

**A GREAT TRANSFORMATION?  
Understanding India's Political Economy**

**WORKING PAPERS**

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## **Shifts in India's Welfare Regime: Targeting, Privatisation and the 'Great Transformation'**

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### ***Abstract:***

**NOTE: This is an unfinished draft, with several incomplete sections and parts that still need to be written.**

### **1. Introduction**

India, as has been argued in the concept note of this workshop as well as elsewhere, has undergone major changes in the last 15-20 years. The organisers of this workshop even refer to a great transformation, which they then further disaggregate into three central transformations: ascendant cultural nationalism, popular democratic mobilization and economic liberalization. The basic idea underlying this workshop is that these three major changes have affected the structure and dynamics of India's political economy in significant ways.

I was asked to focus on social policy, and the question put to me was to what extent the three central transformations have shaped and reshaped the structure, character and practice of social policy, and the relationship between various political institutions that influence its formulation, execution and implementation in civil society, political society and the state.

Although I find it a challenge to try to relate the development of institutions and policy domains to these three transformations, I had a difficulty with the way this question was posed. To start with, there is a more exploratory question that has to be addressed first: what *are* the changes in social policy? Is there also a (great) transformation in social policy, and, if so, what does it entail? Second, if there are important changes, it remains a question how we can understand these. The three identified transformations can, of course, serve as starting points in this analysis, but whether or not, and to what extent they have shaped shifts in social policy making, or to what extent the changes are related to other developments within India's political economy, is to be investigated rather than assumed. In short, I found the question put

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to me not starting at the beginning, and leading too much to particular types of explanations.

Social policy in India, I will argue in this paper, has changed significantly in India. It has lost some of its universal character, and is increasingly meant for the poor only. In order to make and elaborate this argument, I will make use of the concept of ‘welfare regime’, and the argument I want to make is that the last 15-20 years have witnessed a change in India’s welfare regime – from an incomplete mixed social-democratic regime towards an incomplete mixed liberal regime.

The advantage of looking at India’s social policies and changes therein in terms of a (changing) welfare regime is that this concept encourages one to think about larger patterns, about ‘repeated systematic arrangements’ (Gough and Wood, 2004: 5), about path dependent development of institutions, ideas and practices (de Haan, 2007a: 86). The concept, therefore, motivates to see a unity, a commonality, a structure into an otherwise diverse set of social policies and other welfare arrangements. By doing so, it also draws the attention to the conditions of its shaping. Welfare regimes are, of course, outcomes of political contestation. They reflect the wider political economic context in which they emerge, while at the same time their outcomes may have an impact on this context again.<sup>2</sup>

In the next section, I will discuss the concept of welfare regime and the criteria that I will use to analyse India’s welfare regime and changes therein. The third section looks at changes and trends in social policy in India, and ends with an attempt to capture these shifts in terms of a changing welfare regime. The fourth section tries to relate the changes in the welfare regime to some changes in India’s political economy. The focus will be particularly on liberalisation and changes in the class structure. The paper ends with a short conclusion.

## **2. Welfare Regimes and Social Policy**

With the ‘great transformation’ in Europe came the need for social protection. Capitalism, as Polanyi argued, extended insecurity through a process of disembedding the economy from society and commodification of labour. A full commodification of labour would, however, lead to extreme vulnerabilities. The purpose of social legislation, factory laws, unemployment insurance (and, especially in the UK) protective measures extended by trade unions was exactly to protect labour from the market. These social arrangements contributed to the de-commodification of labour. They re-embedded labour in a set of social relations, mainly via state interventions (Polanyi, 1944: 175-77).

Esping-Andersen’s work on welfare regimes (1990, 1999) takes on from here, and builds further on this idea of social protection. Welfare regimes are, hence, inherently related to the development of capitalism, but they ‘denote a degree of de-commodification through state action – a measure of protection against total

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<sup>2</sup> One of the main advantages (and purposes) of the ‘welfare regime’ notion is that it allows for classification and is, therefore useful in comparative research. In the current version of this paper, I do not use it as an entry point for systematic comparison (except in an historical sense), but a later version could perhaps use the concept to identify different sub-regimes within India.

dependence on market forces' (Gough and Wood, 2004: 4). Not all capitalist countries do this in the same way; Esping-Andersen's original work (1990) identified three main patterns, or regimes, in the western world: a liberal, conservative and social-democratic regime. The liberal regime relies primarily on a residual approach; there is a strong dependence on the market to provide welfare. State assistance is limited to a selected category of people that is really in need. The conservative approach is based on the ideology of the family with a male breadwinner who is protected through inclusion in professional networks of solidarity and risk-pooling. The social-democratic regime relies on a universalistic approach with the state as the main provider of assistance and protection.

Although this typology was initially developed for welfare states only and although it has generated a lot of debate and criticisms,<sup>3</sup> the idea of welfare regimes has been successfully applied in the context of the developing world, albeit with some theoretical adjustments (Gough and Wood, 2004; de Haag, 2007a). In many developing countries, Polanyi's 'great transformation' has not taken place in the same way as in developed capitalist countries. The economy is not commodified (to the same extent) and labour is not 'free'. Decommodification is therefore not the issue although insecurity is huge and protection wanted. A legitimate state with the power and resources to protect poor people is often absent. In this context, people draw on a variety of institutions and relationships to sustain or improve their well-being. These relationships can have to do with the state or the market, but household and community networks can also be very important. Gough and Wood's (2004) main adjustment to Esping-Andersen's framework is, therefore, that they regard the latter's three welfare regimes as variations within one meta-regime: that of a welfare *state*. Apart from this welfare state regime, they identify two other (meta) welfare regimes. The first is the informal regime in which insecurity is modified by informal rights through kinship and/or other social/community relationships. Patron-client relations, through which people trade short-term security in return for longer-term vulnerability, are an important relationship in this regime (Wood, 2004). The second is the insecurity regime, characterised by political instability and chaos (Bevan, 2004).

