Political Economy of Kashmir since 1947

Discourse on Kashmir has been polarised either in favour of secession from India, or in support of a union with India. Howeverm the nature of state intervention within Kashmir over the past 50 years is a critical missing link within academic discourse. A holistic analysis requires careful disentanglement from the evidence and a conclusion that is not biased to any one piece of the puzzle. Of course, this could result in an alternative hypothesis; one that may be a hybrid position and not necessarily a new perspective. A political economy framework sheds new light on the political intrigues that thwarted the welfare maximising benefits of the state's economic policies. Over time, this fuelled dissent, which mobilised into militancy, catalysed by several factors.

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Since 1989, militant groups in the state of Jammu and Kashmir have sustained a campaign of violence and civil unrest in support of their demands for an independent Kashmir, or unification with Pakistan. Over the past decade, thousands of civilians have died in regular clashes between separatist militants and Indian security forces; the most recent being the crossfire in Kargil, which once again brought the two nations on the brink of war. Much of the analysis of the conflict has been undertaken in a political context with reference to such factors as the influence of Pakistan, supply of arms from Afghanistan, and rise of Islamic fundamentalism. However, this merely skims the surface. The root causes are buried in events that began in 1947. Given the high territorial stakes involved, politics gained a precedence over economics in the academic analysis.

This paper an first attempt to examine the insurgency within a political economy framework.[1] It aims to test the following hypothesis: Owing to the nature of state intervention in Kashmir, agricultural growth benefited only a small section of the population. In addition, industrial development was minimal. As a result, the supply of job opportunities in the administration, public and private sectors lagged behind the growing demand. Coupled with a high level of economic mismanagement and political nepotism over the years, this conspired to alienate the youth. For many, militancy proved to be a way out of what in effect grew into a 'failed' state.[2]

The paper examines competing theories within mainstream political economy literature and their applicability to this region of political discontent. The study begins with an outline of the three competing paradigms of rent seeking propounded principally by Krueger, Lipton and Bardhan. A brief record of the main political and economic developments that have occurred in Kashmir since 1947 follows. This leads to a detailed analysis of the nature of state intervention and its impact on the productive forces such as agriculture and industry, as well as on the class relations that have emerged over the past four decades. The goal is to assess the strengths and weaknesses of applying these theories to deepen our understanding of the secessionist movement in Kashmir.

The information employed in this study has been derived from various official documents, ranging from the *Jammu and Kashmir Digest of Statistics* and Auditor General's Report, to budget speeches and the state's five-year plans. The monetary figures employed are in lakhs and crores. In addition, secondary sources will be cited to expand upon the inferences drawn from the primary evidence, including the work of academics such as agricultural specialist, Sultan Bhat and economic-political activist Balraj Puri. Any informed understanding of the Kashmir problem must counter the political bias found in works such as Jagmohan (1992) former governor of Jammu and Kashmir supports the Indian government, whilst journalists such as Singh (1995), having interviewed a wide spectrum of Kashmiris, argue that the centre is to blame for the crisis in Kashmir. Puri on the other hand, holds the state itself accountable for its misfortunes, while others blame Pakistan.

I
Theoretical Framework

Academia has contributed a rich selection of theories on Indian economic development. Srinavasan (1985) and Lal (1988) make a distinction between benevolent and predatory states, although in reality most states can have attributes of both these extreme categories as will be demonstrated in the case of Kashmir. The early development literature favoured a benevolent state, "acting solely in the societal interest, and equipped with needed information, knowledge and policy instruments, to intervene in an optimal way" [Srinivasan 1985:207]. Kashmir's land reforms (discussed later) maybe seen in this light. However, its ability to lead society towards self sustained rapid growth in practice was too optimistic and distorted from the realities prevailing in LDCs. Instead, Lal's predatory state seems to be more applicable to Kashmir where the state is seen to be subjected to the pushes and pulls of interest groups, whose main interest is in redistribution, rather than growth and development.

Chakravarty (1988) attributes the basic problems of the country to the inability to generate sufficient employment opportunities and secure adequate production of the basic necessities of life. This supports the main hypothesis about Kashmir. In order to analyse how the situation arose, the following three competing paradigms will be employed. Firstly, the New Political Economy (NPE) model of 'rent seeking' is advanced by Bhagwati (1993) and Srinavasan (1985), based on empirical studies of government intervention in trade and industry and the varied effects that such policy actions have had in India. Secondly, Lipton's (1982) concept of an 'Urban Bias' explores the existence of opposing interests between town and country. Finally, a political economy of class opposition is advanced by Bardhan (1984) to explain the problem of industrial stagnation and the dynamics of state expenditures.

India's Rent Seeking Society

The NPE literature focuses on the political influences within a state that inhibit its economic policies. The state is seen to comprise a group of self seeking individuals and groups interacting strategically with private agents. The state becomes predatory, seeking to maximise its own utility, often at the expense of the welfare of its citizens [Lal 1988]. An interest group approach to politics is the basis of rent seeking models. Rents are defined as the excess returns over social opportunity costs and rent seeking is the attempt to redistribute the rights of such returns through political action [Krueger 1974]. According to Roy and Krueger "the misguided adoption of certain economic policies, especially import quotas, creates a society with certain economic irrationalities such as permanently under utilised industrial capacity, a corrupt administration and a political structure dominated by interests fed financially by windfall gains from bureaucratic rents based on the system of controls" [Joye 1988:159].

Lipton (1982) has highlighted a major problem plaguing LDCs today, that of an urban-rural divide caused by a 'maldistribution of growth' in favour of urban centres. He argues that the rural sector contains most of the poverty and most of the low cost sources of advance, but the urban sector contains most of the articulateness, organisation and power. Similarly, Shultz claims that even though the rural population in low income countries is much larger, the political market strongly favours the urban population at the direct expense of rural people [see Varshney 1995:23]. Agricultural savings contribute most to the development process, yet the rural economy has often been drained to finance industrial development. Most of the rural surpluses are diverted towards urban centres. The state also works against the small farmer by supplying cheap food to the urban population and paying low prices to farmers by levying heavy subsidies on food. The price disincentive induces farmers to reduce their level of food output, resulting in agricultural stagnation. Therefore Lipton (1991:112) rightly concludes that state intervention has often "urbanised the benefits and ruralised the costs" of development.

Rather than posing a new model for development, Bardhan (1984) cleverly integrates the rent seeking and urban bias paradigms into a wider framework, which incorporates the conflicts between the following three classes who have come to dominate Indian society: Industrial capitalist class (big/small businessmen), rich farmers (big landlords) and professionals (based on human capital). The government budget is seen as a mechanism for dispensing subsidies, both overt and covert to various sectors of the dominant coalition, which comprise these groups. However, competition for limited state resources such as subsidies creates two major conflicts.

