination in wages and nature of work but also to restructure the Panchyat (elective village council) and ensure Dalits' active participation in day-to-day Panchyat decision-making. Such influence was later extended to other villages. Also, the EGS discouraged sexual barriers and inequality. At least 40 percent of EGS workers are women, with wage rates equal to those for men. With employment opportunities outside their households, women have also been encouraged to be more active in public life.

Second, the EGS placed workers under a single employer (the state) rather than multiple and dispersed ones. Such direct relationship with the state has facilitated bilateral negotiation between the government representatives and the workers when disputes occur. Also, provision of employment by the EGS protected the workers employed in the private sector from exploitation by local elites. These provisions encouraged their politi-

cal independence and thus made rural politicians more responsive to demands of the poor (Echeverri-Gent 1988). Both the ruling and opposing parties had to compete for the resources generated by the EGS. For instance, the long-ruling Congress Party gained more political benefits than any other party due to its domination of Maharashtra's rural politics. In addition, the opposition parties also used the EGS as an important strategy to expand their memberships. The Janata Party's Shett Mazdoor Panchayat (Farm Laborer Assembly) claimed a state-wide membership of 24,000. In other words, the presence of the EGS has become another important factor that political parties have to consider in electoral competition—in addition to the traditional support from rural institutions that are dominated by elites: sugar cooperatives, district central cooperative banks, and private educational associations among them. As a result, the establishment of multiple political channels to represent workers' interests made politics more responsive to their perceived needs and thus increased the possibilities for sustaining relevant welfare spending, even in the context of globalization.

Third, besides the framing of rules and enactment of laws, the delivery system of the EGS also created circumstances conducive to collective political action by the rural poor. The processes of planning, budgeting, executing, and reviewing the EGS remain autonomous from other government departments. More specifically, the EGS is administered through an elaborate organizational setup. Initial planning is generally done by the Revenue Department, while implementation of EGS projects (e.g., irrigation, public works, agriculture—including soil conservation and forestry) is carried out by the various technical departments. The revenue department coordinates the technical departments, which are audited by the EGS committees (comprised of officials from the revenue and technical departments, politicians, and—at the state level—academic experts) that have been established at the state, district, and subdistrict levels. Echeverri-Gent (1988) argued that such matrix organizational structure is particularly suitable for an organization with competing objectives, each of which is equally important to achieve. I would further argue that the Revenue Department's coordination of work performed by the various technical departments and their decentralized planning have promoted job creation from a lower level, which has led to the sustainability and scalability of the EGS. For instance, when a work demand is made at the subdistrict level, the district and the state levels would ensure its realization in case of lapses at the lower level. Moreover, the direct negotiations within the EGS committees provide possibilities of reframing rules and monitoring implementation such that the program remains responsive to the poor. As a result, although the demand for EGS employment can be quite volatile, the well-structured administrative system guarantees the sustainability and scalability of the EGS in Maharashtra.

Tamil Nadu: Pension Schemes

Like the demand for rural employment-guarantee programs, the demand for pension schemes, especially old-age pension schemes, has been increasing quickly in the context of globalization. Two unique features of the Indian setting call for attention. First, the number of people above age 60 is growing at 3.8 percent per year. In 1991, the Indian population over age 60 was estimated at 70 million. This number will reach 113 million by 2016 and 179 million by 2026. Demographic data also suggest that life expectancy has been rising rapidly. Second, roughly 67 percent of earners have annual incomes greater than Rs 25,000 and can make pension contributions, but their meager contributions alone cannot support the entire system. The remaining 33 percent must inevitably rely on government programs when they reach old age. Many are poor and have no savings (Shah, 2005). Facing growing demand of pension spending, however, India has not been able to provide a comprehensive, population-wide pension system. Well-organized pension systems exist only for formal-sector employees in government, semi-government, local, and private sectors, accounting for only about 10 percent of the workforce. Employees in the unorganized sectors have no formal security and welfare benefits either during their working lives or old age.⁷

Among all the Indian states, Tamil Nadu is renowned for its well-established pension schemes for the vulnerable poor. In Tamil Nadu, pensions are provided to five target categories of varying age groups, namely, old-age people (above 60), deserted wives, destitute widows, destitute physically handicapped, and destitute agricultural laborers. Introduced in 1962, the Old-Age Pension (OAP) Scheme was one of the pioneer pension programs in India, focusing only on those above the age of 60. The destitute widow pension scheme and the OAP scheme for the physically handicapped were introduced in the 1970s; and the schemes for deserted wives and destitute agricultural laborers were added in the 1980s.

