

# **State and Capital in Independent India: From Dirigisme to Neoliberalism**

**Chirashree Das Gupta**

Degree: PhD Economics

Department of Economics  
School of Oriental and African Studies  
University of London



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## Abstract

This thesis examines the relationship between state and capital in post-independence India. There was a dramatic shift from the strategy of state-led capital accumulation. After the 1950s, this strategy became increasingly dirigiste. From the 1980s, economic policy in India shifted towards neoliberalism. The conventional wisdom is that this transition to neoliberalism was driven by poor economic performance in India during the period of state-led growth. The economy was characterised by inefficiencies because of government-created distortions that stifled entrepreneurship and needed to be corrected by neo-liberal 'reforms'. However, capitalists in India were beneficiaries of dirigiste policies, and did not adopt neoliberalism as their collective agenda even when their disenchantment with the state peaked in 1965-66. It was only from around 1980 that a section of capitalists in India began to support a neoliberal turn. What explains this paradigmatic shift? This is the central question of the thesis. This research examines the role of the state in the capital accumulation process in India with a focus on the period from 1965 to 1980 to shed light on how and why the change in state-capital relations occurred.

Throughout the 1970s, the expansion and diversification of the capitalist class with the rise of 'new' family-controlled business houses played a critical role in shaping the changes towards neoliberalism. This thesis examines the social origins, institutional access, privileges and restrictions, forms of political organisation and modes of expansion of capital. Both 'zones of intervention' and 'zones of non-intervention' by the state facilitated the various dimensions of this expansion. These developments forged new political alignments of capitalist interests and led to significant stratification within the class. These changes had critical impacts on the access of the capitalist class to technology and finance, defined the attitude of Indian capitalists towards 'globalisation' and accelerated the informalisation of labour force.

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Note: 1 Crore = 10 Million

## Introduction

This thesis focuses on the relationship between state and capital in the post-independence period in India from the perspective of political economy. It begins with an examination and subsequently a rejection of the ahistorical but conventional neoclassical assessments of post-Independence India, which are based on a 'false dichotomy' between the state and the market. The arguments that form the core of the enormous body of literature on India based on neoclassical economics and its expansion into 'new political economy' and 'new institutional economics' are reviewed. A critique is offered based on a brief assessment of the sociology of knowledge across disciplines in social sciences that scrutinises important debates on the relationship between state and society in India. This critique takes into account a fashionable body of scholarship on state-society relations in India spanning the last three decades of the post-independence period.

The impact of these debates on the political economy of policy-making in India after independence and for our understanding of the relationship between state and capital is briefly reviewed based on secondary literature. The conclusion from the literature points to a gap in the analysis of the relationship between state and capital from the period of the balance of payment crisis and the first IMF loan in 1966 till the liberalisation episodes of the 1980s. This gap is traced through a survey of academic writings across disciplines on India and in India with an emphasis on the political imperatives that shaped the major academic debates from the 1980s around the adoption of neoliberalism as the dominant ideology.

Our approach rejects the conventional neoclassical assessments of the Indian economy which asserts that a full-fledged 'market-led' approach in state policy is the *only* way of integrating into the globalised world. In contrast, this work looks at the political economy of the role of changing social relations in the process of transformation and consolidation of the capital accumulation process in India after independence. The primary aim of this research is to add to the understanding of the specific relationship between state and capital in forging the dynamic role of the institutions of the state and the market that form the basis of capital accumulation in economies undergoing transition. This is the fundamental driving force of the economic growth process in societies attempting a capitalist development without a radical change in non-capitalist social relations that pervade the bulk of society. The approach taken is to identify how the relationship between the 'public' institutions of state and the 'private' institutions of capital was critical for the capital accumulation process in post-independence India, and how this relationship changed over time.

Post-independence political economy in India has been characterised by Ghosh (1998) as a drama enacted between votaries and opponents of liberalisation. At one level, it is posited as a drama based on academic debates stemming from different ideological positions and

different interpretations of the Indian economy (Ghosh 1998). Byres (1997, 1998) and Ghosh (1998) provide excellent historicised reviews of these debates on planning and state policy respectively within the academic literature in India. The other level was of actual state action, which had less correspondence with this debate and was determined by the relative power of political configurations within society (Ghosh 1998). This is the area that has received relatively less attention though each of the 'liberalisation' episodes in the history of independent India saw a concomitant academic debate. The two levels of debate according to Ghosh (1998) have merged occasionally in history but since the 1980s, there was a decisive merger of the two. This was a part of the political process of the shift to the ideology of 'neoliberalism' as opposed to this or that specific deregulation or liberalisation that is a feature of the entire post-independence period.

The origins of these debates can be traced to the ideological struggle within the national liberation movement before independence. The arguments and ideological debates about the role of the state in the building and expansion of a viable capitalism in India were evident in the actual arena of state-society relations and political action, which defined the contours and limits of the relationship between state and capital in the decade preceding independence. This was a significant political development right from the time of the Congress taking office in the Provincial Governments in 1937 under the Government of India Act of 1935 (Rasul 1989), the political developments in ensuring the marginalisation of 'Left' opinion within the top echelons of the Congress from the annual session in Haripura in 1938 to the Tripuri session in 1939 (Sarkar 1983; Tripathi 1990) and the constitution of the National Planning Committee in 1939 that drew up the blue-print of planned capitalist development based on import substituting industrialisation (Chibber 2003). The post-independence strategy was therefore one of developing a state-led capitalism with a significant role assigned to the state developing a 'mixed economy' with the aim of complementarity and development of linkages between the 'public' and the 'private' sectors (Bagchi 1982; Chandrasekhar 1994). This was an outcome of the political limits on mass radicalisation of the national liberation struggle. Added to this was the understanding that late capitalist development requires a more obvious role for state intervention and even early capitalist development had a significant, but different role for state intervention.

Two decades of experiments after independence with a state-led approach to a regulated capitalist development based on planned allocation of resources was within the framework of a 'mixed economy' that already had a 'private' sector while the state had the onerous task of building up the 'public sector' as part of the task of nation-building based on capitalist growth processes (Desai 1984). These experiments achieved much higher rates of capitalist growth than were achieved in the colonial period but also developed a specific set of contradictions that manifest themselves in rising inflation, high rates of unemployment, entrenched corruption and asset concentration in the hands of 'big business'. This led to collective disenchantment in the

polity reflected in the rise and consolidation of oppositional politics all through the period under consideration (Frankel 2005). The collective disenchantment of a group of political functionaries and sections of capitalists in their relationship with the state reached a peak in 1965-66 with the 'food crisis' combined with a severe balance of payment crisis (Nayar 2001; Chibber 2003). Some of these disenchanted sections had advocated and organised politically (Shroff 1966) for a radical deregulatory 'regime change' towards *laissez faire* by funding individual candidates on the extreme right in the Swatantra Party and its electoral allies, mainly the Jan Sangh (Kochanek 1971). State policies in response shifted from an incentive based approach to 'industrial capital' to an increasing panoply of dirigiste measures (Patnaik 1984) that was popularly termed the 'license-control raj' of the 1970s.

However, organised platforms of capitalists in India collectively rejected the idea of floating parties representing business in opposition to dirigisme (Kochanek 1974). Neither did the collective platforms of the capitalist class as a whole endorse the arguments (FICCI 1959, 1965) advocated by the likes of A.D. Shroff who organised the 'Forum for Free Enterprise' and the organised political opposition to the Congress namely the Jan Sangh and the Swatantra Party during or after the 1965-66 financial crisis and the period of the Third Plan. On the contrary, after the brief interlude of the Shastri period, the various fora of capitalists gave either active or passive support to the growing dirigisme (Patnaik 1984) under the Indira Gandhi regime (FICCI 1976) including the severely repressive period of the Emergency. Individual capitalists did of course oppose the Emergency, based on their choice of 'friends' and 'enemies' determined by a whole range of political exigencies related to the functioning of the Emergency regime (Chandra 2003).

After the brief but politically volatile disjuncture provided by the 'economic reforms' of the Janta government from 1977-1980, a section of capitalists in India did see a rationale in the shift to deregulation and a redefining of the role of the state in the economy. They gave a cautious welcome to the neoliberal rationale of 'opening up' in 1991. In the next fifteen years, through strategies of accommodation and adjustment, the top rung of Indian capitalists reached a consensus on the desirability of 'reform' of internal economic regulations and removal of controls (FICCI 2001; Forbes 2002; Narayana Murthi 2002). By the late 1990s, one of the representative voices of capital, N Vaghul, the chairman of Industrial Credit and Investment Corporation of India, was relieved to note in front of an American audience that the Congress-led and BJP-led coalitions had reached a consensus on 'economic reforms' and thus there would be a bipartisan approach on pushing through appropriate legislation to further neoliberal 'reforms' in spite of opposition from Communists and other Leftists (Vaghul 1999).

This research is concerned with the political economy of the ideological shift of the independent Indian state from a paradigm of state-led capital accumulation associated with the Nehru-Mahalanobis growth strategy in the first two decades after independence. It is widely noted both in Marxist political economy and the 'liberal pluralist paradigm' defined by

Sridharan (1993) that this state led process developed a number of critical contradictions by the end of the Third Plan period in 1965-66. These contradictions from a Marxist perspective according to Patnaik (1994) were inherent in the nature of 'dirigisme' that characterised the 'democratic absolutism', which informed the Nehru-Mahalanobis strategy. The contradictions of the Nehru-Mahalanobis strategy that led to the balance of payment crisis in 1965-66 and the recession that followed have been widely discussed within Marxist political economy on India (Patnaik 1986; Bagchi 1998; Chandrasekhar and Ghosh 2002; Chibber 2003) and within a liberal pluralist paradigm (Frankel 2005; Nayar 2001; Rudolph and Rudolph 1998) in terms of the inability of the state to 'control' the terrain of primary accumulation (Sridharan 1993).

The phenomenal asset concentration in the hands of the top ten oligopolistic 'business houses' with the publication of Hazari's (1967) study on industrial planning and licensing policy led to popular demands for a curb on the accumulative activities of 'big business'. Nevertheless, both liberal and Marxist social scientists have pointed to increased asset concentration combined with the rise of new 'houses' of 'big business' after 1965-66 (Baru 2000, Nayar 2001, Chandrasekhar and Ghosh 2002, Frankel 2005). The processes at play here and their implications for the final implosion of the Nehru-Mahalanobis strategy into a neoliberal paradigm of a so-called 'market-led' social process in the last two decades of the twentieth century have not been subject to detailed academic scrutiny.

The literature on the period from the mid-sixties has reviewed the 'structural retrogression' (Shetty 1994) in the Indian economy as a crisis of the process of industrialisation with a slow-down of both public and private investment and a slow rate of growth of agriculture despite the Green Revolution. However, a closer scrutiny with the benefit of hindsight and a historical distance of more than a quarter of a century reveals a range of undiscussed features related not to stagnation, but to methods of expansion of capital after independence. There was also further expansion and restructuring of capital from 1965-66 during a decade and a half of recession in regulated manufacturing. This expansion has received less attention compared to the analysis of recession in the economic literature except for passing observations.

What were the changes since 1965-66 in the process of capital accumulation and expansion that led to the paradigmatic shift from dirigisme to neoliberalism? Did it contribute to a shift in the relationship between capital and the state? Was this change a paradigmatic shift that entailed a significant change in the relationship between state and capital? These are the central questions of the thesis. The analysis will focus on the role of state, class and ideology in the expansion and reproduction of the capital accumulation process in India with a detailed review of the period between 1965 and 1980 to examine how and why the shift took place, and to assess the significance of the change.

The literature emanating from neoliberal academia obfuscates the nature of economic policy by generalising its analysis over the historical period after 1947 to 1980 (Virmani 2004) or 1991 (Bhagwati 1998) depending on when the authors believe the state 'got it right' in its moves

towards deregulation and liberalisation. For the sake of historical specificity, we need to be clear about the exact domains of state intervention and non-intervention in reviewing post-independence economic history. A clear periodisation is necessary to carry out this exercise (Byres 1998). This research is based on a periodisation of post-independent India's political economy into four distinct periods. The relationship between state and capital from 1947 to 1966 can be periodised into two distinct phases, the first of which is the decade from 1947 to 1956 and the second from 1956 to 1966. Chenoy (1985) used a similar periodisation in a study of the relationship between multinationals and Indian capitalist development.

The first period starts in 1946 and ends in 1956 converging with the end of the first plan period. This can be argued to be spanning a decade from the time of transfer of power to the end of the first plan period during which 'liberalism' informed state policy. It must be noted that during the first ten years, India's status was that of a 'dominion' of the British Empire between 15<sup>th</sup> August 1947 and 26<sup>th</sup> January 1950. Full sovereignty came only in 1950 with the adoption of the Indian constitution that guaranteed the right to property as a fundamental right. Thus capitalists in India needed repeated assurance from leading figures of the Congress that there would be no nationalisation of property and curbs on profit in the constitution and the making of other legislation. The second period spans the decade from 1956 to 1965-66, that is the period of the Second and Third Plan. This was the decade of expansion of the accumulation process through indicative planning as a tool for allocation of resources informed by the Nehru-Mahalanobis strategy. This ended in a series of contradictions reflected in a severe balance of payment crisis that resulted in the first IMF loan and contingent devaluation and deregulatory measures.

The third period spans from 1966 to 1980, a period characterised in the literature by low growth rates, a gradual undermining of planning and stagnation in the economy. The findings of this research combined with the interpretations from significant work on the topic points to a resolute restructuring of the institutional organisation of capital in this period covering both 'zones of intervention' and 'zones of non-intervention' by the state in the economy. This spanned from 1965-66 that is the time of the balance of payment crisis and up to the IMF loan to 1980, the year which marked the decisive move towards deregulation and decontrol. This period saw the expansion of capital that combined 'continuities' and 'changes' in the modes of capital accumulation reflected in the formation and expansion of 'new' business houses.