(1) rural-urban divide over food prices: Bardhan's rural-urban conflict is played out between the urban industrial and professional classes on the one hand and the wealthy rural elite on the other. The conflict centres around prices paid by the government to procure surpluses of wheat, rice and sugar for the urban sector, as well as the terms of trade between agricultural and industrial sectors. While the centre favours industrial interests, state governments have often conceded to rural interests in order to widen their political base. Essentially, the conflict is due to an 'unequal exchange' between rural and urban centres, governed by the flow of resources from agricultural to non agricultural activities.

(2) Rent seeking public sector professionals versus industrialists: The second type of conflict Bardhan identifies is over bureaucratic 'rent creation' and distribution, with public sector professionals, industrial capitalists and rich farmers on issues of public regulation and production. The bureaucracy's monopoly over licences means that while large industrial conglomerates have ways of manoeuvring through the maze of controls, smaller businessmen are forced to approach the bureaucrats as supplicants for permits and licences. This allows bureaucrats to manipulate regulations to keep industrialists on the defensive, whilst increasing their own political leverage and corrupt income. The bureaucrat's reach is limited at the village level, which is the domain of the rich farmer, although in matters of administered prices, procurements and credit, he has numerous privileges to exercise and favours to dispense.

In order to appease all these groups often said to comprise an 'intermediate class' [Bardhan 1993] the state continuously allocates grants and subsidies, leaving little surplus for public capital accumulation. The state diverts resources from productive investments into subsidising the public sector, administration and development expenditure (on water and electricity) from the budget at very low costs, thereby often incurring big losses. The elaborate network of patronage and subsidies results in unproductive expenditure and low capacity utilisation in the productive sectors of the economy. Moreover, Olson's solution [Bardhan 1993] for greater efficiency via 'collective action' does not work in countries with such large heterogeneous groups because the risks involved for individuals to reform the status quo are too high, change is too difficult and slow to implement and the incentive gains from rent seeking are also too high. Therefore this results in the politicisation of the state's economy will be seen as in the case of Kashmir. The urban bias, along with the alliance between the rural oligarchy and bureaucrats will help explain rural discontent. While the alliance between small entrepreneurs and bureaucracy will shed light on the causes of the more serious urban violence.

II
Political Background

The state of Jammu and Kashmir comprises three regions, known as Kashmir, Jammu and Ladakh, each with its own distinct religion and identity. Kashmir is 76 per cent Muslim, Jammu 82 per cent Hindu, and Ladakh 90 per cent Buddhist. Although, Kashmir is the summer capital and Jammu, the winter, power remains vested in the capital city of Kashmir – Srinagar. That is essentially the hub of the state's political and economic activities. Puri (1960:4) and Tremblay (1995) have documented in detail, ways in which Kashmir discriminated against the other two regions.[3] For instance, between 1950-70, Jammu remained poorly represented in state politics and received a small fraction of the state's budgetary allocations. These policies gave rise to considerable discontent over the years. Hence, it is not surprising, that most of the insurgency has occurred in the Valley of Kashmir. However, it must be pointed out, that the militants are not from Jammu, or Ladakh. For purposes of simplification, they will be considered as a part of Kashmir in this study.

While the rest of India was struggling against the British, the Kashmiris were also seeking their independence from domination and exploitation by Hindu Dogra rulers since 1846 [Lamb 1966]. Jammu and Kashmir was a princely state until 1947, when accession was required. The partition of the sub-continent divided the province between India and Pakistan, without due consultation with the people. This led to dissatisfaction both in Pakistan and amongst the Muslim population in Kashmir. During this period, the popularly elected chief minister, Sheikh Abdullah showed considerable ambivalence towards independence. Under Abdullah's regime Pakistan invaded the Indian-held part of Kashmir and a UN Resolution was needed for even a partial troop withdrawal [Tremblay 1995]. Mounting pressure from the different constituencies of his National Conference party spurred Abdullah's quest for independence, which led to his arrest in 1953.

The period from 1953 to 1975 saw two prominent chief ministers Bakshi Ghulam Mohammed and G M Sadiq pledging their support to India. It was during their stay in government that the 1965 war with Pakistan was fought, resulting in a cease fire but no solution to the Kashmir problem. In 1975 on his return from prison, Abdullah revived the cry for self-determination by supporting the Plebiscite Front.[4] After his death in 1982, his son Farooq Abdullah succeeded him. Corruption escalated under his rule and undermined the economy as will be discussed later [Jagmohan 1992]. Throughout this period, the Hindu community has not been willing to sever its links with India. The picture today is of civil unrest and heightened border clashes.

Economic Backdrop

Kashmir is a land scarce and labour abundant state, with less than 30 per cent of its total area suitable for cultivation. The majority of the land comprises mountains and hillsides. In the 19th century, Kashmir was dominated by a rural elite, with rich landlords exploiting the landless peasantry that comprised the bulk of the population. The state has been categorised as one of the union's special category states, due to its level of economic backwardness at the time of independence. By 1950, for instance over 85 per cent of the population was engaged in agriculture, only 11 per cent was literate and installed power capacity was a mere 6 MWs. Therefore any analysis of the state's long-term development record must be considered in the light of the level of backwardness that prevailed before Kashmir acceded to India.

The government of India attempted to overcome these handicaps by heavily subsidising the state with grants in the early years. Between 1950-70 nearly 90 per cent of the state's five-year plans were funded by the centre, whilst other backward states such as Bihar only received 70 per cent aid. One major side effect of this policy was that it failed to give the state an impetus to mobilise its own resources for economic growth. As a result, Kashmir has not tapped its potential tax revenue and developed into the lowest taxed state in India [Puri 1961]. Tax reductions such as the consistent reduction of sales tax on cars from the seventies onwards, favoured the elite, substantiating Bardhan's rent seeking theory, as will be seen. Vast avenues for revenue extraction within agriculture have remained untapped. This partly explains while per capita incomes in the state rose from Rs 269 to Rs 306 between 1961-73, the national average recorded higher increases from Rs 306 to Rs 340 over the same period; which suggests that Kashmir has continued to remain poorer than most parts of the country (*J and K Digest of Statistics*, Government of J and K, 1975).

However, in the seventies, the centre reversed its aid policy to 30 pre cent grants and 70 per cent loans. As a result, 50 per cent of the state's expenditure began to comprise of debt and interest repayments. In 1978-79 out of the total budget plan outlay of Rs 108 crore, 56.8 crore were directed towards debt reservicing (1978-79 Budget Speech). The debt servicing liability on one rupee loaned by the centre to J and K today is a staggering Rs. 5.35 (*Reserve Bank of India Report on Trends and Progress in Banking in India*, 1995). The situation is similar to the debt crisis facing Africa, whereby resources required for productive investments, are being diverted to debt repayments. Kashmiri militants fighting for independence, have cited such evidence to justify their claims that "India is guilty of treating Kashmir as a colony" [Farooqi 1995].