Before 1989, these pension schemes were financed mainly by the government. For instance, social security for the elderly is a contractual arrangement that the elderly sign with the government. The government, in turn, finances social security by taxing the working young. In view of the high financial burden due to pension expenditures, reforms of the pension system have become critical in order to move gradually toward a contribution-based pension system.⁸ Thus, such a contract between the laborers and the state was liberalized by the ruling Dravida Munnetra Kazhagam government in Tamil Nadu in late 1989; the contract is characterized by cost containment, modest contributory public sources, and private social protection. From 2003-4, the New Pension System has been implemented nationwide so that payment responsibility can be taken away from the government.

Different from promotive programs, protective programs are designed irregularly and are difficult to classify. The OAP scheme provides a typical example. First, its liberal and means-tested character has tended to divide

constituents' support for welfare expansion. Under the welfare-fund model, workers joined the fund, contributed to the growth of the fund, and received various types of social-security benefits in areas such as health, education, housing, recreation, water supply, burial allowance, gratuity, and old-age pension. Volunteer contribution paid into the pension accounts in different areas displayed quite different personal preferences, thereby dividing welfare demands among workers. In addition, the narrowly targeted pension schemes divide the beneficiaries into different age groups: the elderly (above 60), destitute widows (age limit 40), agricultural laborers (age limit 60), and deserted wives (age limit 30). As a result, pension retrenchment for one age group is less likely to ignite resistance from members of other age groups.

Second, the administrative system of pension schemes has not been as well structured as that for promotive programs (such as the EGS). India does not have any sort of universal citizen identification number. The lack of such a code limits the ability to conceive of a complex pension system, which makes targeting and scalability a difficult problem. Take the OAP scheme as an example: it is an administrative challenge to target those who are above the age of 60, as most of them never had birth certificates. Third, the liberal pension system based on two-party contributions (those of workers and employers) determines the indirect and complex relationship workers have with the state. Moreover, the feature of volunteer contribution resulted in the fact that workers withdrew contributions easily and frequently, which also played a dampening role in sustaining the pension system.

Conceptualization of Welfare Regimes in India

Was the fiscal retrenchment of pension programs an isolated event or part of a widespread fiscal deterioration in social sectors experienced in Tamil Nadu? Was the fiscal sustainability of the EGS program a representative case in the state of Maharashtra? A detailed examination of these states during the reform period brought to the fore several interesting trends in terms of both the level and structure of social-sector expenditures. In Maharashtra, the state maintained the ratio of social-sector spending to total expenditures at pre-reform levels, with a steady increase since the mid-1990s. Conversely, Tamil Nadu has seen a clear decline in social-sector expenditures as a share of total expenditures. In the mid-1990s, Maharashtra surpassed Tamil Nadu and took the lead (fig. 1). (Karnataka, which lies between Maharashtra and Tamil Nadu, has also seen a declining trend.) The Maharashtra-Tamil Nadu contrast can be substantiated by per-capita social-sector expenditures. The gap between Maharashtra and Tamil Nadu has been increasing, with Maharashtra spending more on social sectors in the reform years (fig. 2).

Despite divergent levels of welfare spending, the structure of social-sector expenditure in Maharashtra and Tamil has been sustained, as shown

