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**ONE SIZE CAN'T FIT ALL by Pallavi Roy, Centre for International Studies and Diplomacy, SOAS, University of London**

The diversity of India's states has seldom escaped the notice of commentators, from differences in geography to language and food. But one aspect of this diversity that is seldom remarked on is the widely differing political systems across them. Even when states are ruled by the same party the political landscape of each of them will be quite distinctive. And the reason why this is important is that the consequences for growth will be markedly differently across such landscapes. One way to describe this political landscape is the "political settlement" or the way in which power is distributed between the relevant organizations and how this distribution impacts the ability to enforce policies and thereby affecting growth prospects<sup>1</sup>. The political settlement approach helps us question the simplistic idea that all that is required for growth is strong leadership which is able to quell opposition and implement 'good governance'.

It is a simple, and powerful, insight. That whatever be the political settlement *what ultimately matters is how* power is shared or contested among the relevant organizations so that the policies ministers want to implement can lead to the desired results. From here it would seem an obvious connection to make that where contestations are low and a dominant organization or party exists the path to growth will be easier. While that can be true it is not always so and there are many instances to the contrary in India, West Bengal being a prime example at least where manufacturing growth is concerned. Gujarat might seem like an example where low levels of contestation have led to higher growth but this state of affairs was helped along by a high degree of social and political repression in the early 2000s. 'Making up' for that with high levels of growth is not the answer India should be looking for. Second there are many Indian states with fractious or at least keenly contested political settlements. Does this mean growth will remain elusive for them?

A quick look at the growth experience in Tamil Nadu makes for some interesting analysis on this question. It is one of India's highest-growth states with levels of per capita income, manufacturing investment and FDI that consistently put it among the top three Indian states. It ranks very high on human development indices too. On the other hand the state is also characterised by what is called 'competitive clientelism' in the literature. Decoded it means there is not one strong centre of power and that two or more politically strong organizations spar with each other electorally, through largesse (both informally and through official

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<sup>1</sup> Khan, Mushtaq Husain 2012. The Political Economy of Inclusive Growth, in de Mello, Luiz and Mark A. Dutz (eds) *Promoting Inclusive Growth: Challenges and Policies*, Paris: OECD Publishing.

welfare schemes) and not infrequently on the streets, all three of which are very recognisable traits across many Indian states. The critical point here is despite populist politics the state has achieved high levels of economic growth and an HDI ranking that though can be improved is still much above the national average.

Some of India's foremost economists like Amartya Sen and Kaushik Basu have said though it is important growth in national income can only have instrumental value. The real goal is to have growth that is broad-based. This remains pressingly true for India now and will remain so for quite a long time. And Tamil Nadu's two main bitterly competitive political parties have been able to sustain economic growth without the politics in the state becoming dangerously violent or exclusionary. A caveat here. The state has had a long and unfortunate history of caste-based violence that cannot but be criticised. But as unfeelingly rational as this might sound such violence is based on relatively evenly balanced competing factions jousting for a distribution of benefits, a common feature of competitive clientelist politics in developing countries. In states like Gujarat the violence had little to do with such distributive conflicts and was perpetrated on a community that can scarcely be called evenly balanced with other organizations in the state.

For socio-historical reasons Tamil Nadu has had high levels of political mobilization since the early 20<sup>th</sup> century. This is the reason why despite being unabashedly populist (with attractions for voters ranging from colour TVs to grinders) the two main parties also had to deliver economic growth. Critically neither party has so far gone back on the other's significant investment decisions so companies were reassured enough to bring in investments with high sunk costs. Once it was clear that neither party was reneging on the other's investment decisions companies chose Tamil Nadu for significant investments, also attracted by the state's high skill levels. This solved the problem of credible commitment for business. While companies do not necessarily involve themselves in such academic analyses of political settlements what they do look for is stability for their investments. Having high levels of investment and the jobs so created ensured the two main parties did not change this aspect of their politics much. Anecdotally the state is supposed to have high levels of corruption. Having an elected chief minister in jail on corruption charges is not what policy guide book versions of good governance are about. But while this cannot be condoned it is worth noticing the state remains one of the top economic performers and corruption hasn't interfered with the state's growth relative to the rest of the country, at least so far.

This is not to say that there is a Tamil Nadu 'model', just like a Gujarat 'model' doesn't exist. The specific configuration of power in Tamil Nadu cannot even be replicated by neighbouring south Indian states. To replicate Gujarat a very specific and exclusionary configuration of power is required (so are large quantities of oil and gas). States in India have very unique political settlements and any policy delivered has to be specific to that context. For instance most states have a 'single window clearance' scheme for investment. But it only works in a few states like Maharashtra, Tamil Nadu, Gujarat or Karnataka. This is

the difference between what is on paper and what can be practically achieved. The point about highlighting Tamil Nadu's performance is to say that being good for business is not just about proclaiming good governance policies but about providing business the confidence to invest. It is about having the politics that allows for these policies to be actually implemented. Hence the goal for Indian states should be to create opportunities keeping their specific political settlement in mind and use those to attract investment rather than hope for a set of policies grafted from the top but with little practicability to solve the problems of underinvestment.