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India: Subsidy State or Developmental State?

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Chapter 1: Introduction

In the field of political science, India stands out as a case that does not fit into existing models of thought on the nature of a state and defies ease of understanding. India is most often considered to be a subsidy state, one that gives subsidies freely and is characterized by corruption and wastage of funds. However, I show in this thesis the notion of the subsidy state does not capture the true nature of the Indian state. India is in fact a developmental state. States have typically been thought have either state-led development (as in communist regimes) or in a more hands-off style facilitated by economic growth, as in a developed country like the US; what makes India different is that it tries to combine the two styles to form a third, unique alternative. It seems easier to criticize the Indian model, then, rather than unpack it and try to make sense of it.

It is true that India is afflicted by the problems of corruption scandals and numerous other problems in governance. In 2011, many Indian citizens actually joined social activist Anna Hazare in anticorruption protests and pushed for reforms.[1] Ironically, while these protests suggested that corruption was on the rise, India's Chief Economic Adviser Raghuram Rajan was quoted saying that it was not the case that India was seeing a rise in corruption, but rather, "it is just that the opportunities for corruption have increased" as a result of liberalization and continued economic growth.[2] Unfortunately,

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[1] See for example this article. Vaishnav, Milan. "India Needs More Democracy, Not Less The Case for More Bureaucrats, Institutions, and Voting." Foreign Affairs, April 11, 2013. <http://www.foreignaffairs.com/articles/139157/milan-vaishnav/india-needs-more-democracy-not-less>

[2] ENS Economic Bureau. "Creating more job opportunities in services can spur growth to 8%." Indian Express, February 9, 2013. <http://m.indianexpress.com/news/creating-more-job-opportunities-in-services-can-spur-growth-to-8-/1071689/>

this kind of view that sees the problem of corruption being rooted in increased *opportunities* for corruption oversimplifies the complex nature of Indian citizen-state relations; corruption is not simply driven by increased economic opportunity and economic self-interest, but also the unique relationship between the Indian government and the constituents of each state. It is widely known that India has a huge number of schemes (welfare and developmental programs – 1259, at the time of this writing), which are necessary in part because of the sheer size of the Indian state. However, whether or not the Indian state is a *subsidy* state, as suggested by many newspaper articles, has never been properly examined. The assumption is that India is a subsidy state, but actually, there do not seem to be any studies that try to aggregate all the government schemes and analyze precisely whether Indian schemes are merely subsidies or something more.[3] Nor has any analysis of the nature of Indian schemes been done via the lens of expenditure, which would compare subsidy spending to developmental spending, to understand whether or not India is, in fact, a subsidy state or a developmental one. Usually the examination of expenditure is tied to specific types of subsidies – fertilizer and oil being among the two largest subsidies and therefore the most scrutinized. Most scholarly articles seem to discuss particular Indian schemes or certain groups of subsidies, but unless the expenditure of subsidy programs can be compared to other developmental schemes in aggregate, it would be unfair to conclude India is a subsidy state. Moreover, subsidies can and do have a developmental impact, which raises a question of what a

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[3] See an example of the usage of the term "subsidy raj" here: Iqbal, Javid. "Subsidy Raj: not a lasting phenomenon." Rising Kashmir, January 21, 2013. <http://www.risingkashmir.in/news/subsidy-raj-not-a-lasting-phenomenon-40407.aspx>

subsidy is and how one would differentiate between subsidy and developmental schemes that offer other types of benefits.

The objective of this paper, then, is to try to fill one of those gaps by aggregating and analyzing centrally sponsored schemes. I opted to select centrally sponsored schemes, as I felt analyzing those schemes would suggest something about the relationship between the central government and the populace at large. India is ethnically heterogeneous; each state is unique in part because of ethnic, linguistic, and cultural differences. I felt that analyzing state-sponsored schemes would require studying the unique dynamics surrounding of the relationship between citizens and state-level leaders within each state to fully understand and explain any findings. The aim of this paper is to instead try to draw some generalizations about the relationship between the Indian state and its citizens more generally to see how this impacts India's developmental objectives. Specifically, I am trying to determine whether or not the Indian state is actually a subsidy state or a developmental one, though I hope that it might also shed some light on the nature of the relationship between the Indian state and its citizens even more generally, since it is not well-understood via other models that often hold true for developed states. In doing so, I hope that my findings will at least give scholars reason to re-evaluate the different labels ascribed to developing nations (for example, 'subsidy state') to see if those labels are still, if at all, accurate. Moreover, India is not the only large developing state, and the lessons that can be learned from understanding the relationship between the state and the citizenry and how that affects the formation of developmental policy choices can be applied elsewhere.

Sen (1999) argues in his book *Development as Freedom* that India should be considered a developmental state. He discusses what he calls "unfreedom," where people around the world lack the freedom to survive, to be healthy, to have access to functional health care or educational systems, and so on (Sen 1999, 15). He challenges the understanding of poverty, saying that, "poverty must be seen as the deprivation of basic capabilities rather than merely as lowness of incomes" (Sen 1999, 87). Accordingly, the developmental process is intended to enhance the capabilities of such 'unfree' persons; ideally, developmental programs should work to improve the incomes of people while also enhancing their basic capability to live long, healthy lives. Especially in the modern day, there seems to be a fixation with economic growth rates as a measure of the health or performance of states, and India is often held up against China for comparison. However, Sen clearly articulates that growth *is* important, but not only as an end in itself. Growth also matters as a means of development, as a way of facilitating the process of development by which people move from unfreedom toward freedom (Sen 1999, 37). This paper will use this understanding of developmental objectives – a part of the process of growth and also a process of enhancing the capabilities and freedoms of citizens – to re-evaluate whether or not India should be characterized as a developmental state.

One critical argument to this paper is that the term 'subsidy' is widely used but not well understood and therefore misapplied, at least in the case of India. Many existing definitions capture the economic aspects of subsidies, but none actually capture the developmental aspects that are also important in enhancing capability and freedom. Consequently, there is a lack of clarity in the role of subsidies with respect to both growth and development. Take, for example, this definition from The Economist (2013):

> “Money paid, usually by government, to keep prices below what they would be in a free market, or to keep alive businesses that would otherwise go bust, or to make activities happen that otherwise would not take place. Subsidies can be a form of protectionism by making domestic goods and services artificially competitive against imports. By distorting markets, they can impose large economic costs.”

Of course, all of the above is true – subsidies *are* often money paid by the government, and they do have the ability to distort markets. This is the case even in India, but there is more to this than meets the eye. Let us consider one other definition offered by Investopedia (2013) before discussing what is missing:

> “A benefit given by the government to groups or individuals usually in the form of a cash payment or tax reduction. The subsidy is usually given to remove some type of burden and is often considered to be in the interest of the public. Politics play an important part in subsidization…. There are many forms of subsidies given out by the government, including welfare payments, housing loans, student loans and farm subsidies.”

Both of these widely available definitions describe a subsidy as being in the form of money. The Investopedia (2013) definition is slightly more helpful with its definition, suggesting that subsidies alleviate some unspecified burden and improve social welfare. Here, Sen (1999) would probably argue that the burden, presumably poverty, is not merely a burden, but a restriction of freedom, poverty not of income but of capability. Something both definitions fail to capture is that subsidies are not always in the form of money; also missing is that subsidies can have a positive developmental impact in the long run. The focus of the definitions is instead on the economic costs of such policies, which could be perceived as a negative thing. Many of India's welfare schemes *do* offer money, but they also offer numerous other benefits – development of infrastructure, training, and employment opportunities. The understanding that Indian schemes have these additional benefits are lost when India is called a 'subsidy state,' especially considering that nobody has studied what portion of schemes offer subsidies, and how much of the scheme is a monetary versus other type of benefits. Furthermore, if the subsidies have a positive developmental impact, then it is even more of a problem that India has a reputation as a subsidy state; the negative connotation does disservice to the term subsidy – since all subsidies do not *have* to be wasteful expenditure – and to the image of the Indian state, which undertakes programs to improve the welfare of its citizens. Subsidies are traditionally considered to distort the market and therefore impose economic costs. However, if subsidies are not merely a wasteful transfer of funds that are siphoned away by corrupt officials instead of reaching the intended beneficiaries, but are instead understood to have a positive developmental impact, then that means that subsidies (as well as other benefits delivered by government programs) also enhance the capability of people to engage in markets. If that is true, then subsidies *may* have a short term cost on the market, but in the long run, they could generate economic benefits since more people would be able to better engage in markets and therefore contribute to economic growth. Underperforming subsidy schemes should not speak for the choice of subsidies and other developmental policies at large; not all subsidies are the same, and it is only possible to analyze the developmental impact of subsidies by disaggregating them.

Bearing in mind this expanded understanding of the capability of subsidies to have a positive developmental impact, this paper will try to analyze whether or not India should rightly be called a subsidy state, or if the understanding should be shifted to developmental state. Chapter two of this paper will look at various models of understanding the nature of the Indian state and draw out three essential features: competing interest groups, how economic liberalization facilitates corruption and works against India's aim of equalizing the capabilities and freedoms of all its citizens, and the role of the Indian state in development and how the failure to engage its citizens in the process has resulted in the current system. Chapter three looks at subsidies and cash transfers, discussing the problem of targeting and the design of programs. Cash transfers, especially conditional cash transfers, have received a lot of good press compared to subsidies, though they actually fall prey to many similar problems. Moreover, conditional cash transfers require infrastructure, which India is lacking; therefore, while certain aspects of the design of schemes needs to be improved, which requires a revision of strategy and execution, conditional cash transfers are not yet appropriate for wide-scale use in India and should be avoided as a primary means of facilitating capability enhancement. In the fourth chapter, I share the methodology I used to categorize 581 centrally sponsored schemes. I primarily used the description page for each individual scheme to determine the target groups of the schemes; identify the owner (state) associated with the scheme; determine if the benefits of the scheme were conditional, i.e. that the receipt is contingent upon any contribution or action on the part of the beneficiary; identify the different types of benefits provided, such as money or development of infrastructure; and identify relevant policy areas, such as health or education. The policy areas are especially revealing and make it easier to believe that the aim of the Indian state is to promote development and capability enhancement rather than squandering money. In the conclusion of this paper, I discuss how my findings on the nature of the Indian state suggest that cash transfers are generally not an appropriate policy choice in India due to a lack of infrastructure. Therefore, although many schemes contain monetary benefits, money is not always the primary benefit; several other types of benefits are offered in tandem with smaller monetary transfers. Based on this finding, I think calling India a subsidy state is indeed inappropriate, and a closer look is required at the Indian budget to see what portion of central government spending goes into monetary subsidies versus other types of benefits.