In hindsight, while certain decisions taken by the government of India were misguided, the economic policies implemented by various state governments in Kashmir, played a much greater role in explaining the problems confronting the state today. State interventions in agriculture and industry were constantly subjected to the pressures and pulls of various interest groups. As a result, policies that were conceived to benefit society at large (in line with Srinavasan's benevolent state), were often implemented by a small group of the population, to benefit themselves (transforming into Lal's predators).

State Intervention in Agriculture

Agriculture contributes over 40 per cent of the state domestic product and employs two-thirds of the total working population of the state.[5] Official government publications suggest that "agricultural activities have remained uninterrupted during all these years of turmoil" (*J and K Development Profile*, 1995:2) and the figures show impressive increases in productivity. However, it is the contention of this paper that growth per se is not the best indicator of agricultural success. It is also important to study the types of crops grown, the size of individual farms and the farmers who farm the land. This immediately presents a more complex picture. Vested interests and rent seeking come into play bringing us into the arena of political economy, as will be demonstrated in the case of Kashmir.[6]

In 1947, the first state government under Sheikh Abdullah based its development ideology along the same socialist lines as the rest of the country. The backwardness of the state was largely attributed to being entrenched in the clutches of landlordism for over a century. Therefore the first measures executed by the new government were radical land reforms. The Big Landed Estates Abolition Act of 1950, transferred land to the tiller, without compensating former landlords. The act imposed a general ceiling of 22¾ acres and expropriated from 8,989 landowners, in excess of 8,00,000 acres. The ownership rights to some 2,47,00,000 acres were transferred to 2,00,000 tiller families. Moreover, debts amounting to Rs 1,75,00,000 were reduced to Rs 85,00,000 under the Distressed Debt Relief Act. Mortgage debts to the value of Rs 14,38,000 were liquidated

(Big Landed Estates Abolition Act, Government of Jammu and Kashmir, 1950). In one stroke absentee landlordism was abolished and the actual tillers were finally granted ownership of the land. This appears to be in line with Srinavasan's benevolent state, acting in an optimal way to benefit society as a whole [Alan 1988]. It was now hoped that rural inequalities would be reduced and peasants would cultivate the land more efficiently.

Despite the widespread benefits of these land reforms, a number of flaws and inconsistencies crept in. Bardhan points out the failings of land reforms in the rest of India, which were equally applicable to Kashmir. "Laws were frequently enacted with deliberate loopholes and telltale exemptions designed to induce fictitious transfers of land to close and distant relatives and to keep the permissible retentions high." For instance, orchards, fuel and fodder reserves were not directly included in the agricultural ceilings set by the 1950 Act. Therefore, some landowners converted their estates into orchards, thereby avoiding the ceilings.

Bardhan argues that the land reforms were executed by a local bureaucracy largely indifferent, occasionally corrupt and biased in favour of the rural oligarchy. Punjabi (1995) substantiates these claims with various examples of rent seeking activities in the countryside. For instance, in order to streamline supplies and ensure the procurement of foodgrains, the government introduced the 'khush-kharid' (surplus foodgrain procurement at the will of the tiller) and 'mujjwaza' (tax in kind on foodgrain). However, both these methods developed into oppressive tools in the hands of revenue officials in rural areas, who misused their power to procure crops from poor peasants, often via extra-judicial powers of coercion [Punjabi 1995]. Peasants had little capital to sustain their own livelihoods, therefore surpluses for sale to the government have been limited. Sarin (1967) argues that these revenue officials (Patwaris) enjoyed the greatest gains from land reforms, as they extracted large amounts of money from the different parties. Political interference greatly undermined the egalitarian aims of the reforms, as land was distributed and redistributed according to the political affiliations of the tenants. The cooperatives through which large sums of money were extended as 'unrecoverable loans' developed into a highly politicised sector of Kashmir's economy.[7]

Bardhan's (1984) 'dominant proprietary class' can clearly be seen at work in this scenario: there is an alliance between the rich landlords and the bureaucracy. The bureaucrat in the form of the revenue official exploits the poor helpless farmer, misusing the power vested in him by the state, to boost his own income. Bhat (1990:57) rightly concludes, "the post reform period has given birth to a new class structure in rural Kashmir of commercially orientated landowners, land speculators, bureaucrats, houseboat owners, transporters and bootleggers wielding both money and political power". Ironically, the welfare policies aimed at the poorest and most backward sections of society, have been misallocated to further the interests of the very class whose rural monopoly they were intended to abolish. Giyas-u-Din (1992) argues that this process has led to the creation of neo-landlordism in the rural sector.

Although there is some truth in these allegations, it must be pointed out that the land reform policies were derailed in 1953 with the arrest of Sheikh Abdullah, as they were considered too radical by the Indian government. New laws were passed in the 1960s to prevent the conversion of paddy into orchards. In 1976 another Agrarian Reform Act (Agrarian Reform Act, Government of Jammu and Kashmir, 1976) was passed which placed a standard ceiling of 12.5 acres on orchards in an attempt to further eliminate landlord-tenure relations. Thus bearing these points in mind, more detailed field studies need to be undertaken in order to clearly assess the true extent of neo-landlordism in Kashmir.

However, these land reforms changed the structure of the rural economy. The pattern of landholdings has been radically reversed over the past four decades from large average holdings, to smaller ones. In 1953, 42 per cent of holdings were below one hectare, constituting only 14 per cent of the total land. By 1986, 73 per cent of total holdings constituted 0-1 hectares, and their share of total area doubled to 32 per cent. Conversely, over the same period, large holdings of 4+ hectares, constituting 6 per cent of total holdings and 22 per cent of the total land, fell to 2 per cent of total holdings and 16 per cent of the total area. Although the increase in the number of small holdings has created a greater sense of equality and social justice, it has also resulted in a situation of extreme land fragmentation and parcelisation, with the average farm size now being considerably below the optimum size of farms for all India [Balasubramanyam 1984]. The average holding in Kashmir is extremely small, only 0.99 hectares compared to 1.82 hectares at the all India level. Parcelisation has been negatively correlated with productivity in studies conducted by Bhat and Misri (1994) in Kashmir, where difference in terrain render part of the holding in the Valley floor and another part on a hilly area with no irrigation. This has severely restricted the scope for adoption of modern techniques of production and fertiliser use. The consumption of fertiliser in the state was 30 kg per hectare in 1987, well below the national level of 50 kg per hectare [Ahmad 1989].