This classification is used by Gough and Wood (and their collaborators) to map and analyse welfare regimes across the world. Several countries or regions have welfare regimes that combine elements of more than one meta regime. Much of East Asia, for instance, combines formal and informal welfare provisions. Informal relations are very important and the state is more of a regulator than a provider. The East Asian welfare regime is termed 'productivist' because social policy is not an autonomous sphere of government but 'subordinated to the dominant economic policy goal of maintaining high rates of economic growth'. As a result, social policy concentrates more on social investment (health and education) than on social protection (Wood and Gough, 2006: 1706). Latin America displays another combination of formal and informal arrangements. It is characterised as a combined conservative-informal

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<sup>3</sup> Some of the points of critique are a) that not all country experiences, even in the developed world, can be squeezed into just three models, b) that it overlooks non-livelihood/income dimensions of well-being, c) that it overlooks the gendered dimension of work and care, d) that, by focusing on domestic practices, it ignores the global political economy and its impact on well-being. (See Gough, 2004: 24-5 for a summary). Some of these points have been incorporated in Esping-Andersen's later work. Others have led to re-workings of his framework by others (Mahon, 2001).

welfare regime, which – as a result of structural adjustment – has shifted towards a combined liberal-informal regime (ibid; Barrientos, 2004).

That the development of these regimes is closely linked to political and class interests is explicitly stated by de Haan (2007b). Latin America's social policy 'is closely intertwined with unequal power structures and with group bargaining rather than rights of citizens dominating the policy-making process. The East Asian productivist approach entailed securing support of elites, and providing degrees of autonomy to reforming policymakers' (2007b: 10).

India does not receive much attention from Gough and Wood, but south Asia generally is classified as an informal security regime. A formal legal system exists, but the state is often corrupt and formal rights cannot be relied upon. Patron-client relations provide some protection but this comes with a heavy cost as it blocks political mobilisation for more radical reforms (Wood and Gough, 2006: 1704). This description of the south Asian regime is, of course, very sketchy, and in the next section I hope to offer a more detailed characterisation of the Indian welfare regime. I will use Gough and Wood's idea, with one adjustment in the terminology. I agree with Gough and Wood's argument that in developing countries – and, as a matter of fact, also in developed countries – non-state provisions are often very important for people's well being. Referring to this in terms of formal and informal arrangements has, however, some drawbacks. First, as has been argued by many others, the dichotomy obscures the fact that informal arrangements are often an important precondition for the formal economy to function (Bremner, 1976). Moreover, the formal-informal dichotomy suggests that arrangements mediated or provided by the state are more formal in character, while kinship of community arrangements are more informal. This is not always true. Informal relationships or practices (patron-client relationships, for instance) may mediate access to state provisions as much as they mediate access to local credit from a village moneylender. Illegal informal payments may be a regular feature of getting access to state services. On the other hand, some community mutual help arrangements may be very formalised (von Benda-Beckmann et al, 1988). I, therefore, use the term 'mixed' welfare regime rather than informal welfare regime, to highlight the main point, that there are different kind of domains through which people seek to enhance their welfare, rather than to emphasis an assumed formal of informal character.

Esping-Andersen's and Gough and Wood's characterisations of welfare regimes are based on certain criteria, certain defining features. Esping-Andersen (1990) used three main criteria: welfare mix, welfare outcomes and, what he calls, stratification effects. The latter refer to the 'new' inequalities and interests that result from a welfare regime and that feed back into the political settlement and affect the reproduction of the welfare regime. I have expanded this and included 'political effects'. Welfare outcome, for Esping-Andersen, refers particularly to the degree to which labour is protected from market forces. I agree with Gough and Wood (2004) that this should be broadened and that it is necessary to look at need satisfaction and human development more generally.<sup>4</sup> I add two additional entry points (the first and the third

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<sup>4</sup> Wood and Gough (2006) use two main criteria: welfare mix and welfare outcomes. (in addition to more qualitative regional characterizations). The first was operationalised with the help of two indicators: 1) public spending on health and education as share of GDP, and 2) the sum of international

below). Policy discourse is added because claims and official interpretations also partly shape how people tend to see the role of the state and decide to act accordingly. As Sayer (1984) argued, meanings are causes, and policy discourses are a clear example. Patterns of public spending is added because these can highlight important welfare regime characteristics, such as, for instance, a focus on protective or investment goals or (changing) levels of solidarity. Altogether, this results in the following list of entry points for the analysis of the Indian welfare regime.

1. Policy discourse and ideology. What is the stated purpose of social policies? What are the claims? How does the government see its own role? How universal or targeted does it want and claim to be in social provisioning?
2. The welfare mix. What is the relative contribution of state, market, household or community/social arrangements to welfare?
3. Public spending on social policies. What are the trends in social sector spending? How is spending related to economic growth? Have there been shifts in social sector spending?
4. Welfare outcomes. To what extent are individuals protected? Who are protected? What is happening to poverty and human development?
5. Political effects. What are the implications on the way people see themselves as citizens or political actors. What forms of collective actions are facilitated or inhibited as a result of the welfare regime?

### 3. Social Policies in India

The last section ended with a list of five entry points to study welfare regimes and changes therein. In this section I will try to apply these to the Indian situation. Unfortunately, however, in the current draft, it has not been possible to discuss all of these with the required depth and rigour. Nevertheless, I hope it is possible to highlight some characteristics of India's welfare regime and shifts that have taken place.

There is, of course, a question whether it makes sense to speak about one welfare regime in India. My answer is affirmative. Despite the variation within India, there are a) many common characteristics across the country, and b) a fairly prominent central state that sets the agenda and defines the policy framework for State level social policies. Nevertheless, it would be interesting to highlight differences within India, and to identify variations within the welfare regime within India. A State that would stand out, no doubt, is Kerala, where political struggles in the 19<sup>th</sup> century led to an expansion of welfare policies already in the colonial era.<sup>5</sup> The current version of this paper, however, restricts itself to a discussion of India generally.

The term welfare and social policies are used rather loosely in the following sections. I have not made a distinction between welfare and well-being. It is assumed that welfare or well-being depends on protective arrangements (e.g. insurance or cheap food) as well as developmental provisions or services (e.g. health). Some of these developmental provisions promote human development; others could even have

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inflows of aid and remittances as a share of GNP. To capture the second, they used the Human Development Indicator.