Chapter 2: On the Nature of the Indian State

There are a number of models and theories proposed by scholars in an effort to understand the nature of statehood. However, India is unique in that it does not neatly fit into previous models created to understand the nature of the government or the continued existence of democracy. Many scholars have offered competing explanations for how to characterize the Indian developmental state, especially considering its reputation as a subsidy regime.[4] Each scholar concludes that India is a soft state, a state that is overly responsive to various interest groups. This over-responsiveness takes the forms of subsidy schemes, which are often designed and/or implemented poorly. As a result, many

[4] The terminology of "subsidy raj" has also appeared in newspapers. For a recent example, see, Iqbal, Javid. "Subsidy Raj: not a lasting phenomenon." Rising Kashmir, January 21, 2013. http://www.risingkashmir.in/news/subsidy-raj-not-a-lasting-phenomenon-40407.aspx

programs created in the name of alleviating poverty and improving the life of the common man have met with little success, which in turn gives subsidies a bad reputation. Compared to other developing countries, India is considered to be a developmental failure, under the assumption that the scores of developmental schemes produced over the years have had little positive impact. In this section, I will look at five perspectives on the Indian state to understand the relationship between the state and various actors; several authors suggest that interest groups play a definitive role, while some authors take the role of interest groups a step further and explain how can be a cause of corruption. A third distinct perspective tries to look at the role of the Indian state from a more top-down perspective and touches on the policy choices of the government.

The first perspective offered is that of Pranab Bardhan (2001), who rightly sees that India's state-led development up until the early 1980s was driven by the desire for equity. The Indian society is fragmented by caste, class, and by ethnic and cultural diversity between Indian states. Accordingly, the Indian government has tried to overcome the inequities between groups, though the end result has been that the Indian state has become far too focused on being equitable rather than efficient. Bardhan (2001) discusses this problem in terms of three primary groups that interact with the Indian state: economic interest groups, caste groups, and regional collectives. Economic interest groups are groups such as dominant classes as well as smaller groups like manual workers or small traders. Though these groups all "speak in the name of the poor," they actually lobby for the interest of their own respective groups (Bardhan 2001, 227). Bardhan's (2001) criticism here is that because there are not large, homogenous interest groups in India, many smaller ones clamor to share "the spoils of the system" (Bardhan

2001, 228). In a way, this is Krueger's (1974) argument about a rent-seeking society, where the government is caught between restricting entry to the system (and thereby favoring the groups that can successfully enter), or between allowing competitive rent-seeking (such as lobbying) to occur and therefore being more equitable. It seems that India allows for competitive rent-seeking to occur at least in part because it is beholden to numerous groups in society for political survival. At both the central and state level, the Indian government cannot risk falling out of favor with any groups, particularly poorer groups. As a result, it responds fairly quickly to even mild pressure by providing groups with implicit and explicit subsidies – giving the rent-seeker access to the spoils of the system – and perpetuates the wastage of more government funds and accumulates debt, since allocations made this way may not be optimally designed to also have a significant and positive developmental impact. Moreover, this further sharpens the divide between the 'haves' and 'have nots,' further perpetuating rent-seeking behavior and the effort to preserve access to privilege. Given all this, it seems, then, that the Indian government may actually be one that is too soft, where the over-responsiveness actually encourages *more* groups to form and engage in rent-seeking in an attempt to capture benefits from the government. It is a vicious cycle that continues, and thus the Indian state becomes burdened with debt in the name of equity rather than creating a strong, efficient state.

Economic interest groups are not the only group lobbying for spoils; caste groups also clamor for governmental redistributive policies. Bardhan (2001) likens the support of caste groups to the infant-industry argument, where essentially, it becomes unclear how long a group requires protection. Indeed, more often than not, protectionist policies don't encourage development or maturation.[5] Bardhan (2001) suggests that rather than policies like job quotas (focusing on equality of opportunity), the Indian government would do better to promote policies like scholarships and job training for specific groups to promote equality of *outcome* (Bardhan 2001, 233). This again highlights the government's drive towards improving equity, though the means by which it attempts to do this needs to be rethought. As with economic interest groups, the Indian government is politically sensitive to the desires of caste groups, thereby giving into their demands. However, the Indian government may need to shift its perspective; rather than giving into caste groups' pressure for protectionist-type policies, it should focus more on creating better programs to support *all* disadvantaged groups in this way. As I will discuss in the next chapter, targeting very large groups is not always effective in reaching the intended beneficiaries, and therefore, more universal programs would not only have a higher developmental impact, but it could potentially also alleviate pressure from more and more groups who feel entitled to the government's support while benefitting a larger segment of society.

The final group Bardhan (2001) discusses are collectives at the regional level. The relationship between caste groups and the state has led to caste-based quotas and reservations in numerous areas of life – governance, bureaucracy, higher education – which gives way to corruption and further abuse of the current redistributive system. For example, low-caste Ministers of Parliament (MPs) have been known to transfer away upper-caste bureaucrats and replace them with bureaucrats of the same caste as

[5] For a discussion of protectionist policies, see Bhagwati, Jagdish. "Free Trade: Old and New Challenges." The Economic Journal, Vol. 104, No. 423. (Mar., 1994), pp. 231-246 and Carbaugh, Robert and Prante, Tyler. "The Temptation for Protectionism and American Trade Policy." World Economics, Vol. 11, No. 3, July–September 2010.

themselves – which may equalize that caste group's political representation, but may not be most efficient, especially if the persons installed are not qualified. Another example of corruption comes from job security. Often times, when workers are appointed according to quotas, their job security is not linked to performance, which acts as a disincentive to actually perform any duties. In such a situation, equity of one group comes at a social loss of efficiency and equity across groups. As mentioned with caste groups, what India needs to do is find a way to reconcile equity, efficiency, and good governance instead of being at the mercy of various interest groups.

Ashutosh Varshney (1998) specifically discusses how and why democracy survives in India. He highlights four factors: the historical legacy of the British, economic factors, the ethnic makeup of Indian society, and enlightened political leadership; of these four factors, I will primarily discuss the economic factors. Like Bardhan (2001), Varshney (1998) also notes that poorer groups (low castes and other disadvantaged groups) are developing greater political strength. He, however, underlines the fact that this is being done through the existing political institutions – preserved post-independence as Indians rose up against the oppressive British rulers rather than the democratic system they had installed. While working *through* the existing institutions contributes to the stability of the Indian state and thereby strengthening the democracy, the fact that it is done by a number of small, fragmented groups plays a part in perpetuating inefficiency. Still, this may be a better choice for India as it ambles along the developmental path rather than being authoritarian like China.

Varshney (1998) also discusses the factor of economics in the survival of democracy in India as it relates to equity. Typically, it is assumed that industrialization (resulting from the commercialization of agriculture) and the creation of wealth and the middle class are pre-requisites for democracy.[6] However, India has not fit in these models; it has been a poor state for decades, and it became a democratic state in 1947 while remaining fairly unindustrialized thanks to the British. Although an economic crisis triggered economic liberalization in 1991, exacerbating socio-economic inequalities somewhat, the consumption-based model of growth has prevented the gap from growing too wide.[7] Compared to states like Brazil, then, India has been able to successfully implement reforms, and has been able to do so gradually in order to have less dramatic effects on the social fabric of Indian society.

An additional layer of complexity is added to the problem of economic inequality when one realizes that India's ethnic diversity is localized geographically, which is one factor that makes India state-nation rather than a nation-state.[8] This geographic organization of ethnic groups facilitates asymmetrical or "holding together" federalism; different states and constituencies have different demands of the central government, and therefore establish different relationships with the center.[9] While the problem of inequality across economic caste, class, or ethnicity should not be dismissed, India would do better to focus on ways of enhancing the capabilities of *all* disadvantaged people to bring about increased equality of economic outcomes, as Bardhan (2001) suggests,

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[6] See a full discussion of this in Moore, Barrington. *Social Origins of Dictatorship and Democracy*. Boston: Beacon Press Books, 1966, Chapters 7, 8, 9, pp. 413-483 and Lipset, Seymour Martin. "Some Social Requisites of Democracy: Economic Development and Political Legitimacy." The American Political Science Review, Vol. 53, No. 1, March 1959, pp. 69-105.

[7] See Das, Gurcharan. "The India Model." Foreign Affairs, Volume 85, No. 4, July/August 2006, pp. 2-16.

[8] See Stepan, Alfred, Linz, Juan, and Yadav, Yogendra. "India as a State Nation: Shared Political Community Amidst Deep Cultural Diversity," in Stepan et al. *Crafting State- Nations: India and Other Multinational Democracies*. Baltimore: John Hopkins University Press, 2011.

[9] See Stepan, Alfred, Linz, Juan, and Yadav, Yogendra. "India as a State Nation: Shared Political Community Amidst Deep Cultural Diversity," in Stepan et al. Crafting State- Nations: India and Other Multinational Democracies. Baltimore: John Hopkins University Press, 2011, p.46.

instead of working through a number of small, fragmented interest groups who are often among the more economically disadvantaged in the system. The Indian government has, to date, pursued pro-poor policies targeted to specific groups in the form of subsidies in an attempt to reduce inequity, though as this paper discusses later, this has not always been successful.

A third scholar, Robert Wade (1985), departs from the previous two scholars, who both look at the relationship and nature of the Indian state in terms of the relationship it has with interest groups. Wade (1985) focuses on the nature of the Indian state vis a vis the bureaucracy. He highlights that there is a sort of "internal labor market" wherein bureaucrats, mostly at lower levels of government, bribe officials to be transferred more favorable positions (Wade 1985, 484). In the instances that the levels of corruption become too high, it is possible that there will be public protest, compelling elected representatives, who need the public's votes, to try to force the official with transferring powers to reign in the levels of corruption. Ironically, with the way the system works, an ideal system is not one with no corruption but one that sustains a minimum level of corruption, since an official who is too strict could also be accused of corruption because "he is holding out for more money than [the bureaucrats] are prepared to offer" (Wade 1985, 470).

Wade (1985) highlights the four features of corruption in the administrative apparatus: there is internal market corruption (1) that is institutionalized and predictable (2), in that the most favorable posts go to the highest bidder. This occurs in a centralized system (3) - that is, only one system exists, from top to bottom, that facilitates both administrative and political corruption (4) (Wade 1985, 484). Wade (1985) suggests that the makeup of Indian society – which, as explained previously, is both hierarchical and heterogeneous – predisposes the administrative and political system to corruption because of the competition for scarce resources, the regulatory and allocative functions of the state, and a historically prominent bureaucracy. As such, this means that powerful individual actors or interest groups can curry the favor of officials (and vice versa) by bribing them to get what they want. This view supports the views proposed by Bardhan (2001), Varshney (1998), and Kruger (1974), wherein economic and caste interest groups can appeal to the state for protectionist or pro-poor policies in the name of equity or the highest good for society at large. Even Wade's (1985) model shows how the Indian government, being a coalition government, is very much at the mercy of its voters, and therefore responds easily to the requests of such groups.