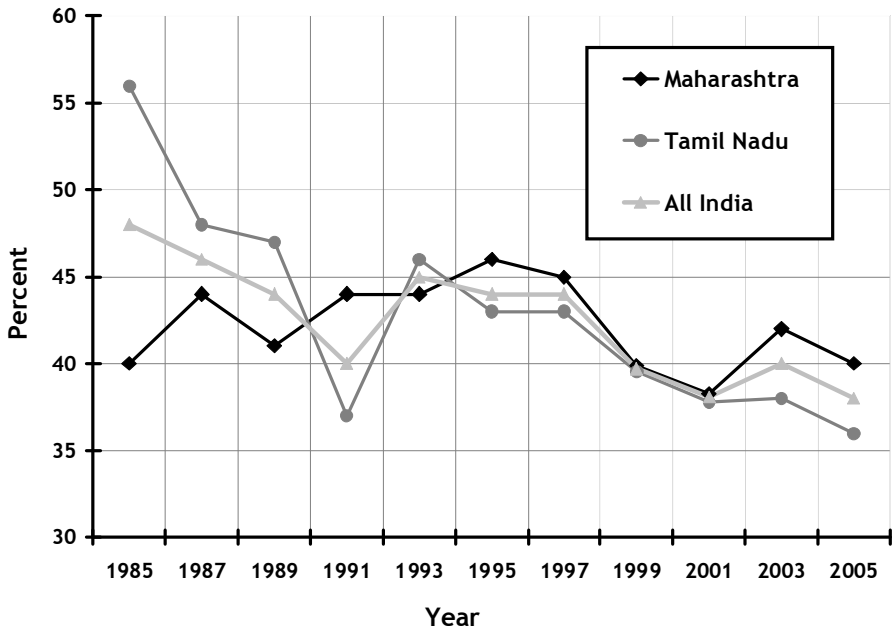


FIGURE 1 Social-sector expenditures as percentages of total expenditures in Maharashtra and Tamil Nadu, with Indian average, 1985–2005.

by the welfare regime indices (table 2). The welfare regime of Maharashtra, characteristic of promotive social-security measures, sustained its emphasis on such programs as rural employment and welfare programs for scheduled castes and scheduled tribes, whereas the protective welfare regime in Tamil Nadu maintained its special emphasis over various protective measures such as pension schemes. Interestingly, the period of economic reforms served to reinforce this lopsided emphasis rather than to correct the distorted nature of social-sector expenditures.

What, though, about “social security”? Both narrow and broad definitions of the term are prevalent. According to the International Labour Office (1958), the provisions of social security were aimed at providing relief mainly to workers from specific contingencies. The concept was widely adopted in developed countries, but its application was problematic in developing countries, which are characterized by large informal sectors and high levels of poverty. Drèze and Sen (1989, 16) extended the scope of the term *social security* by arguing that the provision of social security in developing countries needs to be viewed broadly and “essentially as an objective to be pursued through public means rather than as a narrowly defined set of particular strategies.”

Drawing from the above conceptual insights and from empirical lessons provided by state-level experiences in India, it is necessary to formulate

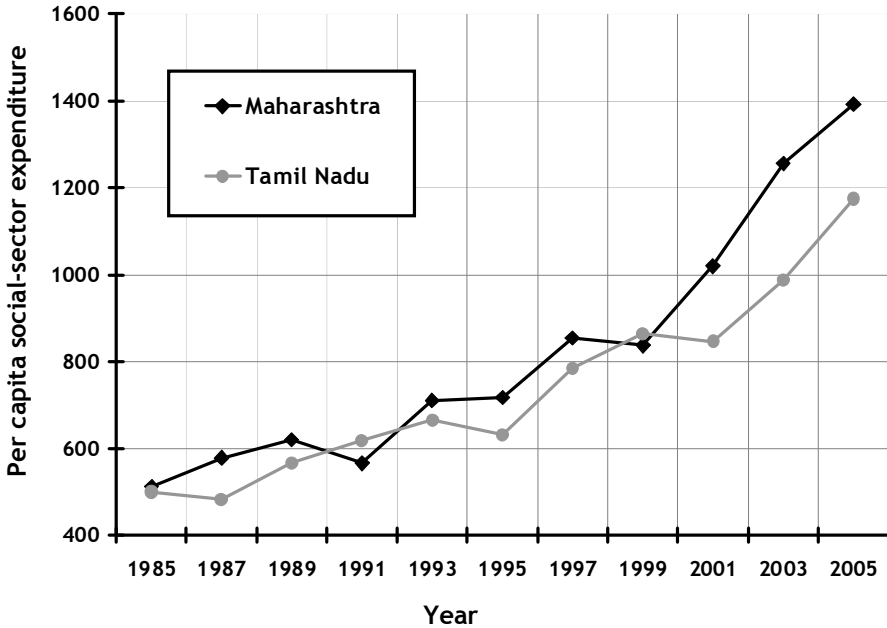


FIGURE 2 Trends of per capita social-sector expenditures in Maharashtra and Tamil Nadu, 1985–2005 (in rupees, with deflator).

working definitions of sub-national welfare regimes. In order to define social-security regimes adaptive to India's situation, I employ Drèze and Sen's (1989) wider definition of social security, which comprises two broad components, namely, promotive and protective social security. *Promotive social-security measures* refer to the expansion of basic population capabilities, which must be viewed as a long-run challenge. *Protective social-security measures* are concerned with protection from a decline in living standards as might occur in unexpected circumstances, such as economic recession or famine. It comprises specific measures for protecting the poor against deprivation but not to the same extent as promotive measures.