This period was marked by an expansion of the role of the state in enabling primary accumulation through the guarantee of intellectual property over processes mainly developed through reverse-engineering, the interlocking of banking and industrial capital along with the protection of subsidies that enabled Import Substituting Industrialisation (ISI). These changes could be characterised as an extension of the 'zone of intervention' by the state. More importantly, this period also saw 'new' entrants into the preserve of big capital enabled by the monopoly restrictions laws and legalisation of process patents, who engaged in accumulation

processes in areas that were not covered by the state's ambit of regulations and control. This spanned 'informal' zones of non-intervention over the labour process, the development of business empires based on 'franchisee' operations and development of a relatively 'free-market' in finance. It is clear from published private and public records reviewed in this work that such accumulation came with the tacit support of the 'policy framework of non-intervention' by the state. The central argument is that these developments were part of a new and emerging relationship between the state and emerging sections of capital and this laid the necessary foundations for the emergence of the subsequent ideological consensus that informed the political rhetoric and reality of neoliberal reforms from the 1980s.

The last period starts from the 1980s and spans a quarter of a century and is characterised by a gradual process of 'marketisation' in keeping with neoliberal prescriptions. Thus, in this research, the structural adjustment programme of 1991 is not considered a 'break' but only an acceleration of neoliberal policies that had started in the 1980s.

The territorial jurisdiction of the Indian state was a vital part of the process of state formation after independence.

Out of India's inheritance of fourteen jurisdictions of British India and five hundred and fifty-odd states of princely India emerged twenty-nine states in the Constitution of 1950 (Wood 1984:7).

The territorial dimensions of the Indian nation-state even in 1956 when the Second Plan was being implemented were still under flux. Thus the idea of a homogenous Indian economy in the 1950s is a wrong assumption as major epicentres of growth like the 'princely states' in the post-independence period only came under state jurisdiction in 1955-56. Agitations for linguistic reorganisation of the states took up great momentum in the 1950s. By the end of 1956, after the major thrust of reorganisation, India had fourteen states. In the next decade the number of states had risen to sixteen with reorganisation. Between 1966 and 1975 another six were added. In terms of territorial measures of what constituted the Indian economy at the level of the states the geographical area after 1960 was a contiguous whole with the creation of Kerala in 1956, reorganisation of Andhra Pradesh, Karnataka, Madhya Pradesh and Tamil Nadu in the same year and the creation of Maharashtra in 1960.

The geographical reorganisation of India affects our research in two ways. A state-wise assessment of capital formation in a comparative perspective is difficult in the period before 1965-66. Second, and more importantly the politics of 'development' and accumulation at the level of region and state was intrinsically inter-locked with the demands for state-hood.

The discussion in this thesis focuses on the relationship between state and capital in the expansion of accumulation and the restructuring of the organisation of capital in the Indian economy in the first three periods. The 'rhetoric' of policy changes in the scopes of 'intervention' by the state since 1965 since the first IMF loan was one of 'reforms' in the Indian

economy. There are significant continuities in the relationship between state and capital despite the reforms. The dominant literature on this period provides accounts often based on 'false dichotomies' for example between the state and the market (Khilnani 2003), the private and the public sector (Nayar 2001), and the unnecessary protection of capitalists through import substitution that could have been avoided by export orientation (Chibber 2003). Harris-White (1981, 1996b) provides empirical refutation of the false dichotomy between the 'state' and 'market' in the process of accumulation. The findings of this research are based on an analytical narrative of how each of the constructed 'binaries' were related to the development of capital and the extent to which representatives of the capitalist class were themselves part of the institutional apparatus of both the 'market' and 'state' in the course of this development.

This thesis is organised into seven chapters followed by a brief conclusion. Chapter One reviews the academic debates that informed the premise of the shift from dirigisme to neoliberalism in India. It highlights the limits of the social categories of analysis through which the market was presented as a panacea for all economic problems state-society relations. The chapter puts forward some basic propositions on the 'false dichotomy' between the state and the market in India that establishes the inadequacy of ahistorical assessments of the 'role of the state'. It identifies a range of theoretical debates on Indian society, economy and polity that suffer from these problems. 'Neoliberalism' as an ideology is located within the global project of capital. Its specific forms in India were established through the Bretton Woods institutions and the functionaries and representatives of state and capital in India. This ideology allowed the development of the particular relationship between state and capital that is the subject of analysis in this thesis.

Chapter Two establishes the case for undertaking this research and the importance of examining the relationship between state and capital in independent India. In this context it is important to note that a historical study over the period in terms of standard sources like archival material is not possible due to the contemporary nature of the historical exercise. However an enquiry establishing certain patterns of accumulation and the organisation of relations between state and capital that allowed and enabled these patterns is important and can be based on published sources and the available data. The validity of a methodology based on an analytical narrative is detailed in this chapter.

Chapter Three focuses on the economic, social and political imperatives of the nascent Indian capitalist class in the period of colonialism and its power to influence the direction of the 'state to be'. The main argument in this chapter is to establish first that the path of development charted out by 1947 was that of state-led capitalism countering arguments that India was heading towards a 'socialist' society or that the Indian experiment was a 'modernisation' process imbibing both socialist and capitalist ideas. The chapter explores how the specific form of state-led capitalism commonly described as 'Nehruvianism' became the dominant 'path'.

Chapters Four to Seven form the core of the thesis. The periodisation of the chapters follows from the principle of historical specificity outlined above. Chapters Four and Five provide a review of the growth and accumulation strategies of the Indian capitalist class and the role of the state in the accumulation process from 1950 (when India became a sovereign republic) to 1980 (the year of the second IMF loan and the beginning of the liberalisation episodes of the 1980s). In these two chapters, the importance of the emergence of 'new' capitalists in different parts of India is established. Chapter Six locates this expansion in the period from 1966 (the year of the first IMF loan) to 1980 and examines the modalities of expansion of the capitalist class and its changing relationship with the state in this period. Chapter Seven presents a detailed case study of the pharmaceutical sector that spans the entire historical period under consideration in the thesis.

Chapter Four is a study of the domain of state policies of intervention and non-intervention in the project of building capitalism in the period between 1947 and 1965-66. It is argued that the first two decades after independence can be split into two distinct periods, 1947-1955 and 1956-1966. This periodisation provides a better understanding of how much of a 'free market' economy India was in the first decade and the nature of state policy in terms of incentives, control and command in the second decade. A detailed study of planning and industrial policy is aimed at establishing the relationship between state and capital in the decade characterised by the dirigisme of the Mahalanobis strategy and the contradictory outcomes it generated in terms of public and private investment.

Chapter Five provides an assessment of the structural changes or their absence using sector wise time-series data for the fifty-year period from 1950-51 to 2000-01 for growth, sectoral shares and capital formation. The aim is to establish the importance of sources of the accumulation process even during the acknowledged period of recession in the Indian economy from 1965-66 to 1980. Four lines of enquiry are then pursued focusing on this period: a detailed sectoral analysis of accumulation processes, the regional characteristics of this process, the nature of the institutional structure through which this accumulation took place, and the role of the state in sustaining this process.

Chapter Six provides an account of the political economy of intervention and non-intervention of the state since the first IMF loan of 1966. The social processes of accumulation of the economy are studied to highlight the role of the state and the limits on it through the change in power structures with change in the sources of accumulation in the economy. The chapter aims to analyse contradictory features of the period of acknowledged recession in the Indian economy from 1965 to 1980. The contradictions lie in the formation and growth of 'new' oligopolistic business groups in this period of recession. The focus is on sources of primary accumulation and political power of the 'new' capitalists and the relationship of these to the changes in the nature of state-interventions and non-interventions in this period.

Chapter Seven traces the accumulation patterns, growth and restructuring using the pharmaceutical industry as a case study from the period of dirigisme to the current epoch of neoliberalism. This highlights the relationship between state and capital in the sphere of technology, intellectual property, labour, finance and protection of markets, all of which are linked to the restructuring of accumulation and the convergence of the ideology of capital towards neoliberalism.

The conclusion provides a summary of the key arguments, its limitations and possible arenas of further enquiry based on the arguments of this work.

## Chapter One

### Dirigisme to Neoliberalism in India: The Context and the Debate

*These masses of people you are seeing*

*Have heard Him guaranteeing*

*A great time by and by.*

*Meanwhile they must make sacrifices*

*As the shops all put up their prices*

*That great time is pie in the sky.*

*(Adapted from Bertolt Brecht: Fear and Misery of the Third Reich)*

The timing, pace and content of the transition from dirigisme to neo-liberalism in India are embedded in changes in the social relations of capital and changes in the trajectories of capital accumulation in India. A satisfactory explanation of how neo-liberalism emerged in India is important for understanding why it took a specific form and why it did not conform in many details with the model of liberalisation coming from an ahistorical understanding of the state. It is therefore also necessary to differentiate our methodological approach from many of the established ways in which these questions have been addressed in the political economy literature and academic debates in India. This is important for three reasons: first, neoliberal explanations of the transition are part of a broader academic literature that uses ahistorical analysis of the 'role of the state' in explaining the shift to neoliberalism in India (Ahluwalia and Little 1998; Bhagwati 1993, 1998; Lucas and Papanek 1998; Krueger and Chinoy 2002; Das 2006). This type of explanation became rhetorically dominant in mainstream academic writing explaining the transition to neoliberalism in India. Second, the link between 'state' and 'market', is typically critical for understanding the success of capital accumulation in developing societies attempting capitalist development without a radical change in the social structure of non-capitalist relations. The analysis of the transition exposes many limitations in the literature addressing this relationship. Third, the factors driving the transition are related to our understanding of 'neoliberalism' as a new global ideology and the role of this ideology in the global project of capital. The specific forms this project took in India need to be understood to comprehend the complex relationship of 'neoliberalism' in India to 'deregulation' and 'liberalisation' – the two pillars of 'reform' in economic policy that are often uncritically equated with the transition from dirigisme to neoliberalism.

We put forward three analytical propositions in this chapter based on our review of the relevant literature. First, neoliberalism as an ideology derives its economic logic from a certain kind of neoclassical economics based on methodological individualism. Nevertheless, neoliberalism as an ideology has more complex roots, derived not only from the development of disciplinary imperatives, but also drawing on wider political developments, a proposition that we shall address in the Indian context in this research. Second, in India, the expansion of capital underlying India's growth both in the period of 'dirigisme' and in the period of the 'neoliberal ascent' was and remains heavily dependent on the state. Capital accumulation in both periods relied on both legitimate and illegitimate state support and mechanisms of the market to engage in legal accumulation and also in profiteering, hoarding, racketeering and the flouting of a wide range of legal norms. Accumulation in the broad sense - thus encompassed both 'zones of intervention and non-intervention' by the state. Third, the period since 1965-66 when the contradictions of the 'state-led capitalist path' came to a head in social and political turmoil, asset concentration and a foreign exchange crisis. The decisive turn towards a 'neoliberal' strategy from the 1980s was a critical period characterised by accumulation processes that involved both continuities and changes in the 'sites' of primary accumulation of capital.

This chapter is divided into seven sections. 1.1 critically assesses the development of the political basis of 'deregulation' couched in the rhetoric of 'economic reforms' since the 1980s. This is necessary in order to spell out the specific policy changes that defined either continuity or changes in the relationship of state and capital in India that the thesis seeks to examine. An examination of the limitations of culturalist critiques to address the central question of the thesis is important as a significant strand of such literature fails to address the modalities of capitalist transition in India. Section 1.2 is developed to establish a critique of the link between the rise of culturalist scholarship, the ascent of neoliberalism and its concomitant disciplinary rationale in economics in strengthening the basis of 'monoeconomics' covering two interlinked spheres of influence - the social aspects of the rise of extreme right-wing forces and the economic basis of the 'market fundamentalism' that informed the politics of these forces. These developments need to be addressed in order to comprehend the rise of the neoliberal agenda combined with a resurgence of a very vicious form of cultural nationalism in contemporary India. Having set the intellectual context of the major political debate on neoliberalism, sections 1.3 to 1.7 are devoted to analysing various facets of the debates around neoliberalism and the role of the state. 1.3 provides a critical account of the 'faulty' shell of 'the economics' that formed the basis of fostering a Bretton Woods directed process of 'economic reforms' in India. 1.4 critically assesses the rationale of the argument that neoliberal 'economic reforms' are a response to the failure of the 'state' in bolstering economic performance and the problems with this understanding. 1.5 provides an analysis of the limits of the debate on the 'state' in the literature on India. 1.6 is a synthesis of the debate on the nature and role of the state in India first, inside academia and second, outside based on the experiences of resistance to

neoliberalism. 1.7 briefly identifies the gaps in methodological praxis synthesised through the literature 'for' and 'against' neoliberalism that are critical for developing a framework for this research.

### **1.1 The Convergence of 'Reforms' as 'Globalisation' and 'Deregulation'**

At the outset, one must acknowledge that the rich scholarship on the complexities of social relations in India covers many aspects of the relationship between state and society and not all of these aspects can be covered within the limits of this research. Our focus will be on those aspects of the state-society relationship in India that are most important for understanding the shift to neoliberalism as the dominant political ideology of the Indian state. The context of the shift to neoliberalism in India was defined by a series of important policy changes since the mid-1980s within the Indian state. The debate on exactly when the move towards a 'market-economy' took place has mainly preoccupied neoclassical practitioners and supporters of liberalisation (Panagariya 2004; Virmani 2004; Nayar 2006). For some economists, the structural adjustment programme initiated in 1991 by Bretton Woods institutions marks the shift (Krueger and Chinoy 2002, Basant 2000, Venkateswaran 1996). However, critiques have pointed to the general observation that India's domestic economy was characterised by a 'free-market' with state dirigisme since independence (Patnaik 2004) and have exposed the hierarchy of social organisation that characterises such market relations (Harriss 1985). Historicised accounts based not on this or that 'liberalisation' policy but on a move towards a specific set of tenets on the minimalist role of state in the economy that define neoliberalism identify this process as very much a phenomenon that started in the 1980s (Rodrik and Subramanian 2004). This process accelerated after the implementation of the structural adjustment programme in 1991 (Patnaik 1999a). There has been a lot of debate on the period, rationale, extent, scope and relevance of the 'economic reforms'.