Gunnar Myrdal (1971) offers a view different from the previous three scholars by focusing not on the relationship between groups and the state, but precisely the opposite: the relationship of the state with its citizens as per its obligations in governance. Myrdal's (1971) conception is that India was dependent on democratic planning, where the public at large would help design and implement developmental projects voluntarily. One dilemma he highlights in the execution of democratic planning is that people may not be able to see the necessity of state development and may therefore choose not to support programs; in other words, it may remain unclear to them how state involvement could improve their conditions and reduce inequity. As a result, the Indian government has had to lead the planning and implementation of infrastructure on its own. However, it has had to do this while also managing the various pressures from a number of interest groups.

Myrdal (1971) highlights additional dilemmas with democratic planning, which has resulted in the ‘subsidy raj’ that is India today. While the goal of democratic planning was always to bring about rapid progress, he feels that perhaps India’s starting position as an extremely large and poor country hinders makes such a goal unrealistic, especially when India’s position is compared to other developing countries. Myrdal (1971) also touches on the design of planning: should programs be universal, or should they be targeted? How pervasive should its efforts be, especially at the village level? How can villagers be made to understand the objective and execution of programs and voluntarily participate in them? He raises all these important policy questions that determine the extent of the Indian state’s involvement in all levels of government. On the one hand, the Indian state may be able to see how to tread down the path of development to benefit the maximum number of citizens, especially disadvantaged citizens. However, if it cannot convince its constituents of this, they may not feel enough ‘ownership’ of government programs. The policies might then feel forced on citizens, rather than being embraced and improved upon in complementary relationship as conceptualized by Myrdal (1971).

Myrdal’s (1971) criticism of the Indian state is that always tries to appease the demands of its citizens, but this creates a *pretense* of democracy, since it responds only to those groups that can become sufficiently powerful to necessitate governmental response. This is a problem because India is an extremely heterogeneous society, and, as Varshney (1998) mentions above, ethnic tensions are more pervasive socio-economic ones. This predisposes the formation of interest groups along ethnic lines, which ends up increasing equality of opportunity rather than equality of outcome as proposed by Bardhan (2001). If the Indian state could become less soft and more disciplined, it would be able to create a state that is more dependent on rule of law and regulation, facilitating the equality of outcome for all citizens by designing governmental programs to enhance the capabilities of *all* disadvantaged citizens. Myrdal (1971) points out that this may require some compulsive elements, which, though unfavorable in the short term, would probably leave the Indian state stronger and therefore better off in the long run, since it would not be as helpless against interest groups.

The last scholar discussed in this section is Ronald Herring (1999), who summarizes the various conceptions of the nature of the Indian state as suggested by the authors discussed in this paper, as well as others; Herring (1999) also discusses whether or not the Indian state fails in its developmental goals. He convincingly argues that India is a *relative* failure in that it did not succeed in achieving its *own* objectives via pro-poor policies. Moreover, between 1950 and 1980, India was only growing at about 3.5% per annum, well below the 4.9% of other developing countries and the global rate of 4.1% (Herring 1999, 310). On the other hand, like Varshney (1998), Herring (1999) also notes that independent India started off with many problems to address: poverty, low agricultural productivity, and geopolitical troubles, especially with Pakistan. Compared to its former colonial self, the Indian state today is actually doing quite well. It is arguably unfair to compare India to other developing economies because it is a continental country; some Indian states are as large as or larger than countries, especially the East Asian countries to which India is often compared. India's lower growth rate and therefore perhaps limited appearance of success should therefore be understood more from its conservative position as a more socialist, state-led developmental state, rather than having a free-market economy vulnerable to capital volatility (as the Asian tigers discovered in an economic crisis). At the time of Indian independence, the development-oriented state seemed to naturally be one that would be led by the state, though by the time this model failed by the mid 80s and early 90s, India was ready to turn to the free-market. The 1991 crisis in particular, which forced India to turn to the IMF, allowed for some structural reform as mandated by IMF conditionality.

Through the presentation of several authors' conceptions of the Indian state the relationship it has with its citizens, some essential features come through. First, as Bardhan (2001) and Varshney (1998) discuss, there are various kinds of interest groups in the Indian state that pressure it into giving specific subsidies that do not work well. At best, they create equality of opportunity, but not equality of outcome. Wade's (1985) model explicitly accounts for this competition between interest groups as a competition for resources, though other perspectives, particularly that of Bardhan (2001) and Varshney (1998), implicitly highlight this competition in the creation of interest groups that lobby the government for various benefits. The second essential feature is that the competition between interest groups facilitates corruption (Wade 1985) and rent-seeking behavior (Krueger 1974) that are ultimately are not in the best interest of society at large and perpetuate inefficiency in many levels of governance. The third feature is highlighted by Myrdal (1971): the Indian state *is* a developmental state that is unable to engage its citizens in the developmental process and instead falls prey to the pressures of interest groups, on whom it is dependent for political survival (Herring 1999, 315). As I have tried to argue in this paper, India needs to overcome its extreme softness and push ahead with programs that are not targeted at interest groups but are instead more universally accessible. Doing so will better advance India's developmental objectives, enhance the equality between citizens of all socio-economic classes, castes, and ethnicities, and reduce the inefficiency that surrounds current developmental (subsidy) policies.

<u>Chapter 3: The Choice Between Subsidies and Cash Transfers</u>

In the previous chapter, I discussed the nature of the relationship between the Indian state and its citizens. The consensus that has emerged across scholars is that the Indian state, being very receptive to its citizens, caters to a variety of interest groups organized by identity or economic status. As a developmental state, India has undertaken a number of programs (referred to schemes) in an effort to improve the conditions of citizens' lives in a number of critical areas such as education and health. Presently there are 1259 such schemes, of which 581 schemes are partially or fully funded by the central government.[10] Amartya Sen (1999) mentions briefly that because the Indian state is a democracy, it is, out of necessity, sensitive to public criticism and has the incentive to prevent serious catastrophes like famine (Sen 1999, 16). Being a democracy, there is naturally ample room for citizens to interact with the government, and this gives citizens a legitimate avenue to demand more developmental assistance. In looking at the 581 schemes (which I will explore in the next chapter), I found that the Indian government is at least *trying* to do just that. The usage of schemes (and subsidies) undoubtedly gets a bad reputation because many are poorly implemented, but that should not detract from the fact that the objective and missions of many schemes are well intentioned, and that

[10] The schemes may be found here: http://www.india.gov.in/my-government/schemes. To find out which schemes had any funding from the central government, I selected "central" next to "sponsored by" and then clicked search.

the Indian government is indeed attempting to improve its levels of development. In fact, there *are* successful cases, but they simply do not get enough press compared to the schemes that fail. Many schemes can and do work; I witnessed firsthand how the National Rural Employment Guarantee Scheme (NREGS) worked well in supplementing the income of the poor with 100 days of paid work per year. The success can be dependent on a number of factors. For example, I observed that NREGS worked better in parts of Rajasthan and how it was not as successful in Haryana.[11] The success or failure was in part determined by regional differences in development and access to alternative work. The villages I visited in Haryana were closer to industrial businesses that paid better than work under NREGS, so it was not as widely used as in the village I saw in Rajasthan. While the effectiveness of schemes is an entirely different subject that I will not pursue in this paper, it is important to note that the failure of some schemes in some places should not be used to make the sweeping generalization that all schemes are 'bad' all across India.

The two primary ways in which countries pursue developmental aims are via subsidies, targeted at certain groups, and via cash transfers (more specifically, via conditional cash transfers). Between subsidies and cash transfers, cash transfers have a much better reputation because of their successful use in Brazil (through *Bolsa Familia*) and Mexico (*Oportunidades*) (Kapur 2011). Unfortunately for India, conditional cash transfer schemes are reliant on infrastructure to work well and are not yet a suitable standalone policy choice. For example, India still lacks functioning infrastructure; it could not have a program where families would get a cash transfer for getting children

[11] I visited the village of Phalooda, Silora Block, Ajmer District in Rajasthan and the villages Raniaki and Tauru in Tauru Block, Mewat District, Haryana.

vaccinated at a health center if there were no health centers nearby to administer these vaccinations. The fact that conditional cash transfer programs are dependent on infrastructure to work well sometimes gets lost in the comparison between India and Latin America; the relative success of conditional cash transfer government assistance programs relative to the previous and more common subsidy contributes to the notion that subsidies are somehow 'bad' because they are ineffective. Though there is often comparison between subsidies versus cash transfers as if they are two separate things, it is perhaps more accurate to consider cash transfers as a type of subsidy. Both subsidies and cash transfers are forms of government assistance to citizens; what differentiates them is how they are designed and what they offer. Both subsidies and cash transfers can make for good policy under certain conditions, and this section will now look at each in more detail to determine the weaknesses of each type of policy that a state has to consider when choosing between the two.

Errors of Targeting

Government schemes in India often attempt to target the poorest of the poor. The CIA World Factbook (2013) 2010 estimate for the number of people living below poverty in India was as much as 29.8%. Out of a population of over 1.2 billion people, this translates into more than 363 million people living below poverty – a number greater than the entire population of large countries like the United States! Undoubtedly, trying to target select groups rather than the entire population has, from this perspective, one important driving factor: the need for economic efficiency. Government schemes are known to be a strain on government expenditure; see, for example, the expenditure on the three largest groups, fertilizer, food, and oil subsidies, in the Indian budget.[12] The idea of targeting, then, is to minimize the economic strain by trying to deliver benefits only to the intended groups and minimizing wastage that comes from covering people not in the target group. However, studies seem to suggest that targeting is not actually more economically efficient, nor is it more precise in reaching the intended beneficiaries.