The definitions can be reflected in state-level budgetary allocations; and a tentative categorization could be as follows: The provisions of education, housing schemes, employment-guarantee programs, special schemes for entitlements, and basic capabilities for lower castes in government jobs and higher educational institutions are included in promotive social security. Protective social-security measures consist primarily of health care through government health-care centers, public distribution systems, supplementary nutrition schemes, specific measures such as old-age pensions (for the destitute, widowed, physically disabled, and informal-sector workers), and social insurance and other benefits through the institution of welfare funds.⁹ For comparable reasons, I have created two indices as the core indicators

TABLE 2 Conceptualization of Welfare Regimes in Maharashtra & Tamil Nadu

Category	1985–86	1988–89	1991–92	1994–95	1997–98
<i>Promotive Index</i>					
Maharashtra	103	101	104	103	102
Tamil Nadu	82	91	91	86	92
All India	100	100	100	100	100
<i>Protective Index</i>					
Maharashtra	90	95	87	93	93
Tamil Nadu	134	118	120	131	116
All India	100	100	100	100	100

NOTE: Indices calculated from *A Study of State Budgets, 1985–2005*, a data source owned by the Reserve Bank of India.

to classify the welfare regimes in India. The two indices are expressed as follows:

$$\text{Promotive Index (State K)} = 100 \times \frac{\text{government expenditure on promotive programs in State K}}{\text{average government expenditure on promotive programs across 14 major states}}$$

$$\text{Protective Index (State K)} = 100 \times \frac{\text{government expenditure on protective programs in State K}}{\text{average government expenditure on protective programs across 14 major states}}$$

According to these two indices, I define the regional states with promotive indices higher than 100 as “promotive welfare regimes” and those with protective indices greater than 100 as “protective welfare regimes.” The former covers those that are prone to spending on promotive social security programs. Maharashtra and Andhra Pradesh (the largest and most populous state in southern India) are the representative states. The latter category concerns those states that tend to spend more on the protective programs, such as Karnataka and Tamil Nadu.

Such categorization becomes clearer upon examination of the reform period when Indian states had to reallocate public spending between economic and human development. The protective welfare regimes were more likely to face retrenchment, while promotive welfare regimes tended to be expanded or at least sustained. In my case studies, Maharashtra and Tamil Nadu both show higher-than-average welfare spending at the beginning of

economic liberalization, but the two have significant divergence over time. Policy contrasts are likely to magnify this divergence.

Sustainability of Welfare Regimes to Be Reconsidered

A liberalized economy with higher growth trajectories tends to crowd out social expenditures to an unprecedented extent and to impair the state's capability in providing committed social-sector services. Facing similar pressures to retrench welfare spending, state governments have responded differently toward human-development programs. Program design is one structural factor that causes promotive welfare regimes to overtake protective regimes in terms of sustainability and scalability. Socially, promotive welfare programs are designed to be provided on demand to all. Such design creates large, cohesive constituency groups (the rural poor in the EGS case) that are organized around relatively generous, universal programs. As such, promotive welfare regimes provide notable veto points against welfare schemes and expenditure retrenchments through programmatic alliances and collective actors. Consequently, state governments characterized by promotive welfare regimes (such as in Maharashtra) are reluctant to retrench social programs and reduce welfare spending.

In the case of protective welfare regimes (such as in Tamil Nadu), interests are divided across liberal and cost-containment programs. Forging broad political coalitions in support of welfare expansion in response to increasing capital mobility is therefore more difficult. In other words, such program fragmentation across multiple protective schemes can lead to opportunities for proponents of retrenchment and neoliberal reform to employ "divide-and-conquer" strategies. As a consequence, social schemes tend to be tightened and welfare spending tends to be trimmed.