By the mid-1960s, institutional change via land reform had failed to transform agriculture due to the rural oligarchy's manipulation of change to benefit themselves. A radical new prescription for technological change was adopted as the way forward. In order to increase productivity in the newly created small farms, the state initiated various policy measures to remove imperfections in the factor and commodity markets in an attempt to raise agricultural production [Sarin 1961]. This appears to be in line with Srinavasan's benevolent state, applying the right policy instruments to intervene effectively. These included the use of new techniques such as institutional finance, public delivery system, responsive price mechanism and a diversification of commodity markets. For instance, a strategy of 'Intensive Agricultural District Programme and High Yielding Varieties Programme' pursued from the 1960s onwards, has yielded positive results such as high yields of food and non food crops, especially paddy, wheat, maize and apples [Bhat 1993].

Public expenditure via subsidies for rural development contributed to the pattern of growth in Kashmir. In 1981 alone, input subsidies amounted to Rs 26.03 crore, while allocations of Rs 2.65 crore on fertilisers, Rs 20.01 on irrigation and Rs 3.38 crore on credit were granted [Bhat and Misi 1994]. Moreover, to accelerate the pace of growth, a cooperative movement was started to provide finances for crops, facilitate marketing and raise the standard of living in the countryside. The benefits accrued from planned development in agriculture, suggest that the governments of Kashmir have taken the form of Srinavasan's welfare maximising 'benevolent state'.

However, this is true only to a degree, as state intervention has not always resulted in optimal outcomes. The major thrust of policies aimed at raising agricultural production have been concentrated on cereal production, although non cereal production activities have also recorded gains. As a result of state expenditure, cereal production has increased, but the state's foodgrain requirements have exceeded local production levels. Over the years, the state's dependence on outside markets for milk, mutton, cereals, vegetables and wool has consistently risen. Recent studies have shown that cereal production fell from a 4.48 per cent growth rate per annum in the 1950s and 1960s, to 2.44 per cent per annum in the 1970s and 1980s (*J and K Digest of Statistics*, 1990). Through this period, the state's population rose rapidly. Between 1964-74 for instance, Kashmir's population surged ahead by 15 per cent from 42 lakhs to 49 lakhs, whilst cereal production rose by a mere 2 per cent over the same period. This can be explained by the fact that farmers were not working to an optimum performance as a result of the pricing policies adopted by the state. Moreover, a proportion of the little that they did manage to earn, was siphoned off by middle men such as revenue officials.

In order to encourage small farmers to adopt the Green Revolution technology, the government has to offer high prices for their crops, as occurred in the rest of India [Balasubramanyam 1984]. The 1975 Development Review Committee's Report (1975) prepared by a highly select group of civil servants such as L K Jha (former governor of J and K) and Manmohan Singh (India's former finance minister) suggests that the state government was pursuing a mistaken price policy with regard to food grains. Grain cannot be sold cheaply if it is not bought cheaply, and as subsidy is kept low, the price offered to farmers is also very low. The Report concluded that, "food farmers are left with the depressed price offer and the law of supply clearly says that the lower the price the lower will be the production". As a result of low profitability, small farmers in Kashmir have often lacked the capital to invest in costly technological changes, unlike other parts of India. Moreover, by creating small farms below the optimal size, the land reforms were not the best base for the Green Revolution to flourish [Balasubramanyam 1984].

The pricing policy discussed earlier, gave priority to the needs of the urban population, thereby confirming the urban bias concept developed by Lipton. One of the reasons that the government pays such low prices to farmers is to subsidise the urban population with cheap food, thereby, "urbanising the benefits and ruralising the costs" of production. According to the Development Review Committee's Report (1975), the bulk of the benefit of heavy subsidies on food, as well as hidden subsidies on power and drinking water goes to the urban population, which comprises only 20 per cent of the state. The 80 per cent of the population who live in villages have secured only a small fraction of these subsidies. The Report points out, "if electricity rates are subsidised or a thousand gallons of water are supplied at one-tenth the actual cost of pumping it, the ultimate burden of such subsidies falls on those sections of the community, living in rural areas, who are too poor to make use of electricity and have no access to filtered water supplies" (p 35). Over the years, this has widened disparities between rural and urban incomes, between large and small farmers, as has also occurred in the rest of the country. Thus in 1975 whilst only 5 per cent of rural incomes exceeded Rs 10,000, the proportion of urban incomes was higher at 17.6 per cent. In this light the policies pursued by the state governments seem to be more in line with Lal's self-seeking 'predatory state'. Various interest groups whose main interest was in redistribution, rather than growth and development; channelled state resources to benefit themselves, at the expense of society. No wonder Bardhan (1984) argues that an urban-rural divide arose over subsidies. In Kashmir, this has developed into a major source of disenchantment amongst the poor and may have fed into support for the secessionist movement.

Despite the government's further attempts to invest in the rural population, the urban bias has not been ameliorated, owing to market imperfections. The price structure in the Valley for instance is distorted by the remoteness of the state and also by consumer ignorance [Bhat 1991]. For instance, under the Integrated Rural Development Programme (IRDP), a selection of rural households were provided with various assets to boost their incomes such as a Jersey cow. However, due to an imperfect knowledge of markets and prices, the profits from selling milk were usurped by the middleman, who had a monopoly over capital and transportation, as well as easy access to markets. Bhat's (1991:149) study of IRDP revealed that "a sample of beneficiaries had to sell their marketable milk to the middlemen at a set price of Rs 3 per kg who in turn sold the same milk at Rs 5 per kg at a distance of just 3 kms to the consumers, thereby earning 66.66 per cent profits by incurring nominal costs". Due to these market distortions, state intervention generated invisible employment in the guise of the urban middleman, which undermined its development efforts in the 1980s. This further substantiates Lipton's urban bias, as market imperfections have operated against those rural farmers the government set out to help. The small dairy farmers profits were further reduced by the necessity of bribes to complete government formalities. Bhat (1991) shows that in order to procure a subsidy of Rs 1,500, the farmer had to spend 50 per cent on various transaction costs. This included 31 per cent on bribes and 21 per cent on transport, thus negating the purpose of the subsidy. The benefactor of state intervention once again turned out to be Bardhan's rent seeking bureaucrat (as seen earlier with the land reforms), instead of the poor farmers whose lot has remained the same.