Cornia and Stewart (1995) discuss two common errors of targeting: E-mistakes, wherein programs provide excess coverage (to those not actually targeted by the scheme), and F mistakes, the failure to cover intended beneficiaries. The section below will discuss in detail examples of both types of mistakes. However, Cornia and Stewart (1995) studied several states' programs and drew some important conclusions. The first was that F-mistakes tended to be lower in universal programs, better reaching the intended beneficiaries of programs. In terms of precision, then, universal programs seem to do better. Moreover, there are fewer E-mistakes in universal schemes, since E-mistakes are really just leakages of benefits to unintended beneficiaries; if the group of beneficiaries is expanded to everyone or almost everyone, then very few people will fall into the category of unintended beneficiary (Cornia and Stewart 1995, 363). Luckily, there are two ways to minimize targeting errors (E-mistakes especially) in universal or quasi-universal schemes: either targeting by commodity (for example, types of food preferred by lower income groups) or by geographic region (for example, the poorest and most underdeveloped villages). Both of these strategies can be used well to reduce E-mistakes without significant increasing F-mistakes (Cornia and Stewart 1995, 368). There are also

[12] Union Budget and Economic Survey. "Non-Plan Expenditure by Broad Categories." <http://indiabudget.nic.in/ub2013-14/eb/stat04.pdf> 2013. Accessed 23 April 2013. This website offers digital access to the Indian budget from 1996-1997 onwards.

more indirect ways to recover the costs of E-mistakes, as by increasing taxes on goods consumed by the unintended, economically better-off beneficiaries. This does require some effort because the identified goods also need to have a lower elasticity of demand – that is, the prices of the selected goods cannot be too sensitive to changes in price. Moreover, the identified goods must have more progressive tax distributions so as to not increase the burden on the poor (Cornia and Stewart 1995, 380). Such methods further reduce the expense of E-mistakes while keeping F-mistakes lower, thereby creating schemes that are more precise in reaching intended groups and while reducing the economic strain on the government.

Though many discussions give the impression that universal schemes are worse because of leakages, they are in fact better in some situations (for example, in food-based schemes) where the policy choice is in favor of reaching the poorest – the target group. The trade off here is the additional burden of expense on the government (if the program transitions from targeted to universal, for example), but given that the overall expenditure can be reduced by other strategies as mentioned above, most of the costs could be recouped down the line. Therefore, the universal scheme is more expensive, at least initially, but also more effective. Moreover, targeted schemes seem to have *greater* administrative costs than universal schemes, so a shift in perspective – saving on administrative costs in exchange for some E-mistakes – seems to be in order. Much of the discussion related on subsidies give the impression that other designs, such as cash transfers, are able to escape the problems of targeting. Unfortunately, this is not the case, and *all* types of programs reveal targeting errors. The objective, then, of government policy should be to design schemes that are appropriate for the desired objectives and are optimal in terms of reach and cost. The choice between subsidies and cash transfers should not be understood as two separate choices but instead two ends on a continuous spectrum of policy. In chapter four, I will highlight how the Indian government has realized this, and many schemes have elements of both designs in many schemes, suggesting that the distinction made by scholars is not so clear in practice.

The Problem with Subsidies

There are a number of schemes implemented in India and across the world, with those of Latin America receiving much attention. In spite of that, I was surprised that most of the literature that I could find discussed only specific schemes, or only several related schemes. Therefore, this section will summarize the findings of scholars who looked at schemes in the food, energy, and agricultural policy areas. Before proceeding, I will say, as a disclaimer, that I will not look in depth at oil or fertilizer subsidies, which, along with food, make up a large proportion of the Indian budgetary expenditure, at least as far as subsidies are concerned. That would require a different approach to the paper, namely from a budgetary standpoint, where a researcher would examine the expenditure on subsidies (in the traditional sense) versus developmental programs across the years.[13] Still, even those subsidies have a developmental impact, so distinguishing the two would be difficult without a more precise definition. It would be a great contribution to the discussion on the nature of the Indian state if a scholar aggregated budget expenditure on subsidy versus developmental schemes, especially within the last 15 years or so, to determine from that angle whether or not India is truly a subsidy state or not. In the

[13] Budgetary expenditure information is available on http://indiabudget.nic.in/ going back to 1996-1997.

remainder of this section, I will explain in depth the problems of targeting that emerge from food, energy, and agricultural subsidies more broadly.

Food

Food schemes are widespread in India, and they are used to try to generate minimum levels of health and wellbeing by advocating minimum nutritional standards. The most commonly discussed scheme is the Public Distribution System (PDS), wherein the Indian government offers limited quantities of specific foods at highly subsidized rates according to economic category (below poverty line or above poverty line, BPL and APL respectively). Of course the most obvious problem is one of information: how exactly does the government determine who lives above or below the determined poverty line? If the information that the government bases its decision on is incorrect, it leads to two common errors of targeting: inclusion errors, wherein the benefits of the program go to people that are not actually targeted by the program, and exclusion errors, wherein the intended beneficiaries are excluded by the program. Another conundrum that arises is that the condition of those slightly above the poverty line may only be marginally better; in this specific scheme, there is a separate rate for different food items for BPL and APL targets, so it is not a problem, but it is not always present in all schemes. Therefore, it is a critical point for policymakers to consider when designing programs.

Especially in the case of schemes where the benefits are material in form, a problem of distortion of information and/or of incentives often arises. For example, in the case of the PDS, not all of the beneficiaries may be aware of what the actual rates of the grains, pulses, and oils *should* be as per the scheme, and as a result, they may be overcharged when they buy their allotted amount of food. Additionally, because the food is highly subsidized, there is an incentive for the shopkeepers to sell it instead into the general market at market price and profit that way; a second common strategy is to dilute the quality of the food distributed, or, in the case of rice and grains, to add rocks or stones when weighing the food so as to give the beneficiaries less food overall. This incentives problem is also apparent in the case of special hospitals that are built to treat poorer patients at little to no cost. Because the government provides infrastructure and support, the hospitals reap massive gains by functioning as regular hospitals (for profit) and face no apparent penalty for doing so (Kurian 2012). In both cases, the incentives of the implementing agent on the ground (the shopkeepers, in the case of the PDS) are not in line with the objective of the scheme, and so the intended beneficiaries lose out yet again while food gets leaked out of the system and diverted into the general market (Swaminathan and Misra 2001).

A problem related to the F-error of targeting is that schemes like the PDS are not easily accessible to all the intended beneficiaries. A substantial number of intended beneficiaries are excluded from food programs like the PDS simply because they cannot access it. Migrant workers, for example, often cannot provide proof of local residence and therefore cannot access the food from the ration shop, even though they are technically among the intended beneficiaries (Ramaswami 2002). There may simply not be a ration shop close enough to some people, which might particularly be the case for those living in more remote or hilly areas. When I was in India in Spring 2012, I discovered firsthand other problems related to accessibility. Many people simply have no way of knowing when the shop might be open (as it can often be open at the whim of the shopkeeper). The ration shop may also not have any stock left, or at all, since shipments arrive once every two weeks, if at all. Ramaswami (2002) highlights that the poor often have very low savings rates, and they may not have enough money to be able to purchase and/or transport two weeks worth of food at a time. It may not even seem worth it to some beneficiaries to buy from the ration shop because of the lower quality of food. Additionally, the journey to buy the food can itself be a burden on beneficiaries – for example, the cost of transit, or the time taken to purchase the food (which often means forgoing a day of work). While some states like Tamil Nadu have gotten around this with sophisticated tracking systems to alert beneficiaries by text messages to their cell phone about when their shipment of food is in transit and arrives at the ration shop, it is an example of successful case and not at all the trend.

In spite of the problems of targeting, leakage, and accessibility, many scholars do still argue in favor of reforming the PDS, and indeed, scrapping the system would ultimately do more damage than good to the poorest that the program intends to benefit. This is important to remember, particularly since surveys have shown that people prefer to receive the material benefit to cash, since cash can easily be spent on other (non-food) goods (Khera 2011). An important element missing in many schemes, including food schemes, is a feedback mechanism whereby citizens can complain about quality or diversion of food, or otherwise give any useful feedback to improve the system. This is a critical element that can be added to improve the effectiveness of such programs and make better use of the government's expenditure. Corruption problems can also be tackled by the use of technology, as illustrated above in the case of Tamil Nadu, wherein they were able to easily cut back on the waste, leakage, and diversion of food. The use of technology does come at the additional cost of maintenance and a degree of surveillance over the system, which might further increase administrative costs, but it may be worth it if it can increase efficiency of the program in reaching target groups (Svedberg 2012). Some scholars argue in favor of more generous inclusion criteria, arguing that schemes that are universal or quasi-universal would at least benefit more of the intended groups. Moreover, generating more awareness of the schemes would help to cut back on some of the problems of corruption, such as selling the food to beneficiaries at the incorrect and sometimes purposefully inflated rates (Khera 2011). Controlling the quality and kind of foods offered through the scheme would allow for some measure of self-targeting within the system (Dutta and Ramaswami, 2011). All in all, there is room for improvement in the delivery of food assistance programs in the design and implementation, but these should be pursued rather than cutting back on such programs altogether.

Energy

Like food, energy is another highly subsidized good in India. It is intended for the poor (who are typically of the BPL/APL groups), and in particular, the rural poor. Often times this takes the form of infrastructure, providing infrastructure for electricity, or by promoting the use of solar-operated products via generous subsidies and preferential loans arranged by the central government.

Among the most commonly debated energy subsidy schemes is the LPG (liquid petroleum gas) subsidy. One of the objectives of such a scheme is to provide people with cleaner and better fuel, not only because it works better, but because it is better for the environment (because it can help prevent deforestation) and for respiratory health (fuel would not be as harmful as, say, cow dung, because it burns more cleanly) (Patra 2012). It is not a subsidy that is only targeted to the poor, but also to the middle class in both urban and rural areas. Unfortunately, surveys have revealed that there is an urban bias in the accessibility of such programs – for example, a whopping 65% of urban households access LPG subsidies compared to a meager 12% of rural households (Lahoti, Suchitra, and Goutam 2013). This again points to a targeting problem, as we saw earlier in the case of food subsidies like the PDS. Such a bias appears in other sectors as well; Sreenivas and Sant (2008) discussed a similar problem in the context of transportation, where effectively, cars and two-wheelers get more subsidies than buses (not intended by policy design), which incentivizes their use over public transit. Accessibility, then, plays a big part in shaping the usage of schemes.

Of course, the problem has no easy solution. Some have argued it might be worth investing more in LPG to improve distribution; moreover, it would be possible to keep prices low either by subsidies, or by working with companies to increase the volume of LPG available in markets, thereby making the general price of LPG lower (Patra 2012). Another suggestion has been to instead offer more fuel-efficient cook stoves and give those to rural persons, changing the benefit from a monetary subsidy to a material one (Lahoti, Suchitra, and Goutam 2013). On this issue, in my analysis, I found something more akin to this second strategy through the presence of numerous schemes to promote solar products, which, if more widespread, would be a valuable supplemental program to the existing LPG subsidies as they are with the current urban-bias in accessibility.