The obfuscating nature of the term 'reforms' and how these set of policies differed from earlier policies of 'reform' in independent India have been interpreted by various practitioners of political economy as a structural break in paradigms of economic policy from a state guided and state-led dirigiste path to capitalism to a market-led neoliberal process (Chandrasekhar and Ghosh 2002). Neoliberal academics have lauded this as a gradual shift towards a 'market-led' economy aimed at improving 'allocative efficiency', and 'productivity increase' based on the 'comparative advantage' of a cheap labour force and 'competitiveness' based on mobility of capital within and across sectors in the economy (Bhagwati 1998; Ahluwalia 2002; Pushpangadan and Shanta 2006). Some authors critical of the process have interpreted this as a 'shift from planning to management of the economy' (Kurien 1994: 94).

The agenda of 'reform' pushed through by the Rajiv Gandhi government from 1985 was based on the contention that information and communication technology was 'revolutionising' the world and India should not be left out of this 'globalisation' process. The emphasis was on

'modernisation' of technology and communication facilities and associated with Sam Pitroda of C-dot fame (Chakravarty 2004). The assumption that technological innovation is a class neutral phenomenon was promoted through a media campaign on state owned television and radio focussing on the benefits to the '*aam janta*' (ordinary people). The state-led expansion of media, satellite and telecommunication across the length and breadth of the country laid the foundations for the vision of the powers that be in India of integrating into the changing 'globalised' world (Bajwa 2003).

Apart from this huge state-led expansion of telecommunications, the most significant policy was to reduce direct taxation, to facilitate the increase in consumption demand, compensated by sharp increases in public borrowing and deficit financing (Datta 1992). The actual trends in public finance in India in this period have seen the expansion of public expenditure associated with increased reliance on deficit financing, indirect taxation and commercial borrowing. Further, they have involved a divorce between development goals and actual resource allocation, increased decentralisation of public expenditure decisions and a preference for consumption over investment spending (Harriss 2001).

In the 1980s, the shape of these expansive, debt-dependent fiscal 'reforms' was to let the more affluent sections in the country influence the pattern of industrial production by exercising their purchasing power and to enable industry to respond to this market (Patnaik 1999b). Increases in industrial production were based on increased import content of products, which was not adequately covered by export growth and hence necessitated foreign borrowing. Thus a restructuring of the production process geared towards a debt-dependent process of accumulation was absolutely fundamental to the outcome of 'economic reforms' of the 1980s. In just ten years, India joined the club of the biggest debtor nations in the world. External debt rose to 80 billion USD in 1991 from 20 billion USD in 1981. The ratio of debt-service to exports amounted to more than 30 per cent (Bagchi 1998).

By the beginning of 1991, India was faced with the prospect of defaulting on her debt obligations and accordingly being unable to secure even short-term loans except on very onerous terms. (Bagchi 1998: 5)

Committees were set up by various Indian states to facilitate decontrol and delicensing. This was characteristic of the 'reforms' encompassed in the New Economic Policy that kicked in from 1985 covering all the major fields of regulation in the economy except the capital market. There was a short-lived industrial boom in the mid-80s, followed by a drastic slow-down in 1989-90. How far that boom can be attributed to 'successful integration into the world economy' can be contested (Chandrasekhar and Ghosh 2002). By the late 1980s, new contradictions started building up in the economic sphere. The debt-driven growth met its obvious nemesis in less than a decade. In June-July 1991, exacerbated by the Gulf War, the crisis of confidence in the rupee peaked and the government resorted to borrowing from the

IMF and carried out a series of policy changes once again termed 'reforms' in keeping with classic Fund-Bank prescriptions for stabilisation and structural adjustment (Government of India 1991). The reforms in 1991 started with the devaluation of the rupee by 24 per cent. A dual-exchange rate was introduced and exporters could benefit from a lower rate. By 1993, the currency was made convertible for current account transactions and the two rates were unified. Fiscal austerity measures were announced.

Thus the first attempt at unleashing the 'free-play of market forces' often termed 'liberalisation by stealth' from the mid-1980s, based on neoliberal tenets, resulted in a massive foreign debt that manifested itself in terms of a severe balance of payment crisis in 1991 and formed the backdrop of the full-scale implementation of the Bretton-Wood's guided structural adjustment programme in India. 1991 formalised a dynamic process of 'opening up', in keeping with Fund-Bank conditionality, but the premises of the shift to neoliberalism had been slowly laid out in the previous decade.

These 'reforms' were financed by an import-intensive growth process on the supply side (Iyer 1991) and the purchasing power of the top income groups on the demand side. In the 1980s, foreign resources were based on borrowing; in the 1990s there was a shift in favour of foreign direct and indirect investment (Kurien 1994). One significant change at this time was the formal abandonment of planning as a policy tool for determining resource allocation by a state that was supposed to be intent upon dissolving economic backwardness via capitalism (Byres 1997). These shifts marked not merely shifts in economic policy, but a larger ideological and political shift.

On a more accelerated basis since the 1990s, restrictions on foreign investment were removed. The Foreign Investment Promotion Board was set up. Internal deregulation meant throwing open industrial sectors to private enterprise that had been earlier reserved for the public sector. Cuts in subsidies were implemented. A number of import items were decanalised. A shift was made from quota restrictions to tariffs. Licensing policy and restriction on monopolies were practically abolished. Financial 'liberalisation' consisted of an effort to unify the capital and money markets. Control over new capital issues was removed. Banks were allowed to set up mutual funds to deal in shares. Foreign financial institutions were allowed to invest in the stock market subject to some mild restrictions.

This period of neoliberal transition has been marked by intense social tensions, not only in the escalation of communalism and Hindu fundamentalism, but also the intensification of proto-fascist carnage, marked by the demolition of the Babri Masjid in 1992 and culminating in the genocide in Gujarat in February 2002. The Vishwa Hindu Parishad's Ram-janmabhoomi movement received support from businessmen within India as well as Indian entrepreneurs and professionals living abroad who supported the slogan of 'Hindi, Hindu, Hindustan' (Mohanty 2002).

This period marks the end of one-party rule and can be called the period of coalition governments, both at the centre and state levels. This period has also been characterised by the weakening of national political parties reflected in the weakening of the Congress (Jannuzi 1990) and the rise of autonomy movements (Mohanty 2002). The increased importance of regional political groupings is often associated with a deeper economic and political fragmentation, which has often been attributed to intensification of 'uneven development' in the era of neo-liberalism. Marxist critics of neoliberalism have generally established the narrowing of the class basis of state power in global capitalism (Harvey 2005).

The Indian state tried ruthlessly to repress the power workers' long strike in 2000 against privatisation in Uttar Pradesh (UP), India's largest state. 90,000 workers of the UP State Electricity Board went on strike against a Cabinet decision in January 2000 which disbanded the Board and replaced it by three new corporations: the UP Power Corporation, the UP Hydro-electric Corporation and the UP Thermal Power Production Corporation in a move towards privatisation. In 1999 the BJP led Kalyan Singh government in UP passed the Electricity Reforms Bill and an electricity regulatory body was established. In real terms the disbanding of the Board and its substitution by 3 corporations was a two-phase process of privatisation aimed at the transfer of the entire power sector in UP into private hands. When this process was initiated in 1999 by the passing of the Electricity Reforms Bill the workers hit back with a strike. The then Kalyan Singh government in UP summoned the Army, invoked the Essential Services Maintenance Act and the National Security Act and resorted to other repressive measures to crush the strike. The strike collapsed after two days.

Since then some 25,000 jobs were abolished under the restructuring plan. As the plan entered the second phase the workers again went into offensive strike action. The Union Minister for State for Power and Energy P. Kumaramangalam in unambiguous terms declared that no dialogue would be opened with the striking workers. Similar statements were issued by the UP Chief Minister Ram Prakash Gupta and the UP Power Minister Naresh Aggarwal (The Tribune 2000). When the workers did not budge, the government resorted to repressive measures. The Army was called in to maintain the electricity supply but even 20% of the supply could not be maintained after such draconian measures (The Tribune 2000). In desperation the UP government terminated the employment of 25,000 workers and started fresh recruitment. The workers still did not relent. Then 6,000 workers were arrested, their houses were raided and their families harassed. But electricity production ground to a halt in U.P. The U.P. government was forced to retreat temporarily and proposed negotiations which ultimately ended in a negotiated settlement. Aspects of this deadlock still continued into 2005 with workers in UP resisting a new bid to privatise another thermal power unit (Ranganathan 2005). Similarly, there was severe repression assisted by forms of legal anti-worker interventions against government workers on strike in Tamil Nadu in 2003.

The English language media at that point emphasised statistics on the strike waves engulfing India all through the 1990s and the likely adverse effect on foreign investment. On January 19, 2000 the lead news in The Telegraph and the Chandigarh Tribune was about the power workers' strike in Uttar Pradesh (UP), and both expressed fear that this might be the turning point, with the working class awakening from a long stupor. On January 20, STAR News led off with statistics on the strike wave engulfing India. The online edition of the Asia Times reported on January 21, 2000, that

...a crippling five-day-old strike by 100,000 power employees in northern Uttar Pradesh state threatens to stymie ambitious World Bank-recommended plans to restructure ailing government power utilities.

This is symptomatic of a convergence of the different executive and judicial arms of the state towards the ideology of neoliberalism propagated by a 'privatised' media. The upholding of neoliberal thought in the making of a consensus for an ideal 'market economy' as the 'panacea' for all ills in mainstream perceptions urges the state's abdication of its professed developmental role (Harvey 2005).

Marxist critiques of the Indian state have pointed to the changing modalities of operation of international finance capital that have been central to this shift (Patnaik 2000). Locating the growth and 'proliferation' of the Indian bourgeoisie within this changing paradigm of finance capital, some Marxist scholars have highlighted the contradictions of the state-led path of capitalism and nation-building that took the form of dirigisme in its elaborate structures of regulation and command of the economy (Patnaik 1984; Patnaik and Chandrasekhar 1995). They have also highlighted the obvious failure of the subsequent neoliberal project of 'marketism' in solving the structural problems of employment generation and poverty alleviation, and uneven regional development in spite of 'growth' (Chandrasekhar and Ghosh 2002).

Before we put forward a detailed assessment of the economic theories and debates around these developments, it is necessary to recapitulate the wider methodological developments in academic literature relevant to our task within which the debates in political economy of the Indian context took place. Shifts in ideological premises in the making of the shift to 'neoliberalism' cannot be assessed without establishing the context of such changes within and across disciplines.

### **1.2 Culturalist Academia, Ascent of Neoliberalism and 'Monoeconomics'**

After the Communist debacle in Eastern Europe and the growth of self-confidence of countries allied to the US (Yates 2003), the political debate that emerged to dominate academia in and on India was in the first place not about economics. The intense debate that developed began with critical perspectives on Indian historiography and then expanded across other disciplines in the social sciences. Many academic practitioners of social science working on

India started moving towards post-structuralist perspectives. Some of them in due time embraced a post-colonial/post-modern perspective premised on a false notion of indigeneity like Nandy (1989a, 1989b) and based their contributions in the upcoming field of culture studies to reject the validity of any kind of universal ideology of emancipation (Qadeer and Hasan 1987).

These trends have been attributed by some critics to the tendency of certain scholars to appeal to a metropolitan and selective academic audience in India. Such scholars operate from multiple locations in academia in India and in metropolitan countries as part of the upwardly mobile middle class '*negotiating their positions in an international pecking order*' (Desai 2004: 55 emphasis added) defined by the hierarchy of international academia dominated by neoliberalism. After 1991, with the collapse of the Soviet Union, some of these academic writings started with pronouncements on the irrelevance of Marxist historiography (Chakravarty 1993) addressed the flawed premises of secular Indian historiography (Chatterjee 1993; Chakravarty 2000) that according to Bagchi (2002) predated their writings. Chakravarty (2000) addresses the transition to a 'capitalist modernity' that devotes a few pages to Marx in acknowledgement of the universalising 'logic of capital' but then resorts to the much-repeated criticism coming from the postcolonial school that there was a problematic but

...honored tradition, both in Europe and elsewhere, of regarding "rational outlook", the "spirit of science" and of "free enquiry" as constituting the "progressive" aspects of modernity. Secular and Marxist Indian intellectuals have long held this view... (Chakravarty 2000: 287).

By tracing all secular and Marxist writings to the intellectual project of the Enlightenment, this school of authors castigated materialist history writing in specific and materialist scholarship in general. This was based on a twin attack both on nationalist and Marxist historiography on India as these were all tainted by Europe, European Enlightenment and Western ways of seeing in terms of scientific enquiry and hence were guilty of aiming at objectivity and steeped in rationalism (Nandy 1994; Nandy et.al 1995). These arguments traced almost all significant scholarship that appeared before them to the abhorred Enlightenment. Within a decade, developments in Indian academia followed the trends in historiography in the academic institutions in metropolitan countries. The baby of materialist historiography had been thrown out with the bathwater of the contradictions between strands of 'modernity' and 'rationalism' associated with the Enlightenment. This was contingent on the separation of the project of 'modernity' from the project of 'capitalism' (Wood 1998).