Bhat (1991) concludes that the implementation of the IRDP in the state has widened the gap between the poor and the poorest. By the 1980s, this had begun to alienate a growing number of rural poor. Their economic condition was exacerbated by a series of excessive rainfalls, coupled with unusual fluctuations in temperatures and drought conditions that caused a great deal of damage (Memorandum to the Eighth Finance Commission, Government of J and K, 1983). Poverty and discontent mobilised the rural population in support of various militant groups. Studies have shown that as a result of poor economic conditions in the countryside, Brahmin families in the border district of Rajouri have begun to shelter militants from Pakistan at a rate of Rs 200 per person [Verma 1992]. Although the full extent of the rural support base for the militancy needs to be further investigated, it is clear that the poverty perpetuated by the rent seeking rural elite has turned a number of small farmers in favour of the militants.

Industrial Policy

Having established the urban bias in the previous section, there is now a need to explain why there is dissatisfaction in the urban community, which has become the centre of militancy. Since 1989, the majority of terrorist activity reported to date has tended to be concentrated in the summer capital, Srinagar – the hub of the state. The 1975 Development Review Committee's Report on industrial development stated that, "with a rapidly increasing population, expanding and easily accessible education and the growing pressure on land, the creation of new and productive avenues of non-agricultural employment has become a pressing need. The development of modern industry would be one such avenue to provide opportunities for absorbing technically qualified people". It is argued that the urban bias discussed earlier, did not provide sufficient benefits to the urban population. In conformity with Bardhan's theory, government subsidies were manipulated by self-seeking bureaucrats and private individuals, for their own advantage. This accounts for the state's poor industrial performance over a period of 40 years as a result of which under employment and unemployment have grown into severe problems that may have fuelled the fires of dissent.[8]

The 1950s were not the best times to promote serious industrialisation. The political climate was unstable after the partition of India and Pakistan in 1947, when Kashmir was divided between the two countries. The expenditure in the First Five-Year Plan (1951-56) allocated Rs 103.50 lakh to the army and a mere Rs 35.61 lakh to industry. Another inhibiting factor was that the state lacked major raw materials and adequate infrastructure. There was the added problem of geographical remoteness and long distance to markets. The Development Review Committee's Report (1975) stated that "the fact that rail links are not available to vast portions of the state has been the most serious obstacle to industrial development". The Second Five-Year Plan (1956-60) promoted limited industrialisation by allocating 8.4 per cent of the planned expenditure to industry. Although there was a distinct decline in the budget for the militia (Rs 60 lakh) it is interesting to note that there was absolutely no mention of industry in Puri's record of state expenditure in the Second Five-Year Plan [Puri 1961]. Instead, Rs 309.14 lakh had been prioritised for the civil administration. This marked the beginnings of the creation of the largest bureaucracy in the country, which will be shown to have undermined industrial growth in the decades to follow, as predicted in Bardhan's theory.

Planning in the 1950s had to be realistic. For instance there was no point in setting up "grandiose projects like getting sugar out of beetroot when the state is not even producing beetroot on a large scale" [GoI 1975:7]. Land reforms which drastically reduced the size of individual farms would have made this difficult anyway. While the government was embarking on the Green Revolution on the agricultural front, its plan for industry, as stated in the Third Five-Year Plan were, "to establish basic industries based on our natural wealth". The plan suggested capitalising on the state's pastoral economy and setting up sheep and wool development centres. The failure of one such enterprise will be discussed later. Moreover, The Development Review Committee's Report on industrial development [GoI 1975] suggested that to accelerate the pace of development, steps must be taken to "welcome the maximum possible investment of private capital" and entrepreneurship in the state. Unfortunately "the incentives available to private investors were not as attractive as in other states", which meant that Kashmir failed to generate sufficient capital from the private sector. Therefore most of the existing large and medium scale industries are state owned. Several factors conspired to discourage investors, such as being partially land-locked, on the border with Pakistan and the special status granted to the state by the centre under Article 370;[9] which bars non-Kashmiris from owning property within the state.

In the 1970s, although some small scale industries such as handicrafts were nurtured by the state, the potential to convert Kashmir into a hi-tech belt such as Bangalore, was not exploited fully. Instead state governments chose to experiment with medium-scale industries such as wool and textiles, which proved to be disastrous. The state vigorously increased public sector investment in industry, by establishing a large number of corporations over the years such as J and K industries, J and K minerals and J and K cement. By 1975, the total output from the various units operated by these corporations stood at Rs 8.19 crore. Others such as the State Industrial Development Corporation and the State Financial Corporation were set up to provide assistance to potential entrepreneurs.[10] This appears to be in line with Srinavasan's benevolent state that tries to make the most efficient use its resources in the interests of the well being of all.

In spite of these developments, the state continues to be one of the most industrially backward in the country. Large- and medium-scale industries contribute a meagre 0.1 per cent to the state income. Per capita consumption of power for industrial use is only 22 units, compared to the national average of 73 units. The contribution of the manufacturing sector to the state domestic product does not exceed 9 per cent. Thus the contribution of the industrial sector to the state's economy over the past four decades has been minimal. This is because most of the industrial units run by the state, have consistently suffered huge losses, developing into a permanent drain on the state exchequer. Khullar's (1978) analysis of J and K's public sector silk enterprises revealed that despite state investments of the order of Rs 453.57 lakh (1975-76) in these industries, they have performed poorly over the years, accumulating unsold stocks and financial losses. "Almost all the revenue from sales of these units is being absorbed by costs which leaves no margin to sustain the efficiency of these units" [Khullar 1978:103]. Although Khullar provides a detailed analysis of trends in production, profits, losses and sales, he offers no explanation for the decline. Had there been more private investment, it might be argued that these enterprises would have been more profit orientated and efficient.

In the 1980s, this was reinforced by the auditor general's investigation into public sector undertakings such as the Himalayan Wool Combers in 1985. "The department in question boasted that the position of the plant was not so alarming if things were viewed in an overall national perspective because this plant was working to its 50 per cent capacity when similar plants in other parts of the country were working to 27 per cent capacity only" (J and K Legislative Assembly Secretariat Committee on Public Undertakings, government of J and K, 1985-86). The attitude clearly reveals the high level of complacency that has prevailed in state owned industries. Bhat (1989) has identified other major loss incurring public undertakings such as J and K Handloom Development Corporation, J and K Tiwi Scooters and J and K Cement.[11]

It was against this economic backdrop that militancy sprang up in 1989. Reports by the auditor general from the sixties onwards, have rehearsed the fact that a persistent lack of capital, skilled manpower and power shortages were the main causes of industrial failure. Even the liberalisation of the Indian economy in the 1980s, that resulted in the decline of the Mahanobilis[12] strategy, failed to attract foreign investment to Kashmir. The high level of political unrest made it a high risk investment and less attractive than other parts of India.

However, this is only a part of the picture. Bardhan's theory of the dominant proprietary classes sheds more light on the root causes. It is important to determine who has benefited from the industrial policies outlined earlier.