Agriculture

The agricultural sector gets huge number of subsidies through a variety of government schemes that help transfer money, subsidized goods like fertilizer and essential farming tools like tractors, and training in better farming techniques. More generally, agricultural subsidies have been written about so extensively, especially fertilizer, and it seems right to question whether or not agriculture gets too much of the government's expenditure relative to other areas (Lalvani 2007). The debate surrounding agricultural subsidies comes into focus most clearly in the debate on fertilizer subsidies.

Fertilizer subsidies are a form of input subsidies, along with water and electricity. These schemes are often targeted either to all farmers, or to small and marginal farmers. On the whole, marginal farmers, followed by small farmers, get most of the fertilizer subsidies (relative to their much smaller area), but Sharma and Thaker (2010) conclude that on the whole, fertilizer subsidies are distributed relatively equitably across the size of farms. The element of inequity, however, comes in geographic distribution, where in spite of being national level schemes, most of the benefits are funneled into five states – Uttar Pradesh, Andhra Pradesh, Maharashtra, Madhya Pradesh, and Punjab, which tend to in turn grow "fertiliser-intensive [sic] crops such as rice, wheat, cotton, and sugar cane" (Sharma and Thaker 2010, 74). Karnik and Lalvani (1996) pointed to the role of large agricultural interest groups, and the groups in these states in particular and their influence on subsidy policy is apparently strong, as is revealed by their higher receipt of benefit from schemes. Sharma and Thaker (2010) found, however, that although there are gaping inequalities in benefits of such between states, on the whole the inequality is declining. Consider that in 1992-93, Punjab consumed Rs. 946 per hectare of gross cropped area; in 2007-08, this number was Rs. 3,924 per hectare. Rajasthan, the state that seems to get the least amount of the subsidies, the benefit was Rs. 129 per hectare in 1992-93 and Rs. 824 per hectare in 2007-08. So, in comparing Punjab versus Rajasthan, in 1992-93 Punjab received about 7.3 times the amount of subsidy that Rajasthan did; by 2007-08 this amount was reduced to 4.8 times the amount. Sharma and Thaker (2010) point to numerous improvements that came about with the help of government schemes: infrastructure, irrigation, high yield seeds, accessibility of fertilizer, and production of more fertilizer intensive crops in all the least developed states (Sharma and Thaker 2010, 74). Previously, scholars like Gulati and Kalra (1992) wondered if, by focusing more exclusively on certain types of schemes rather than others (for example, focusing more on irrigation versus fertilizers), the benefits of government schemes could be enhanced. However, Sharma and Thaker's (2010) more recent results suggest that approaching agricultural development from all sides seems to be working and should be continued. In fact, they recommended against the policy of direct transfer of subsidies (i.e. a cash transfer versus the subsidized material good) because where would be no way to guarantee that the money would be spent on agricultural uses, and therefore the improvements seen in the last decade – slow, but surely steady, signs of improvement - might diminish. Rakshit (2005) also found that reduction and/or elimination of input subsidies would probably have a negative impact on growth and development at least in the short and medium term.

The concerns surrounding agricultural subsidies seem to involve the choice of what to subsidize (for example, fertilizer versus irrigation versus both), how much to subsidize it, and how to distribute the subsidies more equitably (which deals in part with targeting). Gulati and Sharma (1995) note that subsidies impact peoples' behavior, so the choice of what to subsidize will incentivize the use of subsidized options in part because they are cheaper. This can have impacts not only on the development of agriculture and productivity but also on the environment; the environment would be more adversely impacted if the government were to be heavily subsidizing a more environmentally unfriendly nitrogen-based fertilizer, for example. Another well-argued point made by Shah (2005) is that subsidies only promote the enhanced use of the subsidized resource and may not really improve the efficiency or profitability of products. In other words, subsidies might create dependency rather than working toward the long-term goal of independence from subsidies. India must remember these important points in crafting developmental policy and consider how schemes help achieve short-term, medium-term, and long-term developmental goals.

Summary of Problems of Targeting

Between the areas of food, energy, and agriculture, which get the most discussion by scholars, targeting was of course a prominent problem: richer versus poorer groups, urban versus rural groups, and even geographic distribution of benefits. The other common debate is selecting *what* to provide schemes for; in the case of agricultural subsidies, for example, the choice was between several different input subsidies. This debate is present in other policy areas as well. In the case of higher education, for example, Godbole (1997) argues that the benefits should be provided as a loan rather than as grant-in-aid for disadvantaged and poorer groups. On the other hand, Tilak (1993) argued the opposite point, pointing to the fact that the poor have more imperfect markets and may not be able to easily access loans. Moreover, the long-term benefit of increasing the number of skilled workers to enhance economic growth and development would be worth the input cost. Both of these arguments are valid; on the point of accessibility to loans, I personally found that while banks and post offices are far more accessible today than might have been the case in the 1990s, there remains an information problem relating to the credibility of borrowers, which can explain why many of the schemes I analyzed in the following chapter (chapter 4) that had partial or full funding from the central government often had preferential loan components with lower interest rates. To not stray further from the point, each policy reflects making a choice between what seem to be two incompatible objectives: program success versus expenditure.

Cash Transfers

Recently, cash transfers have surged in popularity, and successful cash-transfer programs in Brazil (*Bolsa Familia*) and Mexico (*Oportunidades*). The 'standard' subsidy has developed a bad reputation for itself because they are often wasteful (going to non-targeted groups via leakages) and because they are ineffective in reaching their stated objectives in helping the poorest of the poor (Kapur, Mukhopadhyay, Subramanian 2008). Several years ago, Prime Minister Manmohan Singh admitted that India had this very problem, emphasizing that "[India is spending] far too much money funding subsidies in the name of equity, with neither equity objectives nor efficiency objectives being met" (Manmohan Singh speech, 2007). Subsidies have come to be a problem because they are often brought about not only with important developmental aims, but also to appease electorates. Many a program has been created to assist the poor, but such benefits are many times only in name and not in practice. Moreover, because government schemes can be politically sensitive, most policymakers have no desire to approach the issue of subsidy reform and help facilitate adequate reform of programs (Lalvani 2012). This makes cash transfers seem appealing; many don't realize they are another form of subsidy, so politicians can, to some extent, escape criticism for their support of subsidies by advocating for cash transfers. But are cash transfers a viable option in India? I will argue that at least currently, given India's current state of development, cash transfers will not work. I will briefly highlight some successes of cash transfers in India, as there are some cash transfer schemes that *do* work well. Then I will discuss the success of cash transfers in Mexico's *Oportunidades* to illustrate that cash transfers can run into many of the same problems as subsidy schemes. Finally, I will explain the conditions under which cash transfer programs would be effective in India.

First of all, India *has* already used a few cash transfer programs effectively. A study by Dutta, Howes, and Murgai (2010) showed how social pension schemes, where a small monetary transfer is made each month, actually do quite well in India. It's true that the elderly might run into trouble setting up the benefits – they may have to bribe someone, for example, to get a bank account for themselves. This poses a heavy cost upon the beneficiaries up front if they do face such an obstacle. However, once the account it set up, pensions flow into the account on a monthly basis automatically. Moreover, the incidence of corruption and leakage seems to be low; this is probably because the monthly amount of cash put into accounts is so low (often less than 300 rupees per month – roughly $5.50 US at the current rate). The low amount of the transfer seems to act as a disincentive to more corruption. Additionally, the target group is often quite small. The CIA World Factbook (2013) estimates that in 2013, roughly 5.7% of the Indian population will be over the age of 65.[14] Less than 70 million people, then, could be potential targets. However, pension schemes often target the rural poor, and more often, widowed and elderly women with almost no income. Therefore, the target group is fairly small, especially compared to other schemes, so there are far fewer opportunities for

[14] The projected estimate by gender is 32,992,850 males and 36,494,985 females age 65 and up.

corruption. The dynamics are simply quite different with a program like NREGS (National Rural Employment Guarantee Scheme) where project managers can forge names and signatures to earn hundreds of rupees per *day*, and it is hard to verify which names are real and which are phantom in a system that benefits potentially hundreds of millions of people. There are other, newer conditional cash transfer schemes in India that are focused on promoting the prevention of female feticide/infanticide. These work in tandem with other schemes that give girl children free education, essential material (e.g. uniforms, textbooks) and nutritional support; they are by no means standalone schemes, as might be possible in Latin America. So, on the whole, these schemes might give some amount of money when the child is delivered in an institution; there may be additional transfers for enrolling girl children in school and for each grade of schooling they successfully complete, especially in rural areas and in areas with especially high rates of female feticide (Roy 2011). An added benefit is that the money from these transfers may be ineligible for withdrawal until the girl reaches the age of 18, with an eye towards alleviating the cost of the girl's marriage on the family. What this is an example of is how the number of schemes work together to incentivize the raising of girl children, which can slowly reduce the gender gap and begin shifting negative cultural attitudes towards girl children (Sekher 2012). The long-term impacts are still unclear, since many of these schemes have been initiated within the last decade. However, the far-reaching impact of these type of conditional cash transfer schemes gives hope to the successful use of other cash transfer and conditional cash transfer schemes in the future.

However, the relative success of these programs in India and those in Latin America should be understood in context of their situation. For example, Yanes (2011) discusses at length about the parameters of conditional cash transfers in the *Oportunidades* program in Mexico. He highlights the essential features of the program in comparison to subsidies. First, cash transfer and conditional cash transfer programs also have targeting problems (inclusion and exclusion errors). In the case of conditional cash transfers, beneficiaries have to make certain pre-determined choices in order to get the benefit, which can be a problem to the extent that such polices restrict freedom of choice because a policymaker at an upper, removed level decides that poor persons should be made to do *x* in order to receive a benefit. The drawback of having cash transfer schemes without any conditions, however, is that the resources transferred may be squandered, and might therefore not improve the conditions of the poorest overall; conditional transfers might be the lesser of the two evils in this situation. The transfers might create a sense of dependency even to the small sums of money transferred, but at the very least, one can hope to counter the mentality "that the poor make bad decisions and tend towards vagrancy, irresponsibility, laziness and vice" by means of the conditions imposed (Yanes 2011, 51). *Oportunidades* is a transfer that goes to a family, not to an individual person, and often the transfer is made to a woman in the household to manage the resources best. As we noted in the case of cash transfer schemes in India, the transfers in Mexico also tend to be small sums and only to those persons with a low-income ceiling (India attempts to determine these ceilings by using the BPL/APL designation). Technology has improved the delivery of such transfers by cutting out middlemen who are known to extort the poor or cut out portions of benefits for themselves. The size of the transfers is small enough to deter many middlemen anyway, because there is little to gain. On the other hand, it can be problematic that the transfers are small since they also do *not* prevent people from slipping into poverty; they are not social safety nets but temporary forms of assistance to attain certain aims (such as universal literacy and education for children of school-going ages) (Yanes 2011, 50). These aims can help families move out of poverty in the long run, barring other restrictions; sometimes, achievement of these aims is not enough, creating the problem of educated-unemployed persons trapped in a cycle of poverty (Dube 1997, 141).