Ironically, despite its attempt to establish the irrelevance of Western thought tainted by the Enlightenment, the postcolonial post-modern literature in India drew directly on the post-structuralist debates of the Left and later on the post-modern debates that emanated from metropolitan academia from the 1970s. These were defined by the ideological debates around Althusser's reading of Lenin and Marx (Althusser 1971; Althusser and Balibar 1997), Foucault's work on power and discourse (1972), Derrida's methods of deconstruction of phenomenology (1976), Lacan's perspective on the 'self' and the 'other' (1994), and Said's

'Orientalism' (1979). Kurtz (1996) and Gledhill (1996) in their separate assessment of various strands of literature that claim to derive from Gramsci point out a very selective appropriation of Gramsci's (1971, 1988) discussions on 'hegemony', 'consciousness' and 'ideology', often taking Gramsci out of his social and political context and concentrating on his formulations about the 'organic intellectual' and 'civil society'. In this sense, the particular strand of culturalist pre-occupations that informed the scholarship on India and in India were no less a 'derivative discourse' compared to the 'discourse of nationalism' argued by Chatterjee (1986) in the pre-independence period if not more. This is not a repudiation of Gramsci, but the literature on India that uses Gramsci as a point of departure. This is further elaborated in the discussion on passive revolution in Chapter Two.

The project of 'subaltern studies' from the early 1980s in the course of two decades developed into a conceptual framework that was based on the simplistic premise of defining the 'subaltern' as "the demographic difference between the total Indian population" and all those who could be described as the 'elite' (Singh 2002). Tracing the trajectory of the subaltern studies project, Sarkar (1997) terms this gradual dilution of the ideological and social basis of the subaltern project as the 'decline of the subaltern in subaltern studies'. The emergent binary between a nebulous 'elite' and the equally obfuscating 'subaltern' relegated the Marxist concept of 'class' as the basis for constructing hierarchy of social structures irrelevant even though the early subaltern studies group started from a class based critique of colonial structures that had a role in shaping the ambiguity of consciousness of rebel peasants for example in Guha's work on 'peasant insurgency' (Guha 1983). The 'subaltern studies' group took a peculiar trajectory starting with a selective application of Gramsci as an alternative to their criticisms of the inadequacy of Leninism practiced in the trajectory of the Indian Left led by the Communist Parties. A Gramscian perspective on 'subaltern consciousness' and the 'organic intellectual' were presented as a binary to the 'elite derivative consciousness' and 'hegemony'. History writing conceived as 'history from below' constituted a political project to underscore the 'war of position' of the subaltern to establish 'counter-hegemony'.

Since then, in just over a decade many of the 'subaltern' practitioners crossed over to a postcolonial/post-modern trajectory informed by culture studies very much in keeping with similar trends in metropolitan academia. The postcolonial propositions like Chatterjee (1986) dwelled on the intricacies of India's modernity where modernity is conceived as either Western or non-western by default rather than as a process of transition to capitalism. More importantly, the focus on modernity made the question of capitalism almost redundant in the entire work. It started with a critique of the 'discourse' of the earlier historiography in its ideological and political offensive that raised important issues about the nature of 'consciousness' among 'elite nationalists'. This was then dismissed because the epistemology of nationalist thought was traced to a framework of knowledge whose representational structure corresponded to the very structure of power it sought to repudiate - the colonial bearers of the ideology of the

Enlightenment (Chatterjee 1993). Thus rejection was based on the source of knowledge and operated within a simple discursive binary of the West and the Non-west without any assessment of material context in which specific strands of nationalist thought became dominant through the colonial period in India.

One outcome of this discursive, anti-materialist trajectory was that the theses on the 'subaltern peasant' slowly became dissociated from land-relations (Singh 2002). The thesis on the nature of political power in India became steeped in relativism and was argued to be fundamentally different from the 'West', with a different political system and a different model of power that yields multiple notions of 'hybridity' (Bhabha 1990) and the articulation of 'sameness' and 'difference' (Rajan 1993).

What is notable in the context of our enquiry is the non-engagement of either subaltern studies or the postmodern practitioners of 'specificity' and 'hybridity' with the developments of the specific twists and turns of capitalist expansion in 'post-colonial' India by the characterisation of the dominant sections of society as the 'elite', thus clubbing together the upper echelons of society without any cogent analysis of how different sections of this 'elite' figure in the materiality of a society based on systems of accumulation and provision (Fine and Leopold 1993). Most importantly, the analysis of the political economy of capital accumulation that underpins changes in power and social relations were completely abandoned. Huge amounts of writings on the 'nation' analysed narratives without any analysis of the modalities of the 'nation-state', a phenomenon specific to capitalism (Wood 2003). Harriss (1999) locates the rise of postmodernism in the great changes in capitalism in the course of the previous half century and notes that in pursuing a theme of social transformation, the adequacy of pursuing derivatives of Enlightenment thinking may have been inadequate. Specifically, for the purpose of this research, the twists and turns of political developments in the consolidation of political power by Indian capital in the higher echelons of the Congress and the institutional apparatus that defined the contours of economic policy like the National Planning Committee as shown by Chibber (2003) in the run up to Independence are crucial. This remained outside the purview of culturalist assessment of 'elite ascendancy' and narratives of 'nationhood' mainly pre-occupied with the making of petty-bourgeois consciousness in 19<sup>th</sup> and early 20<sup>th</sup> century.

Moreover, some strands of postmodernism ended up creating an unfathomable 'power language' and rhetorical structures of ambiguity that one critic termed 'vaguology' (Paranjape 1998). This power language was inaccessible to most except for the initiated few within the inner circles of this academic circuit. An example of such work is Bhabha (1990). These developments in academia legitimised a decade of political cynicism and attacks on secular and Marxist historiography. Taken in by the methodology of this strand of scholarship a large number of a new generation of academics embraced this praxis just when India's social fabric was being torn apart by the ravages of neoliberal transition reflected in persistent poverty, rising

inequality, decelerating growth in employment, a rise in neo-fascist violence culminating in the genocide in Gujarat in 2002 and in debt-driven suicides by thousands of farmers by 2004.

Post-modern scholars might have individually opposed the neo-fascism of the Sangh Parivar and the ravages of the neoliberal transition. But the methodological approaches informed by postmodernism with attacks on 'secular scholarship' opened up the ideological space for the justification of the 'Hindutva' brand of neo-fascism of the Sangh Parivar (Desai 2004). The rewriting of Indian history in understanding the impact of 'colonialism', the fuzzing of boundaries between myth and history and the denial of a materialist basis of politics and historical development in India contributed to this. The attack on materialist writings on economy and society then diverted into premising other social categories over class. Rudolph and Rudolph (1998) is an early example of such an attempt that posits the transition to neoliberalism in India in a postmodern framework using the Hindu goddess of wealth 'Lakshmi' as a metaphor for the aspirations of 'all' people and holding the 'modernism' and 'domination' of the state as the causal explanation for 'economic performance' since Independence. In its turn, the soft version of Hindutva was not slow to appropriate and accommodate the 'dalit' politics of 'social justice' into the fold of neoliberal 'reforms' based on a combination of post-modern theories of 'identity' and 'indigeneity' with a neoliberal economic paradigm. For an example of such work, see Debroy and Shyam Babu (2004).

These trajectories of academic preoccupation were not something specific to India. The denial of a materialist analysis and of social class as central objects of study in mainstream political science in US academia had been evident since the 1950s and 1960s in the shaping of disciplinary imperatives at the height of Cold War politics (Grenzier 1985). After the intellectual upheaval of 'dependency theory' and the 'structuralist school', mainstream political science in the USA consistently rejected the idea that social classes should be objects of study (Leys 1996). There was a huge intellectual investment during the Reagan period in a particular strand of culture and area studies that took the lead in formulating ideas of 'hybridity' and 'fragmented forms' and 'fluid identities' rather than 'structured social formations' like race and class as the counter to different branches of cultural relativism, essentialism and idealism that emanated as 'new' theory from the mainstream of US academia (Roediger 2006). These intellectual models ran a serious 'risk that one's subject would be deconstructed into fragments united only by the common experience of an incommunicable identity crisis' (Hobsbawm 1998: 261). This risk stems from the emphasis on 'cultural collisions, confrontations and dialogues of the deaf' (Hobsbawm 1998: 257) and statements 'devoid of meaning' (Hobsbawm 1998: 261) rising from the separation of the 'cultural' from the 'material' in the recasting of 'social history' and 'studies of society' in a form where the ambiguity of the 'narrator' and the 'non-specificity' of 'subject position' were premised over earlier analytical narratives based on the material construction of social relations that defined the structures of society.

The separation of the material from the cultural meant that an important section of the political and intellectual leadership of the dominant 'new left' consensus within the social sciences increasingly lacked the intellectual tools to counter the growth of political ideologies of neoliberalism as well as of the extreme right forces. This self-inflicted separation of economics from politics and culture relegated the critique of 'neoliberalism' to the sphere of the economic. However the project of neoliberalism has not just been about the creation and strengthening of markets. It is premised on changing production and consumption patterns. This is a process where secure property rights for a few come at the cost of greater material insecurity in ordinary life for many others. Thus the materiality of life in all its social forms are affected with a growth of insecurity and inequality affecting large sections of the population, the development of new patterns of aggressive consumerism, and new attempts at constructing 'national' identity that take the form of a virulent jingoism in the mainstream media.

A parallel offensive was launched by neoclassical 'experts' in Indian economics to pronounce that the 'public sector', that is the state-owned enterprises, and 'planning' as an allocative tool were the ultimate culprits to be blamed for all that was perceived to be 'wrong' with the economy (Datta 1992; Bhagwati 1993; Ahluwalia and Little 1998; Krueger and Chinoy 2002). The emergent neoliberal fundamentalism did have a political philosophy (Desai 2004) as it argued that the market was the 'supreme medium for the expression of individual choice' (Hodgson quoted in Harriss-White 1996b: 21). The market is the only institution that is 'fair and just', a tenet that had to be indoctrinated through repetition. The philosophy of methodological individualism is at the core of neoliberal analysis and ideology. The individual's aspirations for material benefits is beneficial because it blurs social privileges over time and also means that individuals matter, not social classes or other groups.

These two strands of scholarship emanating out of 'postcolonial/postmodern culture studies' and the root and branch 'neoclassical economics' on India emerged during the global context of the Reagan-Thatcher era and addressed different disciplinary imperatives. We will address the economic analysis in detail in the next section.

The trajectories of culturalist and neoclassical preoccupations since the 1980s had four things in common: first, the ideological obfuscation and denial of the relevance of 'class' as a social category in the context of the collapse of the Soviet Union and Communism in Eastern Europe and the 'market socialist' developments in China after 1978; second, the claim that they were trying to develop 'new' ways of theorising that were untainted by the 'flaws' and 'errors' of previous methodological and ideological approaches to disciplinarity and addressed complexities that the 'old' theories had failed to do; third, the invention of a 'new' rhetoric and jargon with claims of a new and more appropriate language and methodology suitable to specific 'fields'; and fourth and most important, the analytical concern in focussing on state-society relationships and the assertion of specific categories through which the problematic of such relationships should be addressed.

There were differences in the way the last two took specific disciplinary forms. The debates in literature, history, anthropology, culture studies, politics, sociology, gender studies, women's studies and area studies either premised other social categories like race, caste, gender, religion and ethnicity over class or argued for 'amorphous' forms of social agency and identity that relegated class to a factor of minor importance. Different strands focussed on separate aspects of social relations in the definition of 'identity' of 'self' and of the 'other' and the 'relative' relevance of social categories of differentiation.

This debate fed in minor ways into discussions on methodology in economics. A very similar critique on 'methodology' emerged from the margins of neoclassicism on the rhetoric of economics (McCloskey 1983) highlighting the problems of 'rationalism' and 'positivism'. However, the mainstream of the discipline paid scant attention to this complex debate concentrating on the separation of the 'economic' from the 'social' and 'political' and operated within the frameworks of 'homoeconomicus', where the social was just an aggregate of 'individual economic agents'. According to Lazear (2000), it was the language of economics that permitted economists to strip away complexity. According to Gans (2000), the peculiar incentive structures of the North American academic community contributed to this process. Complexity in what Leijonhufvud (1973) described as 'Life among the Econ' did not pay in a world of 'publish or perish'. Sen (1999: 4) contends that simplification is important for any empirical discipline, but what is objectionable in economic theorising is the 'particular simplification chosen', which has the effect of taking a very narrow view of human feelings, ideas and action, thus impoverishing the scope and reach of economic theory.

According to Hirschman (1981: 4), the rationale for this form of 'monoeconomics' derived from two propositions. First is the assertion that, economics consists of a number of simple yet 'powerful' theorems of universal validity. This leads to the claim that there is *only one* economics and defines what Hirschman (1981) calls 'monoeconomics'. Second, one of these theorems is that, in a market economy, benefits flow to all participants, be they individuals or countries, from all voluntary acts of economic intercourse ('or else they would not engage in those acts'). Since every body benefits from such economic intercourse, all societies are happy little islands of equilibrium. Hirschman argues that a cosy internal consistency bent on oversimplifying reality made this economics attractive for ideology formations. Neoliberalism definitely derives its economic logic from this 'monoeconomics'. The premises of ideology formation, however, may have a dialectical relationship with the development of disciplinary imperatives and wider political developments, a proposition that is addressed in the Indian context in this research.

### **1.3 The 'Faulty Shell': The Economics of Neoliberalism**

During the hey day of Keynesianism and 'structuralism' in the post Second World War period, the 'self-regulating market utopia' (Polanyi 1957) of Walrasian and neoclassical

economics had come under scrutiny within neoclassicism. This was the period when the Prebisch-Singer hypothesis held sway, when the role of the state to reduce unemployment in advanced countries using fiscal policy and to accelerate industrialisation in developing countries by protecting domestic markets was widely accepted in economic theory (Martin 1991). During this period, neoclassical models of the market began to ponder puzzles like 'why do firms exist?' in attempts to resolve the contradictions that non-market institutions were necessary in market economies (Coase 1937). These investigations led to the elaboration of a number of concepts that assisted in the development of a counterattack on intervention. The analysis of 'transaction costs' was developed to explain why institutions like the firm existed (Coase 1960). This allowed neo-classical economics to begin to develop tools that could be used to challenge the efficiency of non-market institutions. The development of the concept of X-efficiency (Leibenstein 1966) deepened the argument for competition by showing that 'technical efficiency' was different from 'allocative efficiency'. Even if all the conditions for allocative efficiency did not exist, competition could reduce intra-organisational slack, and encourage innovation over time (Vickers 1995). The analysis of rent-seeking and regulatory capture began to develop to explain why state intervention could be much worse than conventional neoclassical economics suspected (Stigler 1971). These concepts along with 'asymmetrical information' (Akerlof 1970) and its extensions into 'adverse selection' and 'moral hazard' (Arnott and Stiglitz 1988; Stiglitz 1990) formed the basis of the supposedly brave new world of exploration by various strands of neoclassical economics in the 1980s and 1990s into hitherto uncharted territory of non-market institutions.