<sup>5</sup> See Desai (2005) about Kerala's welfare regime and its political economic history.

effects on economic growth (e.g. education). Social policies are the state interventions to improve welfare in these two senses.

### ***Policy Discourse and Ideology***

Policy discourse is revealed in policy texts and official statements about policies. A prominent example of the latter are budget speeches. These are political documents presenting some ‘problems’ and solutions, while maintaining a silence on other issues. They present and justify allocation decisions and are therefore useful texts to understand how governments would like to present themselves to the outside world. What follows are the main conclusions resulting from an analysis of seventeen budget speeches made between 1990 and 2006.

First, throughout the period under investigation, the ultimate justification of the budgets has to do with the welfare and well being of the people in India generally, and especially of the poor. Very often, budget speeches begin or end with a reference to poverty, social development or the ethical dimensions of economic policy making. In several speeches, it is explicitly stated that growth is not an aim in itself, but that it is a means to raise employment and living standards. The 2005-06 speech ends with a specific reference to Amartya Sen’s work and a claim that the ultimate aim of economic policy making is to expand the freedoms enjoyed by members of the society. In this sense, the government of India sees itself as a welfare state: the legitimacy of government policies boils down to their contribution to overall well-being of the people.

Second, throughout the period under investigation, social policies are viewed as policies primarily for the poor, and their main purpose is to bring the poor into the mainstream of the economy. Over time, the particular justification has changed, however. The first five budget speeches after the introduction of the reform measures (1991-92–1995-6) make an explicit point that social policies are meant to compensate the poor. Although, it is stated that in the long term the poor will benefit from the reforms, in the short run, they may suffer, and they need to be compensated. In other words, social policies (equals anti-poverty programmes) are seen as part of the human face of the adjustment programme (BS 1991-92: point 8, 45). This ‘compensation’ argument disappeared after 1995-96. In recent years, another argument has become more prominent, namely that, although social policies are meant for the poor, they are in everybody’s interest. The 2004-05 budget states that

One of the greatest assets is our human resources, our people. Empowering the people, especially the poor, with universal access to education and health, and facilitating their full participation in the growth process through gainful employment, will enhance their welfare. It will also reinforce the growth process itself. The win-win strategy is the keystone of the economic policy framework of the Government. (BS 2004-05: point 10)

In other words, expenditure on anti-poverty programmes and social policies is actually an investment in growth and development. An instrumentalist argument has creped into the discourse.

Third, the optimistic idea that social policies can bring the poor into the mainstream is based on a residual conceptualisation of poverty. The idea is that the poor are left out

and should be brought into the development process. (A relational interpretation, on the other hand, would hold that poverty is the result of social and economic relations: the poor are poor as a result of their position within the social and economic structure).<sup>6</sup> A very clear example of this residual conceptualisation of poverty can be found in the budget speech of 1998, in which the Finance Minister said that: “The problem of rural unemployment and underemployment is a massive one. This can only be solved through self-employment [*and, hence, not by wage employment schemes*]. There can be no reason why every craftsman, artisan and weaver cannot become an entrepreneur and run his own little enterprise” (BS 1998-89: point 18; italics are my addition). The major bottleneck, according to the Finance Minister, was just credit, and he tried to solve this through the extension of micro-credit facilities. Later budget speeches made similar positive statements about education. Empowerment of the poor, it is suggested, can happen just by giving them access to primary education. Empowerment, as is clear from the quote above, has nothing to do with changing power relations or a redistribution of assets. It is about access to basic social services – important enough – and nothing else.

Fourth, this residual conceptualisation of social policies and poverty alleviation is reflected in the fact that the main government interventions come in the form of schemes. The 2006-07 budget, mentions, for instance, that ‘the bulk of the resources must go to the UPA Government’s eight flagship programmes: Sarva Siksha Abhijan, Mid-day Meal Scheme, Rajiv Gandhi Drinking Water Mission, total Sanitation Campaign, National Rural Health Mission, Integrated Child Development Services, National Rural Employment Guarantee Scheme and Jawaharlal Nehru National Urban Renewal Mission’ (BS, 2006-07: point 13). Over the years, centrally sponsored schemes have become more important in overall (Centre and State) social sector funding. These schemes do not affect the structure of the economy but they are add-ons to address social development. Schemes reduce (poor) people to target groups that are in need of schemes designed specifically for them. Despite the rhetoric of self-help and participation in some of the current flagship programmes, it is clear that a central agency is supposed to take the lead role. The poor remain primarily beneficiaries.

Fifth, in the course of these seventeen years, there have been shifts in the way particular social policies have been discussed. Targeting of social policies has become an explicit policy objective. The clearest example is food policy. In 1990-91, the last budget before the economic reforms were introduced, the main issues were price stabilization and procurement policy (and not as an income transfer to the poorest sections of the population). The 1993 budget speech was the first speech in which the increasing food subsidy was interpreted as a burden, something that became very normal in later years. The revamped PDS (announced in the 1992-93 budget speech) was the first attempt of the Central government to target the food subsidy to those who are most in need. In 1997, the targeted PDS was introduced. Within a few years, this led to an enormous increase in the stocks of food grains held by the government – as a result of which the more general discussion about ‘management of the food economy’ came back as an issue in the budget speeches. New schemes have been set up to deal with this situation, and in the last few years, it is Food-for-Work, the Midday-Meal scheme and the Antyodana Anna Yojana – all targeted to vulnerable

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<sup>6</sup> Bernstein 1992: 24.

sections of the population – that receive most emphasis. In other words, there has been a shift from a more universalistic policy towards a more targeted policy.

There have also been changes in the perceived relevance of particular social policies. Most strikingly, education has witnessed an enormous increase in interest. In the first budget speeches in the 1990s, education did not receive much attention. This changed drastically in the course of time. In 2002-03, the Finance Minister announced the 93<sup>rd</sup> constitutional amendment making free and compulsory education a fundamental right. Important schemes have been introduced (DPEP mentioned in 1996-97 budget speech; Sarva Siksha Abhijan in the 2000-01 budget speech). In 2004-05 an education cess was announced of 2 per cent. The increasing emphasis on education is clearly related to the argumentative shift mentioned above to see social policies as investments in growth.