State Subsidies and Rent Seeking

Reviewing the first three Five-Year Plan budgets, it becomes clear that in many sectors, state expenditure exceeded state revenue, thus resulting in severe deficits in the public sector. In 1956-57 for instance, total revenue receipts amounted to Rs 705.36 lakh and total revenue expenditure stood at Rs 763.91 lakh, thus incurring Rs 58.55 lakh deficit. This is because several sectors such as irrigation, administration and social services have not generated sufficient returns on the amounts invested in them, let alone accumulated surpluses. For instance in 1960-61, administrative and social services generated revenue receipts worth Rs 3.11 lakh and 17.82 lakh respectively yet the amounts spent on them was significantly higher at Rs 220 lakh and Rs 521 lakh, resulting in huge losses. As will be shown, this can partly be explained by the high level of corruption in these sectors.

The policy of heavy subsidisation of certain types of consumption such as food grains, which covers other areas such as electricity, water and fuel, has become a major cause of the budgetary crisis. According to Bardhan (1984), to appease the various proprietary classes, the state generously sanctions subsidies and permits. This is exactly what has happened in Kashmir. "A food subsidy of Rs 125 lakh per annum is a glaring example of unproductive expenditure, for an investment of this kind on say industrial development would clearly have overhauled the economy" in the 1960s [Puri 1961]. The subsidy was not removed until 1982, by which time it had become clearly unjustifiable. In the meantime, the existing power tariff has remained the lowest in the country. For instance, for every one rupee worth of electricity generated in the state, the government charges the consumer a mere 20 paisa, thus incurring substantial losses. The high level of subsidies has meant that Kashmir has developed into what Jha (1991) calls a 'high cost economy'.

Evidence of the second type of conflict Bardhan (1984) identifies over bureaucratic rent creation and distribution, sheds further light on the causes of industrial decline. In Kashmir this occurs between the bureaucrats and small-scale businessmen and traders within the state's limited private sector. For instance, the issue of route permits has been officially confined to two per family. While the permits are in their names, the actual operations are in the hands of people controlling a sizeable fleet of vehicles. According to the Development Review Committee's Report "there is evidence of cartelisation among them, as the private sector of the road transport sector is characterised by monopolistic trends". The Report concludes that each permit holder acts as a monopolist and earns a premium for allowing someone else to use it without making any investment himself. Thus there are in effect people who control a fleet, rather than a vehicle. The black market value of a permit ranges from Rs 16,000 to Rs 30,000 [Puri 1961]. It is alleged that the industry has given rise to a number of millionaires over the years, being the most politicised and contributing generously to the funds of the ruling party. Out of the 700 route permits issued between 1953 and 1960 by the new regime, a large proportion comprised of political workers and their relatives [Puri 1961]. Puri (1961:12) concluded "that almost every transporter is a member of the ruling party, thus except for political corruption, the system of route permits has hardly any other usefulness".

In addition, the grant of industrial loans, import quotas and orders of supplies have come to depend upon the discretion of a single individual, rather than a set of rules. Puri (1960) observes, "most of the efforts at seeking official favours (without which it is not easy to carry out most of the economic activities of the state) invariably involve some amount of humiliation and corruption". The Auditor General's Report on Financial Irregularities in J and K, 1961 has pointed to various cases of financial irregularities in the state. For instance, three loans amounting to Rs 6.5 lakh were advanced to a company in April 1955. The financial status of the company was not known as Profit and Loss Account and Balance Sheets were submitted by it. Only Rs 22,000 had been repaid by July 1959 on account of the first loan. Similarly, the Development Review Committee's Report observed that a number of projects remained on paper, having not been translated into reality. Such failures can be explained by the interest group pressures exerted by Bardhan's dominant proprietary classes. The benefits of state subsidies were being usurped by the bureaucrats in connivance with the small industrialists and by keeping no official records they left no trace of their crimes. Therefore it was widely perceived that the loans by private sector institutions such as the State Finance Corporation were primarily meant to buy over or reward politicians. That the minister for industries continued to preside over the Corporation in the seventies and eighties, further reinforced these fears. The procedure for recommending licences for the import of raw materials and machinery, which often find their way into the black market, has further undermined people's confidence (1978-79 Budget Speech by Kashmir's Finance Minister).

Two major reports highlight the prevalence of widespread corruption in the state. For instance, details of misuse of official positions by politicians and their relatives have been fully documented in the Ayyinger Commission Report (on corruption, J and K, 1969). The Commission found 15 out of the 38 allegations against the former chief minister Bakshi Ghulam Mohammad to be true. Moreover, Saxena's, 'Crusade Against Corruption', (1984) revealed that a cross section of state employees and private individuals were involved in various acts of rent seeking. The Report has documented over 3,330 cases of corruption between 1975-81. The Vigilance and Anti Corruption organisations investigated several scandals and fraudulent dealings in a few high spending government departments, such as the State Forest Corporation, Rural Development and Treasury departments. Deals involving lakhs of rupees in terms of undue benefits conferred upon themselves and others by delinquent officials were unearthed. For instance, during 1978, it came to light that large quantities of rationed food had found their way into the black market.[13] Such reports suggest that as a result of these activities, rent seeking has infiltrated into the anatomy of the state.

The process of 'parasitic capitalism', whereby economic policies are determined by political motivations, causing imbalanced growth, has resulted in Kashmir. Resources have been diverted away from productive investment into the pockets of self seeking individuals. As predicted by Bardhan (1984) the government has appeased the dominant proprietary classes by generously granting them subsidies and licences, such as route permits, to expand the ruling party's political base.[14]

By the mid 1970s, corruption began to escalate to unprecedented levels. The governments of Sheikh Abdullah and his son, Farooq Abdullah, favoured their own supporters in making appointments in the administration and the state owned Corporations. As a result of such generous distribution of administrative patronage, the bureaucracy proliferated and the wage bill of the state consumed 43 per cent of its non-plan expenditure (1982-83 Budget Speech by Kashmirs finance minister). With economic planning being relegated to the background by leaders such as Farooq, economic hardships began to escalate in the 1980s. As a result of chronic shortages, consumers now had to devote two thirds of their earnings to basic necessities such as food and clothing [Gupta and Prabhakar 1988]. The increasing dependence on imports caused inflation and raised the costs of living for the majority of poor Kashmiris [Rekhi 1993]. Frustrated by the lack of progress and widespread corruption in the state, an increasing number of people began to support the militants, including educated doctors, lawyers and teachers [ICPI 1995].