However, all of these investigations were starkly different from the concerns of an earlier generation of economists like Joan Robinson whose critique of Walrasian economics was very different. Their concern had not been that Walrasian markets were imperfect but that in the Walrasian market,

...there is no account of capital and capitalists. There are no capitalists who have invested finance in productive capacity with a view to employing labour and making profits. There is only a list of quantities of various kinds of available inputs (Robinson 1980:56).

This critique of the technoeconomic paradigm of the market model has recurred again and again in the writings of a range of academics and intellectuals, but 'the triumph of capitalism' with the collapse of the 'Second World' made it easy for practitioners of neoclassicism to be on the offensive against other paradigms and never question their own (Yates 2003).

In these developments within the monoeconomics tradition, economic history became defined as the 'performance of economies through time' (North 1994). New institutional economics added a number of propositions to earlier versions of neoclassical theories of growth from the 1960s onwards. New growth theory developed the idea that technology was endogenous and that 'learning by doing' was important (Arrow 1962; Frankel 1962; Romer

1986, 1990) and that human capital investments were important for growth (Lucas 1988). Building on these insights, the new institutional economics argued that institutions and time matter in economics and that institutions form the 'incentive structure' of a society that determines amongst other things, its growth performance over time. In consequence, political and economic institutions are the underlying determinants of economic performance (North 1994).

In the dominant days of Anglo-American Keynesianism, these debates were often on the political fringe of academic journals. It was only with a radical shift in academic praxis after 1973 following the rise of 'monetarism' as the ambit of state policy and the resurrection of the Hayekian concept of a 'minimalist state' under the Reagan-Thatcher regimes that the 'new' economics started finding legitimacy (Datta 1992). The Hayekian theory from the Austrian school set the 'entrepreneur' at the centre of the question of economic agency deriving its competition driven 'equilibrium' from knowledge and not capital accumulation (Kirzner 1997). The dissociation of these debates from the process of class formation and capital accumulation paved the way for isolating political economy based on a materialist conception of history from economics (Sawyer 1989). Instead, what Hirschman (1981) described as 'monoeconomics' began to evade the analysis of politics in the form of 'new political economy' that combined the assumptions of 'homoeconomicus' and 'methodological individualism' with cultural relativism, essentialism, idealism and reductionism.

Despite the growing diversity of economic approaches within the dominant school, four assertions were shared by all of them. First, that society is an aggregation of individuals; two, individuals engage in maximising rational behaviour (even if constrained by bounded rationality); three, this behaviour results in the creation and maintenance of equilibrium (though equilibrium can often only be analysed at the microeconomic level); four, these behavioural premises imply that markets achieve (constrained) efficiency for all individuals and by aggregation for society. These four propositions reiterated in thousands of economics textbooks published in the last quarter century defined the core principles of 'economics' (Keen 2001). This not-so-subtle omission of other approaches became defined as '*the* method of economics' in less than two decades.

Deep questions are unavoidable about approaches that see 'growth' as inter-temporal utility maximisation by individual economic agents designated in their roles as savers, investors and consumers rather than a complex outcome of the interaction of movement in 'capital accumulation, labour force and technological progress' (McFarlane 1989). The striking convergence in the different branches of neoclassical economic theory and its particular applications in trade theory based on the 'standard version' of the Heckscher-Ohlin models and the Stolper-Samuelson theorem and the newer versions that factored in 'increasing returns' through trade in replicating the 'new growth models' informed the literature spawned by the World Bank arguing that 'trade liberalisation' was the best bet for growth for 'developing

countries'. This argument informed the influential work of Dollar and Kray (2000). Ocampo and Taylor (2000) and Deraniyagala (2005) have demonstrated that this was based on 'common sense' and 'faith' irrespective of historical evidence.

Based on this faith-based economics, country after country in the Third World was subject to policy packages and conditionalities in the form of stabilisation and structural adjustment programmes as the short-run and long-run paths to 'equilibrium' and 'stability' abandoning Keynes' dictum that 'in the long run we are all dead'. In the binary construction of 'good' and 'bad' institutions, the state was established as the 'bad' and the market as the 'good'. It became wholly inadmissible in the mainstream of the discipline to discuss the complex relations between growth and the dynamics and evolution of the social order (Baran 1970).

However, the debate on the role of the state was partially re-instated once the modalities of the East Asian 'miracle' could no longer be denied and a literature emerged demonstrating the critical role of state intervention in the 'miracle' of growth in East Asia (Amsden 1989, 2001; Wade 1990, 1994; Chang 1994, 2002) at least till the financial crisis of 1996. This literature from a statist perspective re-instated the state as an important actor in the economy and the 'state versus market' debate got a new lease of life just when the 'Washington Consensus' on neoliberalism seemed to have prevailed.

Economics as a discipline began to recognise that 'history matters' but subtly replaced complexities of history to 'path-dependency' with 'multiple equilibria' (David 2000) and reduced the specificity of different modalities of exploitation of labour in a capitalist system to 'human capital' drawing on Becker (1964). This reduction of history into what Hobsbawm called 'retrospective econometrics' once again 'deliberately narrowed the 'new' economic history's field of vision to fit the highly restrictive nature of the 'cliometric' models (Hobsbawm 1998). Harriss (2001) and Fine (2001) have demonstrated the depoliticisation of the debate on politics of development and social theory respectively with Putnam's depoliticised versions of 'social capital'.

A further set of arguments focussed on 'corruption' and 'democracy' to establish the importance of markets and the dangers of state power. A series of papers established the negative association between 'corruption' and investment as well as growth (Mauro 1995) refuting Huntington's 1968 argument that corruption could be expected in countries experiencing rapid economic growth. Bardhan (1997) formulated a new political economy justification for 'getting rid of dysfunctional regulation' by the state based on an evaluation of 'public institutions' as the source of corruption. This was in keeping with his earlier work that traced the 'bureaucracy' as a separate 'ruling class' and the source of the 'political evils' related to the 'control' regime in India (Bardhan 1990). Similar accounts came from Shleifer and Vishny (1993) in their analysis of corruption that attributed economic problems to the political evils of public enterprise.

Khan (1996) demonstrates that these new political economy evaluations were often based on a 'typology of corruption' that comprised a series of homogenising assumptions about the source and nature of corruption that one can argue are once again in keeping with the fundamental precepts of 'monoeconomics'. Harriss-White (1996a) in her discussion of the theoretical treatment of corruption points out that in the 'new political economy' literature, 'bureaucrats' who control public sector goods take centre stage. Corrupt behaviour involves the creation of new private property rights over such goods. The solution in neoliberal treatments emerges as deregulation and privatisation that is claimed to have the power to destroy the preconditions for corruption.

In spite of a range of literature that pointed out the theoretical fallacy of such propositions (Khan 2000; Harris-White 1996a), and provided evidence of the 'process of accumulation through market exchange' and 'political power' being closely associated with the specific nature of corruption, the new political economy propositions slowly found their way in to the post-Washington consensus on 'good governance'. A series of assertions were dressed up in economic jargon and sophisticated modelling, adding a false veneer of 'high technicality' and expertise to a flawed intellectual paradigm with 'lack of historical warrant' (Byres 1998).

The World Bank now had a new set of tool kits that widened the scope of its programmes and directives based on the 'good governance' agenda. In the World Development Report of 1997 published by the World Bank, the debate on the role of the state found a key focus and the focus was now on building 'effective states' built on the logic of the market. The clarion call after the East Asian crisis was towards 'matching the state's role to its capability' (World Bank 1997: 3) and to '*raise state capability by reinvigorating public institutions*' (World Bank 1997: original emphasis). The analysis of this 'capability enhancing strategy' was elaborated:

...This means designing effective rules and restraints, to check arbitrary state actions and combat entrenched corruption. It means subjecting state institutions to greater competition, to increase their efficiency. It means increasing the performance of state institutions, improving pay and incentives. And it means making the state more responsive to people's needs, bringing government closer to the people through broader participation and decentralization... (World Bank 1997: 3)

The report advocated focussing on fundamental tasks through 'partnerships with the business community' and 'civil society'. The first job for all states was to get the 'fundamentals' right. The fundamentals were laid out clearly: establishing a foundation of law, maintaining a 'nondistortionary' policy environment including macroeconomic stability, investing in basic social services and infrastructure, protecting the vulnerable and protecting the environment. The way to do this was formulated in terms of a toolkit: harnessing the power of public opinion, making regulations more flexible, applying self-regulatory mechanisms and choosing effective market-based instruments. Thus 'monoeconomics' prevailed in the

assumptions that the 'free market' is the virtuous path towards the eradication of corruption, rent seeking and other political evils that are the prerogative of 'state' functionaries.

The 'good governance' agenda of the post-Washington Consensus was the new marching song for international financial institutions along with a greater 'surveillance' role assigned to the International Monetary Fund (Griffith-Jones 1998) after the East Asian crisis. New political economy approaches informed by the wisdom of the 'good governance' agenda spelt out ways in which the market mechanism could introduce transparency, reduce corruption and bring about a fairy-tale ending to all the 'problems' of 'developing countries' (World Bank 1989, 1996). However, China and India seem to have grown defying the good governance agenda. In India, the expansion of capital underlying India's growth was not only dependent on the state, but capital accumulation also combined state support and mechanisms of the market in profiteering, racketeering and the flouting of every possible legal norm. Establishing the legal/formal and illegal/informal mechanisms through which capital accumulation was organised in India during its transition to more open markets is one of the central objectives of this thesis.

#### **1.4 The Context of Neoclassical Rationale in India**

In the late 1990s when the 'good governance agenda' was being fostered by the Bretton-Woods institutions, every other columnist worth a by-line with a few political exceptions were emerging as 'expert commentators' on contemporary political economy in India based on rudimentary and cavalier neoclassical commentary that dressed itself up as 'sound economics'. This is important as these commentators greatly advanced the cause of neoliberalism through the English language media and played an important political role in justifying neoliberal policies of the state. One example is Gurcharan Das, a columnist in the mainstream media. This example is particularly relevant as his convergence with Nandy's culturalist views on Indian society is acknowledged and cited in his column in Outlook April 12, 2004. In his article in Foreign Affairs (2006), on the current growth of the Indian economy, he argues that

...what is most remarkable is that rather than rising with the help of the state, India is in many ways rising despite the state. The entrepreneur is clearly at the center of India's success story. (Das 2006)

This is an example of a 'new political economy' rendering of the post-independence 'role of the state' in India, encapsulated earlier in some analyses of planning (Srinivasan and Narayana 1994). The public sector is presented here as an ahistorical monolithic monstrosity that impeded and strangled Indian '*entrepreneurship*' and '*development*'. These accounts are based on denials of connections and relationships with the state in the spawning of 'successful entrepreneurs' in the so-called market-led process of development. There is an obvious

reluctance to use the c-word *capital*, its social agency namely *capitalists*, and its system of social relations, namely *capitalism*, in these popular conventional accounts. In much of the propaganda upholding neoliberal prescriptions for the Indian economy, there are no capitalists or even aspiring proto-capitalists, only 'entrepreneurs' and 'markets' in India. Thus the problematic for neoliberal columnists like Das (2006) cited above is then the technical task of finding ways to create more efficient markets based on the 'animal spirits of entrepreneurs'.

Yet this neoclassical perspective on India's state has been questioned by renowned economists like Sukhamoy Chakravarty (1987, 1994), and Vaidyanathan (1994). Nevertheless, many more experts saw the solution of India's 'problems' in the 'full blooded operation of markets' (Byres 1998:37) and privatisation of the 'public sector'. This increasingly found a guarded resonance in the high-ranking functionaries within the establishments of the state, reflected in publications since the late 1980s by the state (Economic Survey 1986, 1991). The neoliberal interpretation of India's woes was also adopted by spokespersons of organised Indian capital. The Federation of Indian Chambers of Commerce and Industry (FICCI) gave a cautious welcome to the move towards privatisation and internal deregulation in its annual session in September 1991 (FICCI 1991), but openly advocated aligning with a regional trade bloc in anticipation of the developments around the Uruguay round and the disadvantages envisaged with the formation of the World Trade Organisation (FICCI 1990; FICCI 1991).

The most interesting convergence of views between business (FICCI 1959, 1972, 1991, 2000) and neoliberal economists (Deb Roy and Bhandari 2005) emerges in the context of labour laws where the literature considers India's labour laws in guaranteeing 'employment security' as the single-most important impediment to 'investment'. This argument comes in a context where only 7 to 8 percent of the work force comes under the ambit of such laws (Unni 1999) and factory closures and shifts of capital in the wake of 'economic reform' has informalised a vast segment of even this small percentage of organised labour in the formal sector (Unni 1999; Breman 2001). In addition, 'business houses' in the 'formal' sector have evolved a multitude of ways of evading such laws (Unni 1999).