As we have seen above, cash transfer schemes are not perfect. They too run into the errors of targeting, and often there are conditional programs aimed at improving children's health and education. However, implicit in the notion of conditionality is the notion that the necessary infrastructure exists for the program to work. Kapur, Mukhopadhyay, and Subramanian (2008) argue against using cash transfers in India, at least for now, because India is lacking the necessary infrastructure and institutions to make such programs work. Moreover, they point to the conditions as being a drawback; for example, under NREGS, it is true that many of the projects facilitate the development of infrastructure. However, the requirement that the local villagers make the infrastructure without any machinery creates less durable infrastructure on the whole. Dirt roads, for example, may be in bad shape after heavy rains and monsoons; what is the point of making such roads instead of properly paved ones that will last longer? Such projects may cost more initially (in material costs) but be less costly in the long run. Functional, long-lasting infrastructure is also important to the success of other schemes.

I will give one critical example of the importance of functional infrastructure from a firsthand experience. Sarva Siksha Abhiyaan (a primary education scheme) mandates the creation of schools. However, mandating the creation of such infrastructure only goes so far. In the village of Raniaki in Tauru Block, Mewat District, Haryana, I visited one school whose construction was incomplete because the money kept getting embezzled away. In addition to the infrastructure, the school *did* have some resources via material transfers from the government as well – books for education and also steel plates for the midday meal scheme created to incentivize school enrollment and attendance while increasing nutritional intake of children ages 6-14. However, the books were locked away in a cabinet in one of the storage room and had clearly never been touched. Neither had the steel plates ever been used; I noticed both the books and plates as the plates were being extracted from the locked cabinet to serve my group a meal. No doubt, the school I visited in Raniaki was far from the environment needed to facilitate education; buildings and textbooks mean very little if the buildings are incomplete, the books locked away, and the teachers fail to show up.

Under such conditions, a cash transfer scheme would do absolutely no good in increasing children's enrollment or literacy rates, simply because the infrastructure is missing. Functional infrastructure is a *necessary* component of conditional cash transfer schemes, and it is only because Latin America *does* have the infrastructure that such programs are actually effective there. Therefore, India needs to continue to focus on innovating ways to actually ensure that functional infrastructure is installed; a cash transfer scheme cannot be envisaged, even for a moment, as a substitute program for any of the present schemes. It is, as best, a supplemental program (Editorial (no author), 2011).

Closing Remarks

This section has discussed both subsidies and cash transfers, especially conditional cash transfers, which are widely used in Latin America. I first explored the problems of targeting, which include F-errors (excluding the intended beneficiaries) and E-errors (excess coverage of people not in the target group). I looked at the problem of targeting in three areas: food, energy, and agriculture, which all garner huge subsidies in India. Many of the problems revolve around lack of infrastructure, ease of access, choice of what to transfer, how much to transfer, and how to make sure targeted benefits actually reach intended beneficiaries. The lesson is that in many cases, targeted programs do not work well compared to universal programs. They often reach more urban than rural persons, and the administrative costs are higher. Though more universal programs work better, in choosing universal programs, a government implicitly makes the choice to place greater value in selecting a design that includes the targeted persons while willingly bearing the expense of excess coverage. This method can come midway, as there are strategies the government can use (for example, indirect taxes on select goods) to recoup some of the expenditure lost in schemes by excess coverage. Therefore, the universal option does seem, overall, to be the better policy choice. Of the methods of targeting, geographic targeting has been known to work better than targeting certain groups. Some targeted groups are actually quite large (for example, women), and hardly constitute a target group; instead they are more merely programs with a slightly restricted focus. Target groups should really be those groups that are fairly small, such as widowed women living below poverty line in rural areas. In spite of the surge of popularity of cash transfer programs thanks to their success in Latin America, they too cannot escape the constraints of targeting. Based on findings on conditional cash transfer programs in Latin America, it is safe to say that conditional cash transfers work well in the appropriate conditions, and India should consider using them as supplementary programs after developing the requisite infrastructure. Alternative programs should be used to facilitate the development of adequate infrastructure; only with the infrastructure in place can conditional cash transfers work.

Bebbington and McCourt (2007) nicely summarize the features of programs that work well. Presumably the success of programs is dependent on Sen's (1999) conception of successful programs: those that enhance the capability of the beneficiaries to do bigger, better things. Bebbington and McCourt (2007) found that programs that were successful in achieving that aim were those that targeted persons with the greatest capability deficits (which could be geographic targeting, as discussed earlier). Also, successful programs started small to iron out problems in implementation before being scaled up. India has certainly tried this strategy too, though it should perhaps extend the time between initial implementation and scaling up to several years in order to allow for schemes to undergo at least one series of reforms – a period of perhaps two to four years. During this period especially, feedback mechanisms must to be present and easily accessible to help policies pragmatically adapt to real situations. This also creates an opening for more actors – citizens, NGOs, and even private companies – to be a part of the developmental process. And finally, Bibbington and McCourt (2007) found that successful programs were those that had been around for at least ten years so as to be able to really identify the impact of welfare programs. Programs must be built to endure, so they should be developed carefully to be as successful as possible.

Although the discussions on cash transfers have ruled them out as a primary governmental strategy for India, the rise of cash transfer programs has at least helped to stimulate intellectual discussion on the differences between subsidies and cash transfers (Dubash and Rajan, 2001). Criteria like the one identified by Bibbington and McCourt (2007) also help shape the discussion of policy choice. This recent revival of debate has also encouraged other actors to bring the issue of development back under public scrutiny and help voters shift their attention to developmental issues, which can be especially important around elections. Of course, given the relationship between the state and the citizenry and the competition between more fractional interest groups, necessary reforms may only come slowly. However, the dynamic between the citizenry and the state may be evolving slowly in favor of performance-based politics. As citizens express more and more that basic development and infrastructure are important to them, it will be politically feasible and necessary for politicians to promise (and deliver) at least some benefits in these areas to the general public, necessitating a shift away from smaller interest groups (Keefer and Khemani 2004). Development has been an important issue in India as it is often compared to China, but such issues matter as much to India for its own sake in continuing to grow and find its place in the international arena.

Chapter 4: Methodology and Results

In order to determine whether or not India is a subsidy state or a developmental state, I decided to examine a range of schemes listed on the National Portal of India government website. Of the 1259 schemes listed, I opted to look at the 581 schemes with central sponsorship because I was more interested in discovering what the data would suggest about the relationship between the citizenry and the central government. In centrally sponsored schemes, the central government of India covers 25%, 50%, 75%, or 100% of the cost of the scheme.[15] The National Portal of India has a brief description page for each scheme. I visited each scheme's description page and collected my data.[16] In the first column is the name of the scheme. In the second column, I indicated which group(s) the scheme was targeted to (for example, certain castes, women, children, etc.). The third column lists whether or not the scheme is associated with a specific state – this corresponds with the 'owner' of a scheme on the scheme's description page. The fourth column asks whether or not receipt of the benefits of the scheme is contingent upon anything, such as delivering a baby in a medical facility or attending school. If the answer was yes, I briefly listed what the condition was in the fifth column; if the answer was no, I left the column blank. The sixth column lists what types of benefits are delivered under each scheme. The five categories I used were money, employment, services, material, or infrastructure; many programs offered multiple benefits, so in the data presented below, the percentages do not add up to only 100%. Money could take the form of a direct cash transfer, a scholarship, a reimbursement, a loan, or partial coverage of costs for certain goods (a subsidy). Services included things such as access to medical treatment at low or no cost or training to develop sector-specific skills. Material goods were a benefit that appeared in education or health schemes where the transfer was of school uniforms,

[15] Not all schemes listed this percentage, and therefore, I did not include it in my data.
[16] I did occasionally run into difficulties in collecting this data. There were times where the scheme description did not provide the necessary information, which case I turned to the state government's schemes page or a search engine to collect the necessary information. If no further information was available (or not in English), I made an educated guess based on similar schemes, since the title each scheme can tell quite a lot.

textbooks, or food. The final categorization in this column was infrastructure, which I used to indicate that the government was developing infrastructure – for example, building schools or hostels – via the scheme. The seventh column describes the policy area relevant to each scheme, and the scheme could fall into more than one category. As with the previous, column, then, the results of this column presented below will also not add up to 100. The most populous categories were agriculture, education, health, infrastructure, and social welfare, where each category had 80 or more schemes. Most of the categories are obvious and therefore self-explanatory. However, there are two categories that merit explanation. One category I called development, which I used to indicate that the program was pursuing a very wide scope of developmental activities in too many areas. The other categorization worth mentioning are empowerment schemes. These schemes are often targeted to women, but also to other disadvantaged groups, and a common means of empowerment is via training or the formation of self-help groups (SHGs) for micro lending.

The remainder of this chapter will proceed by describing the aggregate results sorted by each column. First, I will discuss my findings about the target groups of the scheme. Then I will examine the geographic distribution of these 581 schemes and suggest why they might be distributed as they are. Third, I describe my findings on the conditionality of schemes and break down the types of benefits that are transferred. Fourth, I will explain the different policy areas that the schemes were categorized into. This chapter will close with concluding remarks about my results.

Target Groups

The first column of the data identifies the target group of the scheme. In a number of schemes, the target group was not the intended beneficiaries directly but rather an NGO or other voluntary organization who could carry out the objectives of the program. If the target group was the voluntary organization itself, the data lists it as such; however, if the end-beneficiary was a different group, then that group is the one listed. I will only present a selection of the target groups, pulling out some major ones that may be of interest.

The first interesting finding here is related to gender targeting, that is, targeting of women and/or girls. Women were targeted in 15.32% of schemes and girls (usually under age fourteen) in 6.9% of schemes. Collectively, then, females are targeted in 22.2% of schemes, or over one-fifth of the total schemes examined. While it is admirable that women in targeted in such a significant number of schemes, given that there are 587, 236, 392 women and girls in India – 48.1% of the population – there is undoubtedly room for errors of targeting and too many access points (i.e. number of women) for corruption (CIA World Factbook 2013).

I examined two additional target groups here: the elderly and disabled and/or handicapped persons. As a target group, 12 of the 82 centrally sponsored schemes in the social welfare category were for the elderly. To put this number into perspective, the elderly (age 65 and up) constitute 5.7% of the population; there are 69, 487, 835 people over age 65 versus 165, 219, 615 girls under 14. So, given that the elderly are, comparatively, 42.1% the size of the population of girls under 14, it is surprising that they have 12 schemes (30% of the number of schemes directed to girls). However, the social welfare schemes that apply to the elderly are almost always pensions (unconditional cash transfers) of fairly small sums (less than a few hundred rupees per month), so in terms of budgeting, social welfare programs for the elderly are probably more inexpensive. 32 schemes are directed towards disabled and handicapped persons, 19 of which fall in the social welfare category. The remaining schemes are more focused on imparting skills or otherwise enhancing the capabilities of people with disabilities. These findings are summarized into table 1 below.

Table 1: Gender, Age, and Disability

Target Group	Number of Schemes	Percent of Total
Women	89*	15.32%
Girls	40	6.9%
Women *and* girls	5	.9%
Elderly (60 and up)	12	2.1%
Disabled/handicapped	32	5.5%

* *One of the programs targeted toward women was an umbrella scheme (National Social Assistance Programme – NSAP) and therefore contained an unknown number of additional schemes underneath it.*

Another common method of selecting targeting was by selecting identity groups, which consist of several caste groups (Scheduled Caste, Scheduled Tribe, Other Backward Class, Backward Class) and also religious minorities (Buddhists, Christians, Muslims, Sikhs, and Zoroastrians/Parsis). The findings related to identity groups are summarized in table 2 below. There are 107 schemes[17] – 18.4% of all the schemes – directed at Scheduled Castes (SCs) or Scheduled Tribes (STs). Backward Classes (BCs) and Other Backward Classes (OBCs) have far fewer schemes directed toward them. If one combines the number of schemes directed at BCs and OBCs (39 schemes, 46 if the ones with no clear designation are included), then 6.7%/7.9% of schemes are targeted

[17] Many of the schemes that target SCs also target STs; there is a lot of overlap. The number used here, 107, reflects the total number of schemes that targeted either of those two groups.

toward those two groups, less than half of the amount of schemes directed at SCs or STs. The 2001 census of India pegged the number of SCs at 16.2% of the population and STs as 8.2%, but there is no data on other caste groups. The 2011 census is the first census that asks questions about caste by popular demand, but the data is not available to draw comparisons on the amount of schemes directed to SCs, STs, BCs, and OBCs versus minority groups.[18] Religious minorities, who constitute approximately 19.4% of the population, have 17 schemes directed toward them, though the nature of the schemes had nothing to do with their religious affiliation; 10 of the schemes were in the educational sector and directed towards educating minority children (CIA World Factbook 2013).

Table 2: Identity Groups

Target Group	Number of Schemes	Percent of Total
Scheduled Caste	93	16%
Scheduled Tribe	85	14.6%
Other Backward Class	28	4.8%
Backward Class	11/18*	1.9%/4.8%*
Minorities	17	2.9%

* An additional 17 schemes with broad categorizations like 'rural people' or 'farmers' that did not specify a caste group could also cover backward classes.

Next, I examined the usage of the term 'poor' or 'below poverty line' (BPL) as targeting categories and compared the usage of urban versus rural; these findings are summarized in tables 3 and 4. Without going into a full-fledged discussion about the difficulties surrounding the designation of BPL, it is worth noting that some argue that the BPL line should be higher (i.e. it is presently too low), while others say the designation has a degree of arbitrariness since people above the poverty line (APL) are not significantly better off but can be ignored by schemes because of the BPL

[18] See for example, "Demand for caste census rocks Lok Sabha." Times of India, 4 May 2010. <http://articles.timesofindia.indiatimes.com/2010-05-04/india/28307572_1_caste-based-enumeration-demand-for-caste-census-decennial-census>

designation. 105 of the total number of schemes – 18.1% – are targeted to people who are 'poor' or in the 'BPL' category.[19] The lack of clarity of the definitions surrounding poor and BPL make it possible for coverage to be poor; the exclusion errors of such a target selection could be high. Almost three times as many schemes were directed at rural areas versus urban areas, where the incidence of poverty is more likely to higher. The urban schemes in particular were not always targeted at the poor, so I separated tables 3 and 4 to make this clearer. The difference between the number of explicitly urban versus rural schemes suggests that the Indian government may be trying to use a strategy of geographic targeting in many schemes, at least to a limited degree. There are a few schemes that are actually directed at certain blocks or districts, but even at an aggregate level, the rural versus urban difference is worth noting in terms of geographic targeting.

Table 3: Poor, Below Poverty Line, Urban and Rural

Target Group	Number of Schemes	Percent of Total
Poor	36	6.2%
Below Poverty Line	76	13.1%

Table 4: Urban versus Rural

Target Group	Number of Schemes	Percent of Total
Urban	27	4.6%
Rural	97	16.7%

The final section under the target group column that I looked at was profession. There were three primary groups of interest: farmers, fishermen, and handloom weavers; the findings are summarized in table 5.[20] The fact that almost 12% of schemes are

[19] There was, again, some overlap, so it was not 112 schemes in total.
[20] There were numerous other groups as well, but I highlighted the three largest ones here.

directed to farmers alone (not only of crops but those engaging in animal husbandry as well) can attest to the high number of agricultural subsides in India; agricultural subsidies are among the most widely discussed Indian subsidies, and with good reason, since they represent a more significant percentage of the budget. Fishermen, who also fall under the commercial agriculture category, were the next largest target group, with 4.6% of the schemes targeted to them, followed by handloom/power loom weavers with 3.6% of the schemes. The textile sector in India is the second largest employer (second to agriculture), employing about 35 million people.[21] Additionally, in 2008-2009 the handloom/power loom sector alone produced about 13% of the total cloth in India (India Law Offices 2009). Therefore, while its proportion may seem small here, there may be additional subsidies in other sectors of the textile industry (for example, in the production of cotton or jute) that are not reflected in this table.

Table 5: Professions

Target Group	Number of Schemes	Percent of Total
Farmers	68	11.7%
Fishermen	27	4.6%
Handloom Weavers	21	3.6%

Geographic Breakdown

This section looks at the schemes according to which state or territory 'owned' the scheme. I will not discuss all 28 states and seven union territories, but all states and territories are listed in table 6 on the following page. The states that had the highest number of schemes (and therefore accounted for greater portions of government expenditure on schemes) were Orissa (60) and Himachal Pradesh (58), with each

[21] No author. "A Brief Report: Textile Industry in India." 2012. <http://web.archive.org/web/20120522071945/http://cci.in/pdf/surveys_reports/indian-textile-industry.pdf>

accounting for over 10% of the 581 centrally sponsored schemes. The next top states were Punjab (40), Jammu and Kashmir (34), Madhya Pradesh (30), and Mizoram (27). Among the union territories, Andaman and Nicobar Islands owned 12 of the schemes, which is significant considering its fairly small size and small population (379,944 people) (Census of India 2011). Interestingly, all of the states receiving the highest funds are in the upper half of India – none of the top states are in southern India, and Madhya Pradesh is the only central Indian state represented in the top six states here. Many of these top six states rank low or medium in terms of development, though Himachal Pradesh and Punjab are far more developed than the other states represented here. Interest groups, especially related to the agricultural or textile sectors, may account for the distribution of funding; if schemes were skewed towards less developed states, then we would see states like Rajasthan or Bihar having more schemes targeted towards them.

Table 6: Geographic Breakdown

State/Union Territory	Number of Schemes	Percent of Total
Central government (no specific state)	18	3.1%
Andhra Pradesh	12	2.1%
Arunachal Pradesh	5	.9%
Assam	1	.2%
Bihar	3	.5%
Chhattisgarh	8	1.4%
Goa	5	.9%
Gujarat	0	0%
Haryana	12	2.1%
Himachal Pradesh	58	10%
Jammu and Kashmir	34	5.9%
Jharkhand	20	3.4%
Karnataka	1	.2%
Kerala	18	3.1%
Madhya Pradesh	30	5.2%
Maharashtra	7	1.2%
Manipur	26	4.5%

Meghalaya	16	2.8%
Mizoram	27	4.6%
Nagaland	0	0%
Orissa (Odisha)	60	10.3%
Punjab	40	6.9%
Rajasthan	1	.2%
Sikkim	2	.3%
Tamil Nadu	2	.3%
Tripura	3	.5%
Uttar Pradesh	0	0%
Uttar Pradesh	0	0%
Uttarakhand	0	0%
West Bengal	0	0%
Andaman and Nicobar Islands	12	2.1%
Chandigarh	5	.9%
Dadra and Nagar Haveli	0	0%
Daman and Diu	0	0%
Lakshadweep	1	.2%
National Capital Territory of Delhi	1	.2%
Puducherry	3	.5%

Conditionality

Most Indian schemes deliver benefits on an unconditional basis. As table 7 shows, of the 581 schemes, 494 schemes (85%) are unconditional. 87 of the schemes were conditional, with the top form of conditionality being manual labor (21 schemes), paying into a program or partially financing a project (17 schemes), or attending school (12 schemes). Conditionality is used mostly in instances where the benefit conferred is money (a cash transfer) or material (as in the case of education). It is not insignificant that 15% of schemes are conditional, but at the same time, their more limited use underlines the fact that many conditional schemes usually require infrastructure to be in place in order to be effective, as is the case in Latin America. Therefore, until India can successfully develop more parts of the country and install the necessary infrastructure (functional schools, medical facilities, etc.), the use of cash transfer or conditional cash transfer programs will probably remain more limited.

Table 7: Conditionality

Conditionality?	Number of Schemes	Percent of Total
Yes	87	15%
No	494	85%

In order to better understand the choice between traditional subsidies versus cash transfers, I also disaggregated the data on type of benefits conferred in table 8. Most schemes offer multiple benefits. Money was offered in almost 72% of schemes in addition to one of the other four types of benefits, often training (services) or employment. Services such as training or access to low cost or free health care were available in 205 schemes, over one-third of the schemes. 150 schemes facilitated the creation of infrastructure, which, as I mentioned earlier, also points to the fact that the Indian government is still working to further develop infrastructure. Infrastructure constituted a benefit in 25.8% of schemes; I only counted it in cases where the central government was directly handling the building. There were many instances where the government was giving money towards building infrastructure (for example, giving money to NGOs to finance a variety of developmental projects which could potentially include infrastructure). In actuality, then, a greater proportion of schemes than is represented here goes towards infrastructure. Material benefits and employment/self-employment opportunities were each benefits in close to 10 percent of schemes. In the case of material goods, their more limited use might point to the fact that Indian lawmakers are aware that material goods are easily siphoned away from the intended beneficiaries. However, food is also a material good, so although it is only 10% in terms of the number of schemes, central expenditure on material benefits are likely to be high. Employment is a particularly helpful benefit, as through programs like the National Rural Employment Guarantee Scheme (NREGS). I witnessed firsthand in Phalooda village in Silora Block, Ajmer District, Rajasthan, in February 2012, how employment is an empowering benefit for many reasons. In Phalooda, most of the people who took advantage of employment under NREGS were women. The projects created under NREGS were close enough to or even within the village, which made it easier for the women in this conservative area to take up work; they are often not allowed to venture very far from home, as men can. Additionally, as a result of working and contributing to household expenses, women in this village were empowered and began to have more say in village affairs; they also tried to make good use of the money by saving portions of it in a self-help group. The presence of women's self-help groups in this area has better facilitated their empowerment. Therefore, though employment is a limited benefit under this scheme (only up to 100 days of work), money-for-work schemes like this can have a great benefit even with respect to social development. The added perk of this program is that it is considered to be self-targeting; only those people willing to take up manual work will enroll in the scheme. Of course, it is not perfect; the scheme does not work so well everywhere, and lots of money is still squirreled away by corruption. Still, the success of NREGS in terms of both awareness and usage suggests that more programs should make use of well-designed conditions to benefit Indian citizens in multiple ways.

Table 8: Benefits by Type

Benefit Type	Number of Schemes	Percent of Total
Employment	56	9.6%
Infrastructure	150	25.8%
Material	57	9.8%
Money	416	71.6%
Services	205	35.3%

Policy Areas

The final column to look at here is the breakdown of policy areas, summarized by table 9. India has been working to improve literacy rates and is trying to provide universal education at least at the primary school level; in line with this objective, almost 21% of schemes are related to education. Agriculture comes as a close second with 17.7%, followed by health (15.7%), infrastructure (14.6%), and social welfare (14.1%). The benefits of these areas do have a lot of overlap, since the expansion of infrastructure is happening in multiple areas via the commercialization of agriculture and the construction of schools and adequate medical facilities in areas across India. The percentage of different schemes here should not be confused for the relationship with budgetary expenditure; agriculture, for example, is the second-largest policy area covered, but it includes fertilizer subsidies, which makes agriculture an area of greater expenditure than some of the other policy areas. Regardless, each of these top areas constitutes a critical developmental area for India, and because the central government sponsors a significant number of schemes in each category, I would argue that it is more plausible to believe that India is not merely a subsidy state but a developing one.

Table 9: Policy Areas

Policy Area	Number of Schemes	Percent of Total
Agriculture*	103	17.7%
Development	22	3.8%
Education	122	21%
Empowerment	50	8.6%
Energy	25	4.3%
Health	91	15.7%
Human Capital Development	25	4.3%
Industrial Development	66	11.4%
Infrastructure	85	14.6%
Social Welfare	82	14.1%

* 51 Schemes (8.8% of schemes) were toward small-scale agriculture; 52 (9% of schemes) were toward commercial agriculture.

Closing Remarks

This chapter has discussed the findings of my all-India aggregated data on centrally sponsored government schemes. I was able to identify a number of target groups that appeared in a significant number of schemes, namely women, Scheduled Castes, Scheduled Tribes, rural areas, and farmers/fishermen. These overlap with India's developmental interests, which include empowering women and improving the quality of life in part by developing infrastructure for the poorest people, many of who are SCs or STs and live in rural areas. The top states in terms of distribution were Orissa, Himachal Pradesh, Punjab, Jammu and Kashmir, Madhya Pradesh, and Mizoram; though many of these are lesser developed states, the presence of more well-developed states like Himachal Pradesh and Punjab suggests that there is a different relationship between these states and the central government relating to developmental aims (for example, commercialization of agriculture and diversifying sources of growth) – interest groups in key areas are likely to have more influence, then, in accordance with the central government's developmental objectives. Those states may have certain industries that are of interest for economic growth (for example, textiles or agriculture). I also found that 85% of schemes were *not* conditional, which reflects that conditional schemes, particularly conditional cash transfer schemes that are widely used in Latin America, are not yet suitable for many parts of India. Money, services such as vocational training, and the development of infrastructure in the top policy areas of education, agriculture, infrastructure, social welfare, and health suggest that the Indian state is not merely trying to create an ever-rising number of subsidies and schemes. With almost 1300 schemes between the central and state governments, India has no shortage of programs to work through. My findings suggest that at the very least, scholars should re-examine why India is typically believed to be a 'subsidy state' or a 'subsidy raj.' As I mentioned in chapter 3, approaching the notion of a subsidy state by looking at the expenditure on subsidies versus other developmental projects in the last decade or so would be one way to go about doing this. I believe, however, that my findings point to the fact that India is a developing state, targeting the most disadvantaged groups in numerous developmental policy areas using a strategy of conferring multiple types of benefits. While the development of programs can improve to be more universally accessible, it seems that India's development will continue at a slow and steady pace, which will help as India takes its place on the international stage.

Chapter 5: Concluding Remarks

The introduction of this paper highlighted that although the Indian state is often considered to be a subsidy raj, whether or not this is actually true has not yet been analyzed. Furthermore, I was guided by Sen's (1999) concept of development as a means and an end of enhancing not only economic growth but also the capability of people to live better lives and therefore increase their freedoms. Using that understanding of development, I looked at whether or not the definitions available of subsidy include any developmental references, which they do not. Though many Indian schemes do have subsidy components in the sense that there are transfers of money, directly in the form of cash or indirectly via below-market prices for particular goods and services, Indian schemes also deliver a number of other benefits that are intended to have a developmental impact. To that end, I decided to look at 581 centrally sponsored schemes to determine what the benefits of Indian schemes are and to determine on that basis whether it would be appropriate to call India a subsidy state. Based on my findings, I feel that it may be misleading to call India a subsidy state, since such a label does not capture the developmental objectives or impacts of such schemes.

The label of 'subsidy state' does not suggest anything about the nature of the relationship between the Indian government and its highly diverse populace, which I explored in chapter two. A number of scholars pointed out that the highly heterogeneous and fractalized Indian populace forms interest groups in an effort to lobby the government and reduce the inequalities between different groups. The Indian state, being a soft state and more politically sensitive in that it cannot afford to displease any groups, responds easily to the lobbying of such groups. The fact that developmental schemes come through such response show the government's objectives are, at least in part, aimed at increasing equity between different groups and enhancing the capability, and therefore freedom, of more disadvantaged groups. The Indian state, then, can be considered to be a developmental state. The competition between interest groups for government response can bring about corruption and rent-seeking behavior, but as Wade (1985) reveals, a minimum level of corruption may be a good thing in that it keeps the entire governing system in motion. That isn't to say that India has low levels of corruption; it *is* a serious problem that needs to be reduced, but not entirely eliminated.

The criticism, then, associated with labeling India as a subsidy state, might not be that India is not a developmental state, but that it has failed in its *own* developmental objectives. Chapter three talks about this in great depth in explaining the choice between subsidies and cash transfers. Both types of policy cannot escape the problem of targeting, which are E-errors of excess coverage and F-errors of excluding the target groups. Such errors can be overcome by using universal or quasi-universal programs, or by targeting all citizens in select geographic areas rather than only sub-groups of people. If the transfer is of material goods, the types of goods transferred might be those more used by the target groups (for example, coarser cereals that are consumed more readily by those in rural versus urban areas). The trade off here might be cost, but on the other hand, targeting creates higher administrative costs. For example, women are not an ideal population to target; they are a large portion of the Indian population (a little under 50%), and therefore create too many access points for people to draw benefits (i.e. there are many possible points for corruption). Given that many schemes target fairly large groups, it is difficult to determine who to include or who to exclude. Therefore, targeted schemes are generally less effective (except in instances where target groups are fairly small), so may be better for the government to bear the higher costs of universal programs if it means that those schemes have a greater developmental impact. Additionally, the government does have ways to reclaim some of the surplus expenditure, which should encourage the government to try universal programs. Cash transfer programs, especially conditional cash transfer programs, have great appeal because of their success in Latin America, but because they require infrastructure to function well, they are not yet a suitable policy option for India, which is still figuring out how to develop much of its infrastructure.

Bearing in mind the two primary policy choices, subsidies and cash transfers (which are in fact on one continuum of policy choice), chapter four describes the process of my data collection and presented some analysis of results. For example, the population of many of the target groups – women, Scheduled Castes, Scheduled Tribes, farmers, etc. – are groups whose capabilities and freedoms the government is trying to enhance. However, the many centrally sponsored schemes went to one of six states: Orissa, Himachal Pradesh, Punjab, Jammu and Kashmir, Madhya Pradesh, and Mizoram. Some of these are among the least developed states in India, but not all of them are; Himachal Pradesh and Punjab fare much better than the other four top states. This suggests that the influence of interest groups may be at play here, as discussed in chapter two, but also that the relationship between these states and the central government may be unique as they relate to developmental aims, such as commercialization of agriculture and diversification of the sources of growth. Consistent with the conclusions of chapter three, only 15% of schemes had any conditionality, pointing to the fact that conditional schemes are not yet appropriate for India without the necessary infrastructure. However, while almost 72% of schemes offered money, they also offered a number of other benefits, namely material goods, employment, services, and/or infrastructure. By offering multiple types of benefits, it seems more plausible that the Indian government is not simply trying to subsidize everything or throw money at the problems of poverty and unfreedom, but instead it is trying to improve the lot of citizens by offering a multitude of benefits, if only in hopes that at least some will have some positive impact.

With the understanding of the complex nature of the relationship between the Indian state and its citizenry and the decisions it has to make when designing and executing policy, I undertook the project of analyzing centrally sponsored schemes. It is my belief that the results of my findings necessitate a reassessment of the nature of the Indian state as a subsidy state, and that it should instead be called a developmental state. Of course, there are necessary reforms to improve the efficiency and effectiveness of Indian schemes, but it is still squarely the job of the government to protect and enhance the freedoms of all its citizens. This it should do not only as the obligation of a democratic government to its citizens, but also because only in doing so will India be able to sustain economic growth and innovation as it rises to take its place on the global stage. Such a goal cannot be achieved without the increased participation of all citizens in the Indian and the global economy, which requires the Indian government to not only eradicate income poverty but also the poverty of capabilities. India will have to feel its way forward as it attempts to advance its developmental objectives, enhance the equality between citizens of all socio-economic classes, castes, and ethnicities, and reduce the inefficiency that surrounds current developmental policies.

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