Sixth, there was a consistent silence in the budget speeches in relation to the issue of employment in the regular economy. Although all Finance Ministers have emphasised the importance of job creation, all of them have been vague about the way in which they would pursue this (except through specific anti-poverty employment schemes). The assumption throughout has been that growth is always good for employment and that pursuing economic growth is, therefore, always good. Employment creation or the labour market have never been considered as important enough to deserve a separate heading or separate treatment in the budget speeches, except when the point is made that labour markets need to become more flexible (e.g. BS, 2001).

Seven, another consistent silence is related to the issue of redistribution. Poverty received considerable attention, but not social inequality. The creation of wealth was important throughout the 1990s, but the redistribution of it was not discussed. Perhaps this is not surprising if other (for instance, Western) countries are the point of reference. However, if we think of the explicitly socialist or leftist policies and rhetoric of earlier decades, this silence is noteworthy. The first two budgets of the 1990s of the Congress (I) government dwelt a little on the contradiction of private wealth creation in a very poor country. Leaning on Gandhi's ideas of trusteeship, they argued that wealth should be seen as a social product and that '[t]hose who create it and own it, have to hold it as a trust and use it in the interest of society, and particularly of those who are underprivileged and without means. (BS, 1991: point 23) How this different attitude should be developed or enforced was not made clear, however.

### ***The Welfare Mix***

Even though the Indian government makes huge claims about poverty eradication and links the legitimacy of government policies to its effects on social justice, poverty eradication and empowerment of the poor, it is clear that government provisions are only of limited importance for the well-being of most people. The Public Distribution System has probably been the most universal system. But even before targeting and in a state as Kerala, it was about one third of the food grain requirements that was distributed (Mooij, 1999: 131). In all other States, the quantity was much less. Pensions and provident funds are only available to workers in the formal sector. In case of old age or a sudden fall in income, most people depend on kinship relations. Village moneylenders have traditionally filled an important niche in the financial/security market especially for poor people without access to formal banks -

but micro-credit schemes have recently become more important. It is, hence clear that, despite some state efforts and claims, the survival and welfare of many people depends very much on all kind of other social security arrangements. The question to be addressed is whether shifts have taken place in the extent to which people rely or depend on the four main domains that are often distinguished (state, market, household/kinship and community).

Trends are easier to identify in case arrangements are monetised or centrally registered as in the case of state and market provisions. It is possible to analyse public expenditure patterns on social policies and trends in private expenditure. It is, however, very difficult to say something about non-monetised social security arrangements or arrangements that are not registered or regulated as those related to kinship, patron-client-relationships, money lending or other social networks.

Trends in public expenditure will be analysed in the next section. The expenditure levels have not changed dramatically. Private (market) provisions have, however, increased enormously. The number of private schools has ... between ... and ... Private health care is also expanding rapidly. .... Private insurance schemes have come up enormously. Since the enactment of the Insurance Regulatory and Development Authority (IRDA) Act in 1999, which opened up the insurance market to the private sector, the sector has grown by 24 per cent annually. In 2005-06, private companies had a market share of 26 per cent in the general insurance sector (mainly motor and health insurance) (IRDA, 2006: 87).<sup>7</sup>

One way of illustrating the shift towards private social provisioning is by looking at household expenditure patterns. **NSS data to be included.** Bhat and Jain (2006) show that private health care expenditure, as percentage of per capita GDP, has increased very much, especially after 2000. Public expenditure on health has, however, declined. With regard to education, there is a similar pattern. ....

It is much harder to establish a shift towards or away from more kinship or community arrangements. There is some literature on the effects of structural adjustment on gender that suggests that reduced social subsidies are, to a certain extent, compensated in families, i.e. by women who take on an additional burden of work or care (Arora, 1999; Dewan, 1999).

Community relations can be of many different kinds, and some of them are not independent of the state. In fact, this is one of the examples where we run against the limitations of the formal-informal dichotomy, or even the separation into four different domains. As Wood (2004) stated, many social protection arrangement organised through community/social networks have a clientilist character. Wood then subsequently argues that, in an informal welfare regime, de-clientilisation would be the most important strategy to improve welfare. He may be right in this respect, but within the Indian context, it is also important to realise that patron-client relations are not restricted to community relationships or networks. The allocation of government social provisions or the inclusion and exclusion in targeted schemes is also often mediated by patron-client interactions. Another example of overlapping boundaries is

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<sup>7</sup> Yet, although the sector grows rapidly, in 2005 still hardly one per cent of the population in India was covered under health insurance (IRDA, 2006: 43). This is still a large untapped market.

the fact that an increasing number of government welfare programmes are implemented with the help of NGOs. An example is the Integrated Child Development Scheme, which happens with the help of CARE and local NGOs. Or HIV/AIDS programmes. Co-production has become a more regular mode of delivery, which adds a third dimension to the currently emerging welfare mix (apart from a greater role to private social provisions and a possibly shifting burden from the state to households). **More systematic review necessary.**

### ***Public Spending on Social Policies***<sup>8</sup>

In order to analyse patterns of social sector expenditure, I diverge slightly from the GoI classification and include all expenditure coming under 'Social Services' and 'Rural Development', as given in Central and State budgets. The heading 'Social Services' includes, among other things, education, health and family welfare, water supply and sanitation. The expenditure under the heading 'Rural Development' (which is listed under 'Economic Services' in the budget classification) relates mostly to anti-poverty programmes. Expenditure on food policy/subsidy is not taken into account, because it is difficult to establish which component of that subsidy benefits the consumers/cardholders and which component benefits foodgrain producers.<sup>9</sup>

There are three ways of examining trends in social sector expenditures. The first is to look at social sector expenditure as a proportion of GDP, the second is to calculate it as a percentage of overall government expenditure, the third option is to look at real per capita social sector expenditure. Table 1 does all these things. It gives an overview of total social sector expenditure for the Centre and the States from the early 1980s onwards. The table shows various things. First, in terms of per capita expenditure, there is a considerable increase in social sector expenditure. Per capita expenditure for Centre and state together has risen from Rs. 623 in 1990-1 to Rs. 988 in 2000-01, an increase of 75% in 11 years. As percentage of GDP and aggregate government expenditure, the picture is mixed. As percentage of GDP, India (Centre and state combined) spends between 6.4 and 7.5 per cent on the social sector. The percentage was relatively low in the early 1990s and picked up again only in the late 1990s. This increase since 1998-99 can be partly due to an increase in salaries as a result of the recommendations of the Fifth Pay Commission. As a percentage of aggregate expenditure, India spends between 24 and 28% on the social sector. The percentage started to increase in the middle of the 1990s. Since 1995-6, a higher percentage of government expenditure goes to the social sector than when the reforms started or during the last years preceding the reforms. More than 90 per cent of social sector expenditures is revenue expenditure, i.e. mainly for salaries.