The neoliberal interpretation of Indian history is that the pattern of growth and structural change in India from the Nehru-Mahalanobis period was characterised by 'inefficiencies' and 'sub-optimal outcomes' because of government created 'distortions' in the market through the policies of import substitution and regulatory licensing and control. These views are often at odds with their own neoclassical premises, which recognise market failures, but the sheer political force of such marketism has spawned a series of publications articulating Fund-Bank views of Indian economic history (Joshi and Little 1994; Lucas and Papanek 1998; Ahluwalia and Little 1998). Neoliberal interpretations that have emerged dominant on the nature and pattern of growth in the Indian economy are best articulated in the writings of Jagdish Bhagwati (1993, 1998; Bhagwati and Desai 1970) and Anne Kreuger (1974; 2002) who

advance a neoclassical perspective on the Indian state's role before the adoption of the neoliberal consensus.

Although India's monetary and fiscal policies were relatively conservative contrasted with those in a number of developing countries, upward shift in demand for imports arose from the plan pattern of expenditures and a rate of inflation higher than the rest of the world...overvaluation and ISI protection both from tariffs and from the unavailability of import license discouraged export production and exporting. "Export pessimism"... became a self-fulfilling prophecy (Kreuger and Chinoy 2002: 13).

According to Bhagwati (1993), the trend rate of aggregate growth right from independence is explained not by a Harrod-Domar style poor savings performance but by poor productivity performance. Based on calculations of aggregate growth rates, he argues that this poor productivity performance is linked to the

...(Harrod Domar) model of economic analysis that was used to think about development and was essentially focussed on two parameters: the rate of investment and the productivity of capital. But for policy purposes, the latter was largely treated as 'given' and the policy question therefore centred on raising the rate of investment... (Bhagwati 1993:10).

Bhagwati further argues that this mainstream approach coincided with the Marxist focus on 'primitive accumulation' as the mainspring of industrialisation and also with the quasi-Marxist models of the investment-allocation literature, a reference to the debate that grew around Maurice Dobb's contributions and the mode of production debate in India (Thorner 1982; Patnaik 1990). According to Bhagwati, the productivity question in the literature is associated with the failure of import substituting industrialisation combined with a mixed economy planning strategy that created a stifling system of bureaucratic controls, inward looking trade and investment policies and a large, unjustified and inefficient public sector. For Bhagwati, the framework of economic policy was defined by

...the iron fist of controls over the private sector, the spreading stain of inefficient public enterprises and an inward looking trade and investment policy (Bhagwati 1993: 17).

Thus, according to this argument, the mixed economy basis of planning strategy was itself responsible for low productivity. This is an extension of the simple neoclassical dichotomy between politics and economics and argues that the pushes and pulls of the political demands on the state due to India's democratic framework weakened it significantly and deserving winners turned out to be losers because 'fools were being protected from their own follies' (Bhagwati 1993: 17) by the policy framework of the state. The neoliberal literature of pessimism around ISI, encapsulated in the work of Krueger (1974) and Bhagwati (1993) has often tried to establish that growth rates in India were dismal and this performance was due to inefficient use of resources accounted for by X-inefficiency. The source of this X-efficiency is attributed to state policy of inward orientation that led to poor productivity (Bhagwati 1993).

However, Khan (2000 and 2002) has demonstrated that an outward oriented policy based on export-led industrialisation yielded exactly the same situation in terms of poor productivity trends in Pakistan. Thus poor productivity growth was not a necessary result of the so-called inward policies as argued by Bhagwati. Neither import-oriented policies, nor export-led strategies necessarily produce growth. A more plausible explanation emerges in the analysis of the Indian state's inability to discipline the capitalist class in ways that could address the productivity question because of the political powers of the class to resist or subvert any such measures (Chenoy 1985; Khan 2001; Chandrasekhar and Ghosh 2002). Bhagwati in his writings has always concentrated on 'state failure'. Three contributions (Bhagwati 1982, 2000; Bhagwati et.al 1984) are aimed at addressing the other spectre that haunts neoclassical dreams of fostering pristine market in 'emerging economies'. This spectre of 'crony capitalism' is seen as the source of 'directly unproductive profit seeking activities'. Bhagwati (2000) has argued vociferously for a capitalism that is not rent seeking, but is instead profit enhancing. In reality, profits and many types of rents are closely intertwined and are impossible to differentiate. Rent seeking and profit seeking have been intractably intertwined over the entire history of capitalist development and one of the functions of so-called developmental states has been to create and manage rents to accelerate capitalist development (Khan 2002).

The ahistorical neoliberal arguments have also been effectively contested by a range of critics who have pointed out the inherent irrelevance of the 'allocative efficiency' hypothesis to provide an informed account of growth performance or lack of it. More specifically, these arguments are shown to be inappropriate for accounting for India's growth performance in the two decades from 1970 to 1990, before the full thrust of liberalisation was implemented. Yet these two decades created the foundation for the full-scale implementation of IMF/World Bank style stabilisation and structural adjustment programmes in 1991, and in any case economic growth in India accelerated a decade before that in the 1980s (Chakravarty 1987, Patnaik 1994, Nayyar 1996, Rodrik and Subramanian 2004).

Theoretical weaknesses in critical parts of the neoliberal case are also well known. For instance, the X-efficiency hypothesis borrowed by Bhagwati from Leibenstein (1966) establishes a case not only for competition but also for effective monitoring and control of managers by shareholders and regulators (Bowles and Gintis 1993). The state that is required to enable and manage such a 'monitoring' and 'control' regime, is closer to a Weberian notion of power and state structure identified in the developmental state literature rather than Bhagwati's vision of a neoliberal 'minimalist state'. Yet the utopian discussion of a minimalist state by a growing number of neoclassical economists completed the convergence between the neoclassical and the Austrian school on the structural requisites for a competitive capitalism (Sawyer 1989). Bhagwati's prescriptions of deregulation to 'free the economy' are an example of these developments within neoclassical economics, based more on articles of faith rather than

any compelling evidence on the social dynamics of growth, investment and accumulation in India.

Bhagwati had himself argued in 1969 that democracy was a disadvantage for accumulation as totalitarian countries could extract savings that democracies could not (Bhagwati 1969). Kohli (1986) called this the 'cruel choice thesis'. By Bhagwati's own admission democracy did not look so bad in India by the 1970s. But by the mid 1970s, when India's democratic framework had reached its weakest point through the centralisation of state power and the period of the emergency, the main preoccupation of both state policy and the policy concerns of the organised platforms of the capitalist class was not concern about the savings rate or even to increase productivity, but reforms in the market for capital and curtailment of 'labour militancy' (FICCI 1972; Lok Sabha 1972; Lok Sabha 1975). This period was characterised by regional disparities in investment and the social dimensions of the accumulation process became associated with distinct regional characteristics. The period between 1965-66 when the contradictions of the 'state-led capitalist path' came to a head and the decisive turn towards a 'neoliberal' strategy from the 1980s was characterised by the social dimensions of an accumulation process that involved both continuities and changes in the 'sites' of primary accumulation of capital. An important task of this thesis is to map these continuities and changes in the relationship between state and capital. This, we argue, provides a more convincing explanation of what really changed in the 1980s and beyond rather than ideologically loaded explanations which focus on liberalisation and state withdrawal that in general terms simply did not happen.

Despite its empirical and historical weakness, the dominance of neoclassical explanations of India's liberalisation is part of a broader movement where neoclassical arguments have won out because they serve the interests of powerful groups. The neoclassical paradigm, in spite of its positivist claims, is based on a very limited range of 'normative' arguments. The dichotomy between politics and economics is one of these fundamental normative precepts. Institutions can either be 'political' or 'economic' with 'political institutions' characterised as 'inefficient and corrupt'. Tabb (1997) argues that the self-confidence with which market ideologists attack any sense of public space, and of solidaristic provision of services, represents a measure of the defeat of broad social groups who would benefit from such provision. Thus the argument of the good governance agenda that fiscal devolution is a way of 'democratisation' is fundamentally ideological. These processes are the result of victories of capital over labour, and the resulting damage to the rights of citizenship involves clear winners and losers (Tabb 1997).

However from a neoliberal point of view as evident in Srinivasan (1985), the dichotomy of politics and economics is extended to the dichotomy between state and market. So markets, being 'economic' institutions are efficient and transparent, the state being a 'political' institution is inefficient and corrupt. Planning, inward orientation, profligacy of state expenditure and

inflation inducing policies were the 'political evils' in India that needed to be corrected by 'economic reforms' based on fiscal cuts, reduction of public investment and extensive deregulation. (Krueger 1974; Bhagwati 1982). Given the essentially ideological nature of the neoclassical arguments, its limited tool-kit was an advantage since constant repetition could replace 'realism' with 'rhetoric' (Toporowski 2007).

These blinkers in the neoclassical methodology explain why this 'economics' failed to address a wide range of diverse methods of accumulation and investment processes in the private sector that were dependent on the policy structures of the public sphere with significant outcomes for productivity and growth in India. Neither can it properly analyse the relationship between state and capital that was not necessarily adverse or in conflict during the run-up to independence and the following two and a half decades. Indeed, this relationship continues to this day. One of our central arguments is that liberalisation has to be seen as a change in some aspects of the state-capital relationship, not as a victory of the market over the state.

Accounts very similar to the neoclassical ones also emanated from an influential section of economists mainly based in or trained in the USA or in premier institutions in India (Shastri 1997) practicing 'new political economy' (Srinivasan 1985; Ahluwalia 2002) or its slightly modified counterpart 'new institutional economics'. These views were also popularised by neoliberal corporate 'gurus' turned media pundits (such as Das 2000), and functionaries of the Indian state who were also office-holders in international financial institutions like the Bretton Woods institutions. The social and political ties and influence of these economists in policy-making circles became suddenly visible from the 1980s.

Once again, this was not a phenomenon specific to India. The rise of economists as 'professional policy-makers' in the highest echelons of power has been noted in the economic literature as part of the process of an 'emerging transnational political culture in which economists occupy a sacerdotal role' (Markoff and Montecinos 1993: 37). While assessing the modalities of the Narasimha Rao government's hard-selling of the IMF/World Bank-prescribed stabilisation and structural adjustment programme adopted in July 1991, the editors of *Economic and Political Weekly* commented in December 1991:

It would appear that even as there have been changes of government in New Delhi, a group of policy-makers has grown progressively more powerful, so much so that today it feels justified in taking support for its chosen economic policies for granted (Editorial, *Economic and Political Weekly*, December 21 1991: 2907).

The political enthusiasm around the structural adjustment programme in 1991 was based on the contention that 'market-friendly' reforms and "liberalisation" would be the panacea for all ills in India provided the vast mass of people were prepared to 'tighten their belts' for a short time. This was exactly what Prime Minister P.V. Narasimha Rao was to call for from the ramparts of the Red Fort on Independence Day to introduce India to reform in 1991. This assumed that sufficient 'openness', cuts in fiscal expenditures and deregulation would lead to higher productivity growth. The labour market could be left to just grow on its own and the poor

could be 'pulled up' through outward oriented policies rather than the 'trickle down' process advocated earlier under the Nehru-Mahalanobis strategy (Bhagwati 1993). This echoed the arguments of Dollar and Kray (2000) that neoliberal growth processes were good for the poor, based on doubtful evidence that actually shows at best that neoliberal growth processes do not have *more* adverse effects on the poor compared to the other deciles or quintiles of income classes in any society (Weisbrot et al 2001).

Any adverse effect on the poor were purely short term, and as there was no alternative path of growth, there was no alternative but to follow the route. The 'there is no alternative' argument rapidly found its proponents amongst rapacious free-marketeters, prematurely aged philosophers of the 'Third Way', delusional economists, opportunistic politicians, corrupt bureaucrats, bankrupt journalists and other desperados. They claim that human beings are genetically programmed to be greedy, that capitalism is the law of nature, that transnational capital is usually right, and that non-intrusive regulation is possible when it goes wrong. They argue that capitalist societies, even though historically recent, will last forever, and that the triumph of the market should be embraced because it is both unavoidable and advantageous to all. They reassure us that massive improvements in living standards are just around the corner, and that only a little bit more *belt-tightening* will suffice (Saad-Filho 2003: 3, emphasis added).

A decade later, another Prime Minister who was often described as a visionary and a scholar ascribed the high levels of underemployment in India to a combination of technological change and population explosion. Atal Bihari Vajpayee's address to the Nation, 26<sup>th</sup> January 2002 was a classic combination of Malthusian and neo-liberal logic. At best, it was a very weak explanation of recent trends in employment and unemployment. Nevertheless, the poor performance of employment meant that attention was being directed by the policy-makers to the issue of employment.

A document published by the Federation of Indian Chambers Of Commerce and Industry (FICCI) in 2002 noted that the unemployment situation in India is a cause for concern because the decline in the rate of growth of employment in the 1990s was accompanied by a higher growth rate in GDP – a sign of falling labour intensity in production (FICCI 2002). It noted that employment elasticity of output had fallen from 0.52 in the period between 1983 and 1993-94 to 0.16 in the period between 1993-94 and 1999-00. In the words of the author of the document, despite the growth in GDP and a move towards truly

India Inc global...we have a *dangerous* element in the belly of this optimistic scenario – the hydra heads of unemployment (FICCI 2002: 5 emphasis added).

The failure to generate adequate employment and improving aggregate productivity of labour in the Indian economy rather than just in a few chosen sectors like heavy manufacturing in the pre-reform era and software, food-processing etc in the post-reform period has been the most obvious symptom of the lacuna in Indian economic development (Chandrasekhar and Ghosh 2002). Economic policy discussion in India had relegated employment generation to a subsidiary position since 1991. The emphasis was on 'efficiency' as the primary aim of government economic policy in 1991. By 2004, the debate had transformed to contend that in

India 'liberalisation' needs a 'human face' and should be accompanied by greater concern for the plight of the 'masses' (Economic Survey 2004-05).

This shift came with the reversals in political fortunes for both the Congress and the BJP in the period of the neoliberal transition and the imperatives to maintain coalition governments where 'election works merely as the 'first round' of the contest, while the final outcome is determined by the full play of market forces in the second and subsequent rounds' (Dasgupta 2002: 19) and where the buying and selling of factions is limited only by the arithmetic of the anti-defection law in the absence of an absolute electoral majority (Dasgupta 2002).