A recent study by Verma (1994) revealed that there was a strong correlation between unemployment and militancy. In the Valley for instance, the highest rate of unemployment was recorded in the districts of Baramulla and Kupwara, from where there has been a maximum contribution to the ranks of Kashmir's militants. Gupta's (1990) study of unemployment in the state shows that it rose from 2.10 lakh in 1985 to 2.55 lakh by 1990. By 1991, unemployment among those with school leaving qualifications, had escalated to over 50,000.[15]

In an attempt to promote self employment, the government granted Rs 1,50,000 to young unemployed persons, with a subsidised interest rate to take up projects. According to ICPI (1995:21) "when we met the young people, it was difficult to escape from the fact that what the Kashmiri youth needed were jobs". This is also confirmed by a special report "In the Mind of the Militant" (*India Today*, December 31, 1994) where a team of professional psychologists and psychiatrists interrogated 31 captured militant youths. Their study concludes that unemployment, financial hardship and a corrupt administration are the driving force behind the militancy. This is well documented by various sources such as the Gandhian Initiative (*Document on the Kashmir Situation* under the Gandhian Initiative, New Delhi, 1995), *India Today* and Soz (1993).

In the 1980s for instance, corruption in admissions to prized university courses was a major cause of alienation of young people. According to lecturers at Kashmir University interviewed by ICPI in June 1995, "bright students could not get admission into colleges unless they paid bribes to politicians. This led to a loss of faith in the system and eventual revolt with the rise of the gun culture." Young militants in their early 1920s confessed, "sometimes we feel that individual Indian politicians understand our economic problems but bureaucrats down the line eat up most of the funds disbursed by New Delhi" [ICPI 1995:25].

There was clear evidence of growing discontent in the 1980s, as a result of years of economic mismanagement. But what polarised people in favour of the militancy that erupted in 1989? A major catalyst was the rigging of the electoral process. Although elections had been rigged in the past, the 1984 election destroyed people's faith in the so called 'democratic' institutions of the state. Farooq Abdullah's ruling party was disqualified and ousted by the Indian government on charges of widespread corruption. This marked a major watershed in Kashmir. People viewed it as an attempt by the centre to impose its will on the state and thereby make a mockery of the local electoral process. Matters became worse, when Abdullah was reinstated as chief minister in 1987, after he struck a deal with the Indian government. By this time, there was widespread opposition against his party, which was mobilised into rebellion by the supply of arms from Afghanistan, the rise of Islamic fundamentalism and the influence of Pakistan. For instance, throughout the 1990s, there have been several reports of young Kashmiris being smuggled across the border to be trained by various militant outfits.

Conclusion

This study has sought to dispel the notion that militancy in Kashmir's political economy since 1947 is motivated solely by political considerations. It has unearthed the economic roots of the imbroglio, by assessing factors that shaped the agricultural and industrial policies of the state. Additionally, this study has demonstrated that even supposedly benevolent decisions, such as equitable land ownership can be debilitating to production. To be sure, it provides ample opportunity for corrupt and ruthless entrepreneurs to reallocate the land for personal profit. What began as a rural initiative opened the gates to further bureaucracy. Moreover, the prevalence of bribery made government subsidies almost worthless. The rich amassed greater wealth at the expense of the poor, fostering an environment where militancy and the dream of an independent state began to have its own appeal.

Ironically, Lipton's urban bias did not lead to urban prosperity. Despite the wish for private investment, no concrete initiatives were undertaken, while government enterprises continued to grow and distinguished themselves by a lack of commitment, nepotism and profiteering. For those embroiled in border fighting, it became easy to believe that independence would lead to security and prosperity. Electoral mismanagement was a catalyst that mobilised the rising tide of dissent towards militancy. By the 1990s, what emerged as benevolent intervention during the green revolution, took on the guise of a predator. At every stage Bardhan's theory of dominant proprietary classes can be observed, progressing from the spade to the gun.

A political economy approach has been instructive in analysing the various factors responsible for the stagnation in the productive forces of the economy of Kashmir. Lipton's urban bias, reflected in the state's low small farm incomes, explains the failure of the Green Revolution. Bardhan's alliance between the rural oligarchy and bureaucrats accounts for the ineffectiveness of the land reforms and the rise of widespread corruption. Similarly, the manipulation of state subsidies by a rent seeking bureaucracy and small entrepreneurs sheds light on the causes of industrial failure, accounting for the high level of urban discontent. However, such an approach has its limitations.

For instance, the urban bias paradigm falls short in its analysis of social and political forces (e g, details on Indian social struggles over bureaucratic recruitment). Equally, Bardhan's theory focuses too heavily on social structures, underestimating the role of social processes. For instance, other than proposing to streamline the state's administrative apparatus, he offers little explanation as to how the dynamics of the dominant class conflicts resolve themselves. Bardhan's theory is flawed by a major contradiction in Kashmiri society today. The dominant proprietary classes comprising of bureaucrats, businessmen and the rural elite, who have benefited from the rent seeking governments, are turning against them by supporting the militants. One possible explanation for challenging the system that represents their own vested interests, could be that they perceive this as an opportunity to divert attention away from their corrupt practices, by blaming the peoples grievances on 'misrule' by the centre.

This leads to another limitation of the political economy approach. It clearly pinpoints the economic grievances of the state and policies that led to conflict, but fails to offer a direct causality with the militancy. There are other states in India with high unemployment, but no insurgency. What makes Kashmir different? The answer lies in the unique psyche of the state and the factors responsible for shaping that, such as its special status within India. Had India fully integrated the state into the union, instead of granting it autonomy and large flows of capital, things might have turned out differently. The ongoing dispute with Pakistan over the past 50 years, coupled with its covert attempts to assert its claim, has also left an indelible mark on the people of Kashmir.

In spite of these shortcomings, this study has introduced an economic dimension into our understanding of the Kashmir imbroglio. As a relatively new perspective, it needs to be explored in further detail with qualitative and quantitative studies, as it raises more questions than answers at present. For instance, the extent to which the average Kashmiri militant is motivated by economic and political frustration, and less by any political ideology, remains to be investigated. However, it is clear that the alienation of the Kashmiri people has been driven by sheer disillusionment in the state. Their ideals and aspirations have been thwarted by a series of rent seeking governments, as well as the misguided policies of the centre. Therefore a genuine solution to the conflict depends on the creation of new job opportunities (within the state and in other parts of the country), a clean administration and political freedom, to restore Kashmir's confidence in a democratic and secular India. The first step in this direction is to hold a plebiscite to enable the people of Jammu, Kashmir and Ladakh to determine their future either as a part of India, or Pakistan, or as a separate nation. EPW

Notes

1 Political economy is an "area of inquiry from which different types of political and economic linkages may be theorised based on the attempt to specify some relationships between economic and political behaviour", as defined by J Toye in 'Political Economy and the Analysis of Indian Development', *Modern Asian Studies*, Vol 22, No 1, 1988:154

2 A failed state in the sense that it failed to serve the economic or political needs of its entire population, owing to the factors that will be examined through the political economy threories outlined below.