**Table 1 Social Sector Expenditure (Social Services and Rural Development)**

	Centre			State			Centre and State Combined		
	As % of GDP	As % of govt expenditure	Rs. Per capita 93-94 prices	As % of GDP	As % of govt expenditure	Rs. Per capita 93-94 prices	As % of GDP	As % of govt expenditure	Rs. Per capita 93-94 prices
1980-1	0.84	5.48	48	4.39	35.01	252			
1981-2	0.80	5.56	49	4.36	35.53	263			

<sup>8</sup> This section is based on earlier work together with Mahendra Dev (Dev and Mooij, 2005; Mooij and Dev, 2004). I am in the process of getting the figures updated.

<sup>9</sup> Dev and Mooij (2002) includes the food subsidy.

1982-3	0.89	5.62	56	4.79	37.68	301			
1983-4	1.04	6.73	70	4.77	37.25	318			
1984-5	1.24	7.33	85	4.89	36.12	335			
1985-6	1.27	7.13	93	5.87	42.73	427			
1986-7	1.52	7.93	115	6.13	43.06	461			
1987-8	1.63	8.48	127	6.23	42.64	482	7.26	25.29	564
1988-9	1.51	8.03	127	6.03	42.86	506	6.95	25.22	585
1989-90	1.55	8.18	137	5.78	41.24	509	7.17	25.19	635
1990-1				5.98	41.99	546	6.78	24.85	623
1991-2				5.85	39.71	530	6.58	24.28	599
1992-3	1.28	8.62	119	5.72	40.03	528	6.38	24.06	594
1993-4	1.49	10.46	144	5.61	39.57	539	6.46	24.58	622
1994-5	1.48	9.35	147	5.37	37.30	529	6.39	25.01	632
1995-6	1.54	10.23	162	5.30	38.53	557	6.40	25.95	674
1996-7	1.55	10.55	176	5.21	38.20	591	6.30	26.46	716
1997-8	1.60	10.49	190	5.29	38.44	627	6.41	26.18	763
1998-9	1.68	10.48	212	5.57	39.91	700	7.01	27.36	882
99-2000	1.60	10.42	213	5.78	38.93	764	7.14	26.75	951
2000-01	1.41	9.11	187	5.82	37.68	762	7.45	26.56	98
2001-02	1.59	10.05	218	6.11	37.86	831	7.18	25.31	986
2002-03		10.76	247		36.56	820			
TGR*) 198-01 1989-90	8.93	5.41	14.12	4.34	2.46	9.27			
TGR*) 1992-93 2002-03	1.34	0.82	6.34	0.85	-0.48	5.44			

Source: various tables in Dev and Mooij (2005)

\*) TGR means trend of growth rate.

On the basis of Table 1 different arguments can be made. Advocates of the reforms can claim that the reforms have been successful in securing that a higher proportion of government expenditure goes to the social sector. Opponents of the reforms, on the other hand, can claim that the social sector has suffered in the 1990s because, as a percentage of GDP, social sector expenditure in the 1990s was less than it was in the late 1980s. What is, however, unambiguous is that the growth rate of social sector expenditure was much higher in the 1980s than in the period after the onset of the reforms. So, although social expenditure continued to increase, it was at a much lower pace than in the 1980s. This is true at the Central as well as at the State level.

Table 1 also shows that the Centre did much better than the States. Earlier studies by Prabhu (1997), UNDP (1997) and Chelliah and Sudarshan (1999) have shown that social sector expenditure, either taken as a proportion of GSDP (Gross State Domestic Product) or as a proportion of aggregate expenditure, started to decline for the majority of the States since the mid 1980s and that this trend continued in the early 1990s. Table 1 confirms this trend for the entire decade of the 1990s. The trend suggests a) a decreasing commitment to social sector development in the States, which carry the main responsibility for welfare and social development; b) an increased importance of schemes/campaign mode of addressing social policy issues, as central funding comes in the form of centrally sponsored schemes, and c) that the centre has a disproportionate say over social policies – and that (despite the rhetoric of decentralisation) this is only increasing.

Education is by far the most important head under social sector expenditure. About 20 per cent of central government social sector expenditure and about 50 per cent of state level social sector expenditure is for education. Health and family welfare receive

about 15 per cent at both levels; water supply about 10 per cent. The most significant shift within the 1990s has been a trend away from rural development. This does not necessarily mean a shift away from rural to urban, but a shift from (mainly) wage employment schemes to basic minimum needs kinds of programmes. Within the rural development outlay at the Centre, there is a shift away from rural employment schemes to rural housing, water, rural roads, etc. In other words, there is a shift from the traditional ways of addressing rural poverty to what we can call human development or basic needs interventions. A relevant question is, of course, whether this shift is the result of relabelling and reclassification of schemes or whether it reflects a real change. To some extent, indeed, relabelling is a reason behind the shift, but a) this does not explain the shift completely, and b) this renaming and reclassification itself illustrates a shift in thinking in what is considered to be the most important characteristic of a particular scheme. **The trend has to be double checked for the period after 2000**

As proportion of GNP, the share of education declined from 3.4 per cent in 90-91 to around 3.1 per cent in the late 90s. It may be noted that other departments also spend some part of their departmental expenditures on education. If we add this expenditure, the share of education comes to around 4.1 per cent in 1990-91. This share declined over time to 3.6 and 3.8 in the mid and late 90s respectively. This percentage is well below the norm of 6 per cent of GNP on education that the GoI has formulated for itself. In the course of the 1990s, the expenditure for education has experienced some intra-sectoral shifts. The share for elementary education increased from around 46 per cent in the early 1990s to 49 per cent in the late 1990s. There has been a decline in the shares of secondary, higher and technical education during this period. This shift is mainly due to a significant increase in the share for elementary education in Central government expenditure since the mid-90s. See table 2 for intra-sectoral allocations at the central level. A further disaggregation shows that this increase is to a large extent (but not completely) related to the introduction and expansion of the mid-day meal scheme. Within the health sector, there has been a shift towards maternal and child health.