### **1.5 Mainstream Approaches to the Analysis of the 'State in India '**

At the theoretical level of academic discourse on the role of the state, a distinction can be made between the hard-line neo-liberal market-fanaticism and a soft-line version, presented by the proponents of 'liberalisation with a human face'. In the hard-line view, the ideal form of state in all societies derives from a Hayekian vision of a society based on 'spontaneous order' of the market based on individualism. The ideal form of the state is therefore a minimalist state (Hayek 1980). All forms of state that deviate from this ideal create and protect vested interests, spread inefficiency and distortion, prevent markets from working properly, generate rent-seeking rather than productive activity, deny the transforming role of outward looking export growth, and so on (Byres 1997).

So the Indian state was no exception as a 'bad', as it misallocated resources and sought rent through complex government controls. This led to low growth, technological backwardness and the persistence of poverty (Bhagwati 1998). The hardliners argued that freeing the economy from state controls and regulations would lead to a massive unleashing of entrepreneurial animal spirits, which would in turn generate high investment rates (Joshi and Little 1994) and sufficient 'openness' would lead to poverty alleviation (Tendulkar 1998) as long as a Hayekian spontaneous order of the market was supplemented by a minimalist state.

The soft-liners argued for more markets in some areas and more beyond the market measures in other areas. They pointed out the adverse social dimensions of neoliberal policies on different sections of people and argued for limits to be imposed on the process and for a greater role of the state as an investor in education, health, women, etc, thus fulfilling its role as the creator of 'social and human capital' (Singh 1993). Some of the soft-liners argue for selective intervention assuming that the state is autonomous, benevolent and progressive and state activity can address market failures. This has been observed by Sawyer (1989). Byres (1998) demonstrates that there is also an idea that redistribution rather than accumulation is the basis of capitalist growth processes. In this tradition, recently, certain economists have started propagating an idea of 'community-based-neo- industrialisation' in a study of industrial clusters where community is defined as a 'group of people who are connected to one another through multiple and durable relationships that would each be costly to dispense with' (Banerjee 2005).

The inequities of underlying property rights remain unaddressed in such abstract definitions of 'community'. There is also a subtle convergence of idealistic notions about the 'community' in economics and culture studies. The soft views also suffer from similar 'ideal' notions of the state in their assumptions of autonomy and benevolence. They assume that the state is neutral and state functionaries are prepared to act upon their own judgements for the public good (see Byres 1997 for a full critique).

Parallel to the abstract state, we have notions of an amorphous 'elite' that can play a damaging role in market economies. The abstract elites were constructed in subaltern and postcolonial studies and have now been picked up by 'new institutional economists' in the literature on neoliberalism. Rajan and Zingales (2003) address the importance of institutions to development and assess obstacles to economic participation and poverty reduction. A major argument in their research is that established 'elites' work to stifle competition by preventing new entry by lobbying politicians to formulate rules serving their limited, private interest. They describe how 'elites' have come to dominate some economies and governments and Rajan and Zingales (2003) provide examples from several regions and sectors in India. They also elaborate how historical power structures developed in various regions of the country and how hierarchical structures, controlled by 'elites', tended to have a negative effect on institutions and, over the long term, exacerbated 'poor economic conditions'. They note that the resentment against capitalism stems from the form of "monopoly capitalism" in which only a few people have access to the benefits of capitalism. This seemingly radical argument is then followed up with a call to 'save capitalism' and ensure that its benefit reaches the 'people' by means of enforcing a decentralised market. Capitalism is thus defined as a system of free-markets. This defines tasks for the state that converge with the 'good governance' agenda of the Bretton-Woods institutions.

Most of the neo-liberal literature cited above is completely ahistorical – both in terms of analysis and chronology. The neoclassical approach in Forbes' (2002) analysis of 'doing business in India' is largely a dates and events approach to history. This is in keeping with the dominant reading of 'history' in economics as a series of 'path dependencies' (David 2000), which embodies a static correlation of social relations with time.

The use of undifferentiated social categories often leads to very misleading conclusions. One conclusion is that as the role of the state is in the realm of the political and so it automatically needs to be dissociated from the economic, if efficiency is to be ensured. So the neo-liberal academics who also hold important position as policy makers and advisors both in the offices of the Indian state and the international financial institutions are burdened with the twin task of creating the elusive efficient market that according to them India does not have and also dissociating the state from the process of creating markets. The assumption is either that the state is free and completely autonomous or that the state is neutral just as the market is and

defends the interests of all. This is the proposition that Lenin described as a 'bourgeois lie' (Lenin 1972).

Interestingly, a final strand of literature stresses that the minimal state has been structurally created by globalisation and for neoliberals, the implication is that we do not need to worry too much about how to achieve it. One of the most important results of 'globalisation' has been the expansion of the operations of multi-national corporations in terms of global reach and power. This diffused power of capital is making the nation state increasingly irrelevant. Some analysts have gone so far as to argue that the power of trans and multi-nationals has proved that the nation-state is already irrelevant (Hardt and Negri 2000). This literature in its theorisation of the state takes the neoliberal thesis further. Neoliberal theorists are still arguing for the ideal minimal state, but for this new strand of literature, nation states exist only in name or are the figments of an imagination trapped in a bygone era.

The limits of such readings of the state are further explored in the first section of Chapter Two based on a critique of both 'globalisation' and the role of the state.

### **1.6 The Premises of Resistance to Neoliberalism**

A wide-ranging political resistance to neo-liberalism has also gathered strength in the last two decades. The mobilisations against neoliberalism have spanned social categories and nation-states. In India, there have been different forms of political mobilisations to fight and resist privatisation, retrenchment, casualisation, displacement, the destruction of livelihoods and the environment in the specific contexts of neoliberal attacks on life and livelihood. The organised Left in India in the past decade saw a broad recognition evolve on the nature, modus and danger posed by communalism in its most vicious form of Hindutva or cultural nationalism. The same period was marked by resistance of the Left to the heightened impact on Indian society of the state's surrender to neoliberalism. However, the links between the two have not really been a part of public debate and have often been blurred by 'culturalist' readings of both phenomena by a section of the academia with a few notable exceptions from a heterodox and predominantly Marxist perspective like Mohanty (2002), Desai (2004) and Bagchi (2002). Like fascism in the 1930s, Hindutva is part of a wider international resurgence of right wing forces since the 1980s. Though varied in form and intensity, in their development in the last two decades, they manifest broad similarities in social basis, political imperative, strategy and tactics. In the last two decades again, the coming together of the Christian fundamentalist right with the Zionist lobby in the USA is a potent example. The same period saw the strengthening of Likud in Israel, of Hyder in Austria, the revival of neo-Nazism in Germany and Britain, the rise of Berlusconi in Italy, the Danish People's Party in Denmark, Le Pen's National Front in France and the rise of the xenophobic right in Australia.

What these forces have in common is a commitment to the 'market', just as much as the fascism of the 1930s, professed a commitment to the 'state' as the central institution for the reorganisation of society and the accumulation process. Mussolini (1935) stressed the importance of the state and accepted the role of the individual only in so far as his or her interests coincided with those of the state. He argued that the state stands for the conscience and the universal will of man as a historic entity. As opposed to classical liberalism, which denied the State in the name of the individual, fascism reasserted the state as the supreme organisation (Mussolini 1935). It is argued to stand for a principle which becomes the central motive of man as a member of civilized society, sinking deep down into his personality; it is supposed to dwell in the heart of the man of action and of the thinker, of the artist and of the man of science (Ibid). Baker (2006) points out that fascist policies of the 1930s manifested a radical extension of government control over the economy without wholesale expropriation of the means of production. Fascist governments nationalised some key industries, managed their currencies and made large scale state investments. They also introduced price controls, wage controls and instituted state-regulated allocation of resources, especially in the financial and raw materials sector.

In contrast, the entire gamut of economic policies in Italy espoused by the Berlusconi government were aimed to speed up privatisation, facilitate tax cuts for corporate houses, dismantle the state pension system and ensuring labour market flexibility. This was coupled with a commitment to European protectionism against competition from developing countries, passing harsh anti-immigration legislation and joining the US-led 'coalition of the willing' to send troops to Iraq (Blondel and Segatti 2003). It was another matter that none of these policies could be pushed through to their fruition because of political resistance that finally led to the fall of the government. Kitschelt and Mcgaan's (1996) in-depth analysis, based on the trajectories of the neo-fascist parties in Austria, Denmark, France, Germany, Italy, Norway and Britain reveals that these forces couple a fierce commitment to free markets with authoritarian racist messages.

In India, the BJP's Vision Document released on March 31, 2004 advocated: 'in the economic sphere, the government should progressively withdraw from involvement in non-priority sectors. It should create more avenues for entrepreneurship...it should reduce its role in manufacturing and services business, where the private sector can serve people better...' (BJP 2004).

Thus neofascist forces in India are deeply committed to neoliberalism. In this aspect, there is a total convergence in the ideological doctrine of the Congress that had introduced the shift to a neoliberal agenda and the BJP which then carried it forward with zeal. This

commitment persisted even as it was becoming clear that neoliberal policies had failed to deliver.

In 1991, when the IMF-World Bank prescribed economic reforms were announced in India under the Congress government, there had been a euphoric response from a large section of the upwardly mobile classes in India, backed by broad sections in academia and the mainstream media. The neoliberal justification for these changes in the literature and at the level of actual political argument have often been based on evaluations of the nature of growth and structural change in India since independence (Ahluwalia 2002). Ten years later in India there was a remarkably low-key approach to the issue.

*Today, when the reforms have completed ten years of existence, no hosannas are being sung to their achievement* (Patnaik, 2001: 3, emphasis added).

The reasons were not far to seek. Growth has been hinged on commercial borrowings; budget deficits and debt financed the import-led consumer boom rather than any strident export effort (Chandrasekhar and Ghosh 2002). The growth rates of output in commodity production have been lower in the 1990s than preceding decades (Chandrasekhar 2001). The rate of food-grain production has been lower than the rate of population growth in this decade (Swaminathan 2000). Industrial recession has led to increase in urban unemployment. The phenomenon of 'jobless growth' in manufacturing has been noted up to the mid 1990s (Bhalotra 1998). Existing wage disparity between skilled and unskilled workers had worsened (Nambiar et al 1999). Growth in rural employment was at its historic low in the entire post-independence period. The annual rate of growth of rural employment fell to as low as 0.67 per cent over the period 1993-94 to 1999-2000. This is less than one-third the rate of the previous period 1987-88 to 1993-94 (Ghosh and Chandrasekhar 2001). It is less than half the projected rate of growth of the labour force in the same period. In fact,

*...this is the lowest rate of growth of rural employment in post-Independence history* (Ghosh 2001, emphasis added).

The rural poverty ratio had stopped declining in the post-reform period (Chandrasekhar 2001). Patnaik (2004) has highlighted one of the more startling but less discussed features of Indian development over the past several decades in the decline in per capita calories consumption, which is revealed by the official National Sample Surveys. Average calorie consumption was already low by international standards and it has actually declined despite apparently high aggregate economic growth. The National Sample Survey (NSS) 55<sup>th</sup> round of data on calorie consumption is not comparable with earlier rounds. Along with estimates of consumption expenditure, estimates of food consumption are likely to be overestimates when compared to earlier rounds due to changes in the parameters of measuring consumption. Even this inflated data indicated a decline in per capita calorie consumption for rural India in 1999-2000. The more significant trend is the long-term decline since the early 1970s. In addition

there appeared to be a convergence between rural and urban patterns of calorie consumption in the most recent period (Patnaik 2004). Ray (2007) documents the decline in cereal consumption, especially in the urban areas, and provides evidence that suggests an increase in the prevalence of undernourishment over the period 1987/88 to 2001/2002.

Paradoxically, the Government under the BJP-led National Democratic Alliance (NDA) was sitting on a massive stockpile of unsold food grain. All of this led to an apprehension of the dreaded 'wage good constraint' of the colonial period and the first two and a half decades after independence re-emerging. The financial system was extremely fragile since the 1990s with periodic 'scams' traced to 'private sector banks exceeding prudent norms of capital exposure', interlocking with mutual funds and dot com companies in league with 'big' stock-brokers (SEBI 2002). The last two decades have been marked by an intensification of the process of uneven development across states, and has led to increased contests in the realm of centre-state relations.

Neoliberalism in India has operated in a society already heavily weighed against women. Gender disparity was already encoded in family and social institutions which colonial capitalism strengthened and used for the purposes of labour deployment and control. A complex process of myth formation has constructed gender in Indian society in the last two hundred and fifty years that was crucial to the social reproduction of class in India (Bagchi 1995). Five decades of state-led capitalism preserved patriarchy in every sphere. The process of liberalisation has brought in its wake newer forms of gender exploitation and gender disempowerment (Elson 2002), in both the economic and social spheres, leading to increased violence against women. Market fundamentalism has bred religious and social fundamentalism as well, with disastrous consequences for many sections in society and especially women. The general conclusion from the literature that has evaluated the impact of liberalisation on women has established quite forcefully how large sections of women have been significantly disempowered by neoliberal economic reforms (Hirway 1999). Sen (2001) observed that the recent sectoral shifts in the economy have been on clear gender lines. Women were losing many of their earlier occupations, being crowded into less stable employment and being pushed to the margins of the economy. This is in spite of the lofty ideas of the Policy for Women announced in 1994 and the multiplicity of schemes for women's development (Human Development Report, Maharashtra 2002).