3 Jammu, Kashmir and Ladakh felt differently about accession to India. Jammu and Ladakh have grown to resent the special treatment of Kashmir by the centre, at the expense of the minorities in Jammu and Ladakh. Therefore the latter two have favoured full integration with India, while Kashmir only desired a limited accession. But Kashmir never thought to share power with Jammu and looked towards Delhi to strengthen its power as Kashmir stood as the nucleus of India's secularist conception of the state [Chabbra and Chrark 1986].

4 The Plebiscite Front was a political movement supported by Abdullah from the fifities onwards, that demanded a plebiscite to allow Kashmiris to deteremine their own destiny.

5 The net sown area has increased marginally from 6.7 lakh hectares in 1960 to 7.40 lakh hectares in 1988. The average holding size is extremely small, only 0.99 hectares compared with 1.82 hectares at the national level. Moreover, 70 per cent of holdings fall below the size of one hectare and big farmers of 5 hectares and above account for less than 2 per cent of total holdings. Due to extreme climatic variation in the Valley, double cropping is practised with rice in summer and wheat in winter. Over 85 per cent of the land is devoted to growing these crops, leaving little land for cash cropping, thereby limiting farming incomes and the growth of agro-based industries in the state. The production of food grains, more than doubled from 1951-71, increasing by 40 per cent from 9.9 lakh tonnes in 1974, to 13.7 lakh tonnes by 1987 (*Digest of Statistics*, Government of J and K, 1990). Maize production expanded fastest, from 3.2 lakh tonnes in 1974 to 5.2 lakh tonnes in 1987, increasing by 65 per cent. Wheat and rice production increased by 31 per cent and 28.5 per cent respectively over the same period. Despite these gains, the state continues to face shortages in food grains and the deficiency is covered by imports from the rest of the country. However, the state's horticulture is booming. Kashmir's temperate climate has been conducive to the growth of fruits such as apples which cover 42 per cent of the 1.6 lakh hectares devoted to fruit cultivation. The other major fruits are walnuts and almonds. In 1982 it was estimated that there were over one lakh, three crore of orchards and fruit trees flourishing in the state. It has proved to be a significant source of employment and income, as exports of fruits increased threefold from 16.89 lakh quintals in 1974 to 55.17 lakh tonnes by 1986. In 1989 walnut exports alone generated over Rs 15.27 crore in foreign exchange (J and K Economic Profile, 1995).

6 Under the auspices of the state's Five-Year Plans, the state's agrarian economy was transformed over the past four decades. Land reforms created a majority of small farms that were not economically viable and a small rural elite, who held on to their large estates by converting them into orchards. The onset of the Green Revolution was intended to increase productivity in small farms with the aid of new technology. However, the nature of state intervention via its pricing policy, coupled with the operation of market imperfections and demographic pressures, has undermined these attempts to alleviate rural poverty. As a result, while the rich orchardists have prospered from the state's agricultural policies, the majority of small farmers have been the victims.

7 According to Sarin "the loans are alleged to have gone into the pockets of the political workers for unproductive purposes".

8 Despite various policy initiatives of the state to promote industrial growth over the past 40 years, Kashmir continues to have a weak industrial base and has no large-scale industries. The few medium-scale industries operating under the public sector have performed poorly. The J and K Development Profile (1995) states that the total number of small-scale industrial units has increased from 28, 168 in 1989 to 35,576 in 1995. Yet the report by ICPI suggests that many of these units have accumulated large losses and closed down.The only successful industries are found in the unorganised small-scale units comprising Kashmir's famous handicrafts, sericulture, handloom, and village industries. This sector has expanded from 2,203 units in 1974 to 23,930 units by 1988 (*J and K Digest of Statistics*, 1990). The value of handicrafts such as carpets, paper machie, wood carving and embroidery work rose from Rs 20 crore in 1974 to Rs 129 crore in1988. Closely, associated with handicrafts, is the tourism industry which provides a market for these products and accounts for approximately 10 per cent of the state's income, although some estimates have grossly over estimated its contribution. For instance, Farooqi argues that tourism accounts for 50 per cent of the state's income, whilst Jan estimates it at 20 per cent. In 1987, over 7 lakh tourists visited Kashmir, spending over Rs 100 crore in the Valley alone. Tourism has generated considerable employment opportunities ranging from hoteliers, houseboat owners, guides and local artisans [See Farooqi 1995; Jan 1989].

9 Article 370 of the Constitution grants the state of Jammu and Kashmir a special status within India. This includes autonomous rule in all matters except a few such as defense. To preserve the Kashmiri identity, people from other states in India are not allowed to own property in Kashmir. This may have contributed to the alienation of the people of Kashmir, by inhibiting their full integration within India.

10 Moreover, in order to boost the development of the state's burgeoning handicrafts sector,

the J and K Handicrafts (Sales and Export) corporation was created. The central government's Indian Telephone Industries total output was over Rs 87 lakh in 1975, while the HMT watch factory employed over 1,200 workers.

11 For instance, during the five years ending 1986-87, J and K Cement incurred a substantial loss of Rs 730.86 lakh. In 1986 alone, it amassed losses of Rs 101.60 lakh. Bhat has estimated the total loss of the above mentioned state undertakings at a staggering Rs 814.02 lakh in 1986-87.

12 The Mahanobilis strategy promoted planned economic development in the fifties, under the auspices of the Five-Year Plans and strict controls over the economy which grew increasingly inward looking until it began to be liberalised in the 1980s.

13 On investigation, the Saxena Report found that a regular racket of officers of the Food and Supplies Department existed and issued bogus ration tickets. Thousands of quintals of rice were drawn on these tickets and sold on the black market. The sale proceeds of the ration so drawn was short remitted causing a loss of nearly Rs 2 lakh to the department. 50 NGOs and 13 private individuals were involved in the scandal. Another interesting case concerned a Pipes scandal. In order to purchase pipes required for the Water Works Department, the executive engineer entered into a deal with six private firms and purchased GI sheets at exorbitant rates causing a loss of over Rs 5 lakh to the government. 976 gazetted officers were charged of such crimes.

14 According to Punjabi, " the cumulative effect of the all pervading corruption in the state, was the emergence of a neo-rich urban class of politicians, top bureaucrats and big businessmen". Punjabi, R, 'Corruption: A factor in Kashmir's Alienation', *Mainstream*, March 16, 19991:23.

15 According to Rekhi (1993), the whole of Indian society has not been able to assimilate these youth over a period of 45 years into the mainstream of Indian administration. Jha (1991) aptly calls this generation the "new disinherited middle class".

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