**Table 2: Intra-sectoral allocation (%) in education, health and rural development: Central government expenditure**

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00 (R)	2000-01 (B)
<i>Education</i>											
Elementary	13.6	15.5	18.6	20.2	20.5	39.6	42.0	48.1	42.9	39.0	37.7
Secondary	23.5	24.4	25.0	25.6	24.1	19.9	19.0	15.0	15.5	14.4	14.3
University and higher	28.6	28.7	28.0	24.9	25.6	19.9	19.5	20.5	25.1	29.6	31.0
Adult	8.3	6.4	6.3	7.8	8.5	4.7	3.1	1.8	1.3	1.1	1.3
Technical	19.0	18.4	18.7	18.3	18.6	14.0	14.5	13.0	13.6	14.1	13.5
Others	7.0	6.6	3.4	3.2	2.7	1.9	1.9	1.9	1.6	1.8	2.2
<i>Health and Family Welfare</i>											
Public health	13.0	12.9	16.6	16.6	18.0	17.7	19.7	18.9	16.4	14.1	14.8
Medical education	13.5	12.9	13.6	12.4	12.3	12.2	12.3	13.1	15.2	13.1	13.9
Rural family welfare	16.2	15.0	17.2	15.8	13.2	13.7	12.4	13.9	15.3	21.4	16.2
Maternal and child health	6.9	7.2	5.4	6.0	6.3	11.0	11.9	13.6	15.3	13.6	15.2
Other services and supplies	21.8	21.9	21.1	26.2	28.5	23.1	19.5	17.6	16.5	17.9	20.2
Others <sup>a</sup>	28.6	30.1	26.1	23.0	21.7	22.3	24.2	22.9	21.3	19.7	19.6
<i>Rural development</i>											

Water supply and sanitation	14.1	21.3	13.3	13.6	13.2	14.1	14.7	16.7	17.7	19.3	17.8
Special programmes <sup>b</sup>	15.8	15.7	13.8	14.5	12.9	10.7	10.6	10.4	9.6	12.1	5.9
Social security and welfare	-	-	-	-	-	6.6	7.0	5.8	6.8	7.6	6.2
Rural wage employment programme	67.0	60.4	70.5	68.9	70.8	57.3	44.5	46.0	42.8	39.8	23.7
Other rural development programme	1.2	1.3	1.0	1.0	1.2	4.0	6.4	5.8	5.3	1.9	29.6
Housing	-	-	0.1	0.2	0.3	5.9	15.2	13.6	16.2	17.7	12.6
Others	1.9	1.3	1.3	1.8	1.6	1.4	1.6	1.7	1.6	1.6	4.2

Notes: All the data in this table refer to revised estimates; a) refers to Central government health schemes, hospitals and dispensaries, urban family welfare. Maternal and child health was replaced by reproductive and child health in 1998-9; b) refers to Integrated Rural Development Programme (IRDP), Training of Rural Youth for Self Employment (TRYSEM), Drought-Prone Area Programme (DRAP), Desert Area Development Programme, etc. Rural wage employment programmes are Jawahar Rozgar Yojana (JRY) and Employment Assurance Scheme (EAS). Other rural development programmes refer to Development of Women and Children in Rural Areas (DWCRA), rural roads, million wells scheme and training.

Source: Budget Papers, Gol, Vol II.

### ***Welfare Outcomes***

- Poverty
- Inequality
- Child malnutrition is still enormous.
- But literacy is improving (though still low). The 1990s were coined the literacy decade because the change was quite dramatic.

### ***Political Effects***

The fact that the particular form of social policy, or any welfare provision for that matter, has a potential effect on articulation of interests and political mobilisation (or the absence thereof), is an issue often overlooked in the discussion of social policies. It is only occasionally that these effects are discussed (e.g. Mooij, 1999); they are very rarely theorised. An exception is Joshi and Moore (2002), who argue that anti-policies can, to a greater or lesser extent, create an enabling environment for social mobilisation. The main thing, they argue is predictability, which they further disaggregate in credibility, programme stability and formal entitlements.

If we take these criteria, what can we say about the Indian welfare regime? Hard to make generalisations, but for two main reasons, we can hypothesise that the current shifts within the welfare system do not make effective articulation of the interests of the poor and social mobilisation more likely:

- shift of responsibilities to NGOs. More public-private partnerships with NGOs. As Joshi and Moore (2002:45), state, '(1) NGO programmes typically are diverse, fragmented and instable (they lack programme stability); and (ii) they are not even potentially formally enforceable in the way that programmes run directly by government agencies may be'. See also Chandhoke (2003) about service delivery through NGOs.
- Shift towards private sector. This leads to a changing perception: social provisions, rather than a right, become a commodity. The clients become customers/consumers with money power, rather than citizens with rights. This is not conducive for collective social action. There is competition amongst the providers (several private hospitals, for instance. What happens is that a 'short route of accountability' becomes more normal, where individual

clients/consumers start buying services from other providers in case they are not satisfied.

**To be elaborated. These are theoretical arguments. What is the empirical evidence?**

### ***India's Welfare Regime***

To conclude, this analysis illustrates the following features of India's welfare regime. First, although the social provisions and services provided by the state do not suffice (and not just a little bit) to secure well being and human development, it is clear that the Indian government has welfare-state aspirations. In the end, state legitimacy is made dependent, also in official discourse, on the state's contribution to well-being of the country's citizens. This has not changed in the last 15-20 years. Like East Asia and Latin America, India's welfare regime combines elements of a mixed meta regime and a welfare-state meta regime.