The significant increase in employment for urban women is concentrated among women from higher labour status, the section of people who have greater access to jobs. A socially advantaged family background and family education status have been much more important determinants of job access and mobility than skill levels (Harriss Kannan and Rodgers 1990; Kingdon 1997). This finding defies all the spurious modelling based on undifferentiated social categories and adaptations of the Stolper-Samuelson theorem that still predict a convergence in wages for 'skilled' and 'unskilled' labour in the wake of liberalisation as long as 'capital can be

*freely* transferred between the 'formal' and 'informal' sector (see Marjit and Acharyya 2003). Moreover, when just 3% of men and 1% of women have access to college education (Velkoff 1998), the very premise of the links between the effects of reforms on the labour market establish the stratified structure of the labour market in terms of social differentiation.

Moreover, research reveals diverse outcomes for different classes of women. Liberalisation led to the increasing marginalisation of vast sections of women, especially workers, in the agricultural sector (Ghosh and Chandrasekhar 2001). Certain sections of women have economically benefited from it, both in the formal and informal areas of the service sector, though the nature of these benefits has been disputed. The heterogeneous gender effects of marketisation policies during these twenty years clearly point to a class dimension (Hirway 1999).

The link between caste and class is established quite firmly in the link between the changes in the structure of production and the 'driving out' of Dalit occupations out of the market without any substitute in terms of employment opportunities. Thus the status of Dalits in rural India is overwhelmingly that of landless, migrant workers (Franco 2002: 5). All of these areas of poor performance and divergence from the promises of the neoliberal dream have opened up areas of resistance and opposition to the reform agenda. Nevertheless, the path charted out by the neoliberal reformists is still firmly embedded in state policy in India.

### **1.7 Towards an Understanding of the Shift to Neoliberalism in India**

The issues discussed in the previous section have been the focus of much of the literature critical of neoliberalism and seeking alternatives to it. It has been concerned with how marginalised sections of the unorganised working class, the smaller organised working class that is often the ideological target of both neoliberals and some of their opponents, the heterogeneous rural peasantry, the rural and urban working poor and the 300 million strong Indian petty-bourgeoisie are affected by and responding to the 'rollback' of the state. That neo-liberalism did not work for the poor, for the working class, for small, marginal and landless peasants and for women is fairly established (Harriss et al 1990; Unni 1999; Bagchi 1998). But in many ways a far more important question is how far and in what ways has neo-liberalism worked for the dominant classes in India? Stern (2003) has characterised India's transition from colonialism to the political and economic development of the 'Indian Union' as a 'bourgeois revolution' following Barrington Moore's definition of development of capitalism and parliamentary democracy. This eulogistic work that reads like a 'celebration' of India skims over the surface of a range of complex questions and studies the process of embourgeoisement by defining the bourgeoisie and other classes in terms of income distribution data. Such definitions occlude the social relations that underscore the stratifications in society.

The Indian states' complex relationship with capital has been relatively understudied. This explains the weakness of the neoliberal (and heterodox) analysis trying to explain the shift

to neoliberalism as the preferred ideology of the Indian state and sections of capitalists over the last two decades. Several related questions emerge around this theme. In whose interest was it to push for a rollback of the zones of state-intervention and why? Who were the people who saw in neo-liberalism rather than state-led developmentalism a better coercive guarantor of social order, property relations, stability or contractual predictability? Why did they believe so? What did they expect to achieve out of this in a decade or so? Who have been the beneficiaries of this neo-liberal shift? Are the benefits sustainable? Are landlord-capitalist and proto-capitalist interests converging or diverging as a result of this shift?

Clearly, the analysis of the shift to neoliberalism is contingent on an understanding of the Nehru-Mahalanobis strategy. Neoclassical economics starts from the pronouncements of the 'failure' or 'demise' or 'inadequacy' of the earlier growth patterns in the economy based on the Nehru-Mahalanobis strategy. Thus justifications for the shift to neoliberalism in the 'new political economy' literature have been based on the 'state failure' argument (Bhagwati and Desai 1970, Krueger 1974). Critics of this interpretation have argued that neoliberalism emerged not because of a 'failure' of the Nehru-Mahalanobis strategy, but because the strategy ran out of steam due to some of its internal contradictions (Patnaik 1984) and because of the adhocism of the strategy after the second plan period (Bagchi 1982, 1998). Similarly the 'market experiment' has also triggered a set of contradictions without resolving the earlier ones (Chandrasekhar and Ghosh 2002). The employment neutrality of growth under neoliberalism (Bhalotra 1998; Ghosh 2001), the erosion of food security (Swaminathan 2000; Ray 2007), the regressive changes in social relations emerging out of the 'driving out' of Dalit occupations (Franco 2002), and the increased marginalisation of women workers ( Hirway 1999) are some of the new problems that have emerged under the 'market experiment'. (Please see section 1.6 for a detailed treatment). The inability of the state to intervene in any significant way to reverse the trends in terms of basic development indices in spite of increasing number of policies advocating 'targetted intevention' has emerged as a new contradiction. The fact that such targeted outlays are not translating into outcomes have been recognised by the current central government (Government of India 2006). More importantly, the domain of the state over which purposeful action can be taken to fulfil socio-economic goals has been subverted even as economic growth rates continue to register high figures (Patnaik 2000, 2001b). This argument is treated in detail in Chapter Two (Section 2.1). A quarter of a century of reforms can now be subject to historical scrutiny and a comparison with the earlier period is possible. The extensive literature assessing the impact of neoliberalism in India has seldom established that there have been any benefits from the economic reforms for the majority of the people (Singh 1993, Nayyar 1996). The period from 1965 to 1980 has gone relatively unaddressed in this literature even though the social transformation during this period triggered off high growth rates from the 1980s in a context of intense political turmoil and growing struggles over the processes of state-led accumulation by 'private' players. This was reflected in constant, often inconsistent

and seemingly ad hoc changes in policy throughout the period. These policy changes are better understood as outcomes of political struggles concealing and responding to a changing process of accumulation.

The intellectual critique that has emerged out of resistance has pointed out repeatedly that neoliberal treatment of the state has confused symptoms with cause. The radical literature made it a point to reinstate the social context and emphasise the social categories of analysis. It has been argued that economic policies are not unambiguous choices between states and markets. Indeed, there is ample evidence to show that the construction of developed capitalist markets, if that is the 'national aim' in the case of late-industrialisers and ex-colonial societies, is achieved only through state intervention of some form or another (Chang 2002). But this is where the heterodox agreement on the state ends. The 'role of the state' is extensively debated within a very narrow instrumental vision of a technocratic, 'developmentalist' state based on an idea that the state can be developmental only if it has the 'will' to do so (Rodrik and Subramanian 2004), often bypassing the question of the sources and limits of state power and agency. This literature has grown in resistance to neoliberal minimalist views of the state, but is often based on a 'neo-mercantilist' approach (Patnaik 1999b) and advocates 'lessons' from East Asia that cannot be replicated in India as the social conditions, historical epoch and geopolitical considerations are very different in the sub-continent (Saith 2000). The attempts to link the polity and the economy in India are limited by a very fundamental problem; the absence of an adequate analytical framework for studying state-society relations that addresses the processes of capital accumulation and its links with the state

The next chapter is devoted to the exercise of explicitly rejecting the theoretical contentions on 'globalisation' that argue that nation-states have become irrelevant in the current epoch. An analytical framework is developed to examine the relation between state and capital from a Marxist perspective and to analyse the causes of the shift from 'dirigisme' to 'neoliberalism' in India over a span of less than fifty years since independence.

## **Chapter Two**

### **State and Capital in Independent India: The Problematic**

The purpose of this chapter is to locate the methodological framework of this thesis within the debates on the role of the state in the age of globalisation. Several definitions of globalisation have been advanced in the literature. The relevance of these definitions to the project of capital in general and especially in India needs to be assessed. This is important as the role of the state and its relationship with capital is undermined in the mainstream literature on globalisation. Further, the relevance of a Marxist analysis based on the social relations of production needs to be spelt out keeping in perspective the recent academic and political attack on such analysis which has been described in Chapter One.

This chapter is divided into three sections. Section 2.1 discusses how the different theses on globalisation have addressed the role of the state. We establish that it is the nation state that must perform the delicate balancing act between opening borders to global capital and deterring a kind and degree of integration that might go too far in levelling social conditions among labour markets and creating conflicts that threaten the political stability of countries. Section 2.2 addresses the academic debate on the relationship between state and capital in India. The problematic of studying the post-independence Indian state is developed through a critique of the different analytical frameworks through which different strands of academic analysis have studied this relationship. We argue for an analysis in which the capitalist class figures as an active social agency in the decisions made within the structures of state power that moulded the relations of private property and defined the linkage between the public and private spheres of the economy and the market and the state as mutually linked spheres of accumulation. Section 2.3 is devoted towards development of a Marxist methodological framework to study the relationship between state and capital in India. The question of a suitable definition of the state is discussed. We stress the historical specificity of the rise of nation states and the specificity of state formation that cannot be disassociated or abstracted from any reading of state-society relationships. We argue that a historicised analytical method which examines every question from the standpoint of how the given phenomenon arose in history and what were the principal stages in its development, to examine what it has become today is the best way forward in studying state-society relations.

#### **2.1 State and Capital in The 'Globalisation Thesis'**



'Globalisation' has emerged as the dominant political, social and economic issue of the current epoch (McChesney 1998). The 'globalisation thesis' of the 1980s came after a decade of stagflation in 'developed' market economies, structural problems of underdevelopment in developing countries and slowing down of growth rates in the 'actually existing' socialist world that was on the verge of collapse. Proponents of globalisation attribute the term to Levitt's 1983 article in the Harvard Business Review titled 'The Globalization of Markets' which studied the emergence of standardised, low-priced consumer products. Levitt defined globalisation as the changes in social behaviours and technology, which allowed companies to sell the same products around the world.

. The bulk of the early assessments of globalisation in India were based on the premise of globalisation as either a 'desirable' or an 'undesirable' revolution in 'communication technology'. This was the basis of state-led expansion of communication technology in India in the 1980s under Rajiv Gandhi, also discussed in Chapter One. The appeal of the first phase of deregulatory reforms in India from the 1980s, in an attempt to allow the 'free play of market forces', was based on the idea of 'globalisation' as 'integration into the world market' through a 'communication revolution' enabling an unleashing of pent-up demand for 'metropolitan commodities'. It encompassed supply side deregulation of import and investment controls to satisfy this demand, promoted by the international financial institutions and supported by the metropolitan financial hub of the international capitalist system. This was done through private lending and borrowing practices that became unsustainable in less than a decade. This has also been discussed in Chapter One.

The political economy of globalisation has been a contested arena. In the neoclassical literature, the current epoch of 'globalisation' is about integration into the world market through trade and investment based on comparative advantage (Fischer 2003). Thus 'globalisation' merges with the rationale for 'neoliberalism' based on one integrated global market. In the field of economic writing, a common view from the neoclassical school is that of conceptualising globalisation as the integration of economies often through trade based on the vague notion of 'openness' that is assigned parametric measures (Sachs and Warner 1995) based on myriad factors.

If globalisation has to be a concept that explains the specific developments in the world economy since the early 1970s, then trade expansion as an indicator of globalisation would be a futile exercise as trade has been expanding secularly since the end of the Second World War (Kenwood and Lougheed 1999). This expansion of trade was based on the 'protectionist' trade regimes that developed in the post-war period especially in agricultural commodities in LDCs (Agarwal 1983). Growth in the volume of manufactures based on capital movements, technological breakthroughs and a rise in labour productivity explained trade growth between 1950 and 1990 (Heilbronner 1986) contrary to the direction of causation implied by the proponents of trade liberalisation (Tybout 1992). The bulk of such trade increase was between

countries of the 'North'. The ratio of exports to GDP roughly doubled from 1960 to 1990 among the Organisation for Economic Co-operation and Development (OECD) countries from under 10 percent to over 20 percent (Tabb 1997).

The rise in trade among countries of the 'South' was less phenomenal till the 1980s. South-South Trade increased from 3.5% in 1977 to 7.1% in 1980 (Nayyar 1997). However South-South trade grew much faster since the 1990s with a growth of 14.2% between 2000 and 2003 compared to 5.2% for world trade as a whole (UNCTAD 2005). The share of trade in manufacturing increased while that in food-grains decreased. Mainly, this trade was intra-regional. Similarly, South-South FDI flows have also increased phenomenally in the last decade. From Table 2A below, we find that FDI flows between countries of the South as a percentage of total FDI flows to developing countries accounted for 36.4% in 2000 compared to 6% in 1994.

Table 2A: South-South FDI Flows

	1994	1995	1996	1997	1998	1999	2000
Billions of US \$	4.6	15.3	25	57.4	56.6	49.7	53.9
As % of Total FDI Flows to developing countries	6	16.2	22.3	38.7	36.8	31	36.4

Source: Table 3, UNCTAD 2005: 12

This was despite the fact that trade was limited by an unequal world distribution of income and low purchasing power, and unequal distribution of income within less developed countries (LDCs). Given the limited ability of the South to meet its own demand for intermediate goods and capital, growth required trade with rich countries to meet the industrialisation needs of poor countries (Nayyar 1997). In patterns of North-South trade, 'developed countries' increasingly controlled trade in foodstuffs especially cereals. Food output in LDCs grew faster than the developed countries but lagged behind the demand generated by rapid population increase and increases in incomes. So LDCs often were net importers of food and exporters of cash crops. In such a situation, export diversification became difficult. Prices of foodstuff grew faster than cash crops. Thus LDCs suffered due to a decline in terms of trade. This pattern has only reversed in a few countries that could attain 'self-sufficiency' in food like India in the period of 'intervention' and 'protection' before the 1980s. However, reversal of this situation with food imports rising since the 1990s is characteristic of the increasing 'openness' to trade in India. In the twenty years of trade liberalisation since the 1980s in 90 developing countries, both positive and negative correlations of 'trade openness' and growth have been found based on hypotheses derived from 'new growth models' (Greenaway 1998).

The neoclassical justification of the 'neoliberal reforms' in India adopts measures of 'openness of economies' to argue that there are large gains from achieving greater openness in terms of productivity gains and uses this as a justification for 'integrating into the global economy' (Bhagwati 1969