In addition, the promotive programs probably coordinate more easily with other developmental activities than do the protective programs. The EGS made a clear shift in the late 1980s toward integrating itself with other rural-development activities (Dev 1995). For example, the Jawahar Well Scheme and Integrated Rural Development Program have been combined with the EGS. The objectives of those programs, together with the EGS, are to promote employment to rural people in their own villages, to reduce pressures on the land, and to help village development (Maharashtra Planning Department 1992). In contrast, the protective programs seem difficult to integrate with each other because of the means-tested design. For instance, apart from the OAP Scheme of 1962, other pension measures, mostly introduced in the mid-1970s, were limited in scale (Guhan 1993).

Two caveats are important. First, it is inappropriate to contend that promotive welfare regimes clearly expand in the years of economic liberalization. As a matter of fact, in the late 1980s, the mobilization incited by

welfare demands declined. It is commonly argued that the ideology of globalization and economic liberalization had started finding acceptance among the Indian elite. The liberal, market-oriented design of welfare programs thus has been widely accepted among policymakers. Simultaneously, conflicts regarding strategies and ideologies among the leadership of social movements have created further dissension within the movements and have weakened their collective power. All these factors affected the implementation of promotive programs such as the EGS. Moreover, the volatile employment demand increased heavy administrative burdens. Droughts, natural calamities, and seasonal changes cause dramatic shifts in demand. Sudden increases also overload administrative personnel and resources.

Second, the traditional typology of social-security designs—promotive and protective—was created based on the objectives of these measures (Drèze and Sen 1989; Guhan 1993). In this article, I have suggested that the conceptualization of welfare regimes be based on the designs of relevant programs, with the promotive design more macroeconomic, sectoral, and institutional—and with the protective design consisting of more narrowly targeted safety-net measures that provide relief to those not covered by promotive measures. The approach in this article is to provide a preliminary classification of relevant welfare programs according to the above rules. Such efforts are yet to be sophisticated or effective enough for extended analysis. Thus, the various mechanisms for welfare delivery in India call for further investigation through answering the following inquiries: Who gets benefits? How generous are those benefits? How are the benefits administered? In what circumstances can the beneficiaries under the particular programs be mobilized and organized? And to what extent can mobilization and organization affect the current welfare policy options in India?

Notes

¹Esping-Andersen (1990) grouped contemporary Western welfare states into three categories: social democratic, conservative corporatist, and liberal.

²Furthermore, Rudra (2002) argued that growing numbers of low-skilled workers relative to skilled workers, coupled with large surplus-labor populations, exacerbate the collective-action problems of labor in LDCs and make it increasingly difficult for them to organize.

³According to the Maharashtra Economic Survey 2002–3, the gross fiscal deficits as percentages of gross state domestic product in Maharashtra and Tamil Nadu are 4.1 percent and 4.3 percent, respectively. As for human development indicators, these two states were very similar at the beginning of the economic reforms in terms of life expectancies, adult literacy rates, and death rates.

⁴Cited from the Maharashtra Government, Planning Department, 1981.

⁵The percentage declined in the late 1990s and early 2000, partly because of political changes and partly due to fiscal adjustment. Since the early 2000s, public spending on the EGS has rebounded.

⁶As Echeverri-Gent (1998) noted, especially in a multi-stratified society like India, such design can help expand the social awareness among the working poor of various castes and communities.

⁷India's pension system includes four major components: (1) the *civil-servant pension*: an unfunded defined-benefit (DB) scheme that applies to government employees; (2) the *Employee Provident Fund Organization*: a blend of a defined-contribution system (the "Employee Provident Fund") and a DB system (the "Employee Pension Scheme") that applies to private firms with over twenty employees; (3) the *public provident fund*: a tax-exempt savings mechanism that appeals to tax-paying, self-employed individuals on voluntary bases; and (4) the *social welfare pension schemes*: these cover the otherwise uncovered sector (approximately 90 percent of the Indian workforce).

⁸According to the Reserve Bank of India Report on State Finances in 2002–3, Tamil Nadu ranked first among all states in terms of pension expenditure, accounting for 10 percent of the expenditure of the total country.

⁹This categorization requires further investigation.

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