Second, there has been a major shift towards social provisions supplied via the market. Even when there has not been much change in levels of public expenditure, in certain sectors private provisions are booming. The boom in private provisions may be facilitated by public policy (e.g, policy on public-private partnerships in health; new legislation in the insurance sector, etc.), but it may also be that this is actually privatisation 'by default': a result from a money-wise powerful demand and a rather neglectful state (as in the case of education).

Third, apart from a voluntary withdrawal of particular (often richer, or urban) sections of the population from public social provisions and services, there has also been a conscious government effort to target some of the subsidies more rigorously to the poor. The main example of this is the public food distribution system.

The combined effect of these two developments is that government social policies are increasingly for the poor. The welfare regime is, hence, increasingly dualistic. The better-off rely progressively more on the market for their welfare; the poorer sections of the population depend on (sometimes co-produced) state provisions (plus, of course, several kind of kinship/community arrangements). It is, hence, possible to say that the Indian welfare regime is shifting from an incomplete mixed social democratic regime towards an incomplete mixed liberal regime. It is incomplete because welfare is only generated to a limited extent. Many people face huge insecurities and do not have access to capability-enhancing provisions or services. It is mixed because people rely on different kinds of welfare arrangements, and it is increasingly liberal because universalist ambitions have been replaced by a more targeted and residual approach.

Fourth, within the official policy discourse, a priority shift has been made away from mere protection and helping poor people to survive towards developmental social policies that help poor people to be included in the growth process and contribute to it. Given this discursive shift, one would expect a decline in typical protective expenditure items (such as rural development schemes and perhaps food policy) and a rise in the share of typical investment items (such as education). On the basis of the incomplete data that I have so far, this shift could not (yet?) been established.

#### 4. The Political Economy of India's Welfare Regime

The characterisation of the main trends in the last section – towards a more dualistic and a more liberal regime – points to two main interrelated developments in India's political economy that are the backdrops to this shifting welfare regime: changes within the Indian class system and liberalisation policies.

In the sixty years after Independence, India's class structure has changed dramatically: from a situation of a small elite and a huge mass of poor people, towards a situation with a sizable upper and middle class. As Sridharan (2004:405) stated, the 'elite-mass class cleavage tended to support a broadly socialist ideology'. The rhetoric of universalist policies and an ideology of redistributive social justice were part of this project. The new elite-middle-mass differentiation, according to Sridharan (2004:504) has created a broader base for capitalism – and hence the increased support for economic liberalization'. The rise of the upper and middle classes in India is, hence, not so much an effect of the liberalisation policies, although it is certainly reinforced by it, but it also preceded it, and was partly an effect of the government development strategies prior to the reforms, including the Green Revolution and economic planning (Corbridge and Harriss, 2000).

In the 1990s, the Indian middle class<sup>10</sup> started to become more visible and articulate. In fact, within India as well as abroad, it became the representation of what India is nowadays. While poverty and rural village life dominated the image of India for a long time, the booming urban consuming middle class became the new icon, as for instance, the 'India Shining' slogan illustrated (Fernandes, 2006). Though still, by whatever estimate, a minority of the population, the Indian middle class is disproportionately influential, not only because of its access to the main corridors of power (the bureaucracy as well as most State and central level politicians belong to this class), its money power, but also because its aspirations, ambitions and collective are adopted by a much larger proportion of the population.

All these points are relevant for India's welfare regime and the organisation of its social policies. The middle class has *en masse* withdrawn from public social provisions in the area of health, education, drinking water and other areas. Government schools are regarded as not good enough, especially because they do not educate in English. At all levels of education, there has been a boom in private institutions, catering for different middle class income groups, and even for the poor who want their children to be educated in English. Over the years, tens of thousands of educated doctors and engineers have gone abroad, often to the US. As an ambition, this trend is relevant far beyond the middle class. Many poor people know others who have made it with the help of English-medium education, and they aspire the same for their own children. In the area of health, too, the poor quality of government services plus the increased purchasing power and sometimes experience abroad have led to a demand for high quality, western-style hospitals.

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<sup>10</sup> The 'middle class', as often repeated, is, of course, a problematic category. Apart from the fact that it is not a uniform entity, but that it includes different fractions, it is also good to bear in mind that what is usually called a middle class, is actually an upper class, when it comes to income and expenditure (Deshpande, 2006). Moreover, despite its overwhelming visibility, the size of this upper segment of the population is still relatively small.

These private facilities also offer a way to escape the upcoming and aspiring lower classes, and to secure the continuation of class privilege. So, while, in the area of education for instance, the norm is nowadays that all children should go to school, and the distinction between children as who have to learn to work and children who have to learn to study (Weiner, 1991) has somewhat disappeared, the emergence of private institutions has created a new division: those who go to good private schools, and those who go to government schools or to poor schools. Language is an important dimension in this division. Often, English becomes almost the first language of children who go to good English-medium schools. Children who go to poor private schools run the risk that, at the end of their school career, they have a major language deficit in the vernacular *as well as* the English language. Command over the English language is an important marker for middle class status. And, as much as the English language unites educated Indians from different regions and cultural backgrounds and connects them with the rest of the world, it excludes those who have not been part of this educational system.

It can be argued, of course, that the voluntary withdrawal of the richer segments of the population from public social provisions is a welcome development: it frees resources for the less wealthy. In actual practice, however, it often results in a further deterioration of the services. In schools, for instance, it leads to a major accountability failure. In most government schools, there are very few parents with a similar educational and socio-economic background as the teachers. The natural kind of accountability, where parents can hold the teacher accountable because they are like peers, is therefore absent. (Mooij, 2007; PROBE team, 1999; Sen, 2001).

An issue that has attracted some attention in the literature on the Indian middle class is its indifference towards the poor and its tendency to isolate itself (for instance, in gated communities). Gupta (2000) argues that the Indian middle class lacks 'intersubjectivity': the ability to empathize with others and participate in each others life. In India, he argues, 'it is still very difficult to work up any enthusiasm for projects which have a public utility in mind' (Gupta, 2000: 16). The Indian middle class, according to Singh (2005:11). "while consuming the newly available cornucopia of private goods, continues to be satisfied with levels of public goods that are, in many cases, appallingly low," a sentiment also expressed vehemently by Varma (1999).

The implicit argument of these authors is that it is not the development of the middle class *per se* that leads to the dualism, but that it is the specific characteristics of the Indian middle class that causes the social division. There are also examples of middle classes elsewhere who have been less socially indifferent, who were the main carriers of a more inclusive project, and who do not define themselves as distinctly different from the lower classes. No doubt, this attitude of superiority has some roots in strong cultural notions of hierarchy and difference.

The weak solidarity of the upper and middle classes with the lower classes is clearly reflected in India's welfare system. Despite the pervasiveness and intensity of poverty and even despite the fact that poor people are politically powerful, if even because of their numbers, the level of public social expenditure remains low. The Educational Policy 1986 suggested to increase educational expenditure to 6 per cent of GDP. This target has been repeated in many policy documents. Yet, it is only about 3.5 per cent.

The new health Policy of 2001 set a target of 2 per cent of GDP for health-related expenditure for 2010. In 2000, it was not even one per cent. The States, which bear the main responsibility for the social sector find it increasingly difficult to keep up the expenditure level. Also as compared to international norms and practices in other countries, India's public social sector expenditure is low (Mooij and Dev, 2004). The middle class itself does no longer benefit from the provisions. They think the quality is bad anyway, and increasingly regard government expenditure on the social sector as a waste of money. The popularity of the voucher system in education is a clear case in point.<sup>11</sup>

It is, however, not true that the Indian middle class lacks solidarity completely. Although the willingness to contribute through taxation is limited, there are interesting initiatives at company or individual level. For instance, in the area of education, a number of high profile NGOs and Foundations linked to business houses has come up. Wipro's Azim Premji Foundation is probably the most famous example of this trend, but Infosys, Satyam Computers and other business houses are also involved in corporate social responsibility activities. The Satyam Foundation, for instance which is active in Hyderabad, works with voluntary input from Satyam employees. The idea behind the NGO is that 'at the hearth of every Satyamite, there is a desire to do something more than just cheque-book charity'. The foundation gives the Satyam employees the opportunity to 'bridge the social divide across social strata'.<sup>12</sup> The foundation 'adopts' schools, and the volunteers go regularly to the schools, not to teach, but to interact with the children, and to contribute in that way to a nicer and more exciting school experience. No doubt, these initiatives come with the best intentions. But often they are also examples of impatient efforts to bypass the normal consultation participation and procedures in order to modernise the operations of the schools according to business standards. The Byrraju Foundation, for instance, supplies rural schools with computers and CD-Roms even when there are frequent power cuts and teachers are unfamiliar with using computers and unable to relate the content of the CD-Roms to the curriculum.

On the whole, even though as a class the middle class has benefited from state planning and protectionism, it has lost faith in the bureaucracy and the political system. Its anti-politics attitude has been mentioned by many observers, as has its tendency to engage in other so-called a-political forms of collective action. What is less emphasised is that this contempt for official politics and the tendency to lose interest in formal political structures is, of course, made possible by the fact that many politicians are themselves members of the middle class. In the end, when it comes to policy making and financial allocations, the middle class can be re-assured that its interests are taken care of. The material interests and ideological mindset of most state-level politicians is exactly the same as that of the middle class – even though a system of redistributive populism suggests that they work primarily for the poor. The middle class knows better, and can afford to disregard the political system.

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<sup>11</sup> Another example is the discussion about corruption in the employment guarantee programmes. When the UPA government was in the process of enacting a Right to Employment, there was a lot of public debate about the alleged corruption in employment schemes as part of an argumentation against the Act. Interestingly, corruption is never used as an argument to abstain from investments. In major public works.

<sup>12</sup> From <http://www.satyam.com/mediaroom/pr1dec04.html>, accessed on 19 January 2007.

The economic reforms of the 1990s have changed India in several ways. First, they were based and have further led to a reconceptualisation of the state. From the main actor in the development process, the state has become an inefficient and rent-seeking apparatus that needs internal reforms, should withdraw, de-centre or partner with other organisations (Chandhoke 2003). Simultaneously, there has also been an ideological shift with regard to the individual .... Social mobility .... American dream. Second, the reforms have had important policy effects such as targeting of the PDS, liberalisation of the insurance sector, public private partnerships in health. These policies have led to new legal and institutional arrangements in which the private sector has got a much more prominent place. A third impact has been the further expansion of the middle class and, as a result of high economic growth especially in the last few years, an increase of purchasing power leading to an increased demand for privately supplied social provisions.

Finally, a word about the significance of popular democratic mobilisation for India's welfare regime. This has been surprisingly limited. There is, no doubt, a growing demand for education from Dalits and other traditionally disadvantaged groups (PROBE team, 1999). This expresses a desire on the part of the lower caste/class groups to be included in the mainstream and ultimately, hopefully, to become part of the middle class. In other words, the movement is towards integration, if necessary with the help of English-medium schools. Popular democratic mobilisation has not led to the formulation of an alternative project, a vision of another kind of welfare regime, as new framework for social policies in India.<sup>13</sup>

The important political question is, of course, how this system will continue to develop. The liberal system with a public provision that caters primarily for the poor, may easily lose the required public support. This can be witnessed already in several sectors. There is a problem with the tax base. Political support for public social provisions disappears and effective accountability is absent. In the end, there is a risk that 'services for the poor will end up to be poor services'. When, for the upper and middle classes, self-interest disappears from the equation and a distant solidarity remains the only mechanism to sustain the system, there is a problem – and given the particular nature of the Indian middle class, in India even more so than in other countries.

## 5. Conclusion

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<sup>13</sup> The only more radical political alternative is, perhaps, formed by the Naxalites – but they are more a nuisance (although an increasing nuisance, if the number of districts in which they are active is any indication) than a real force in policy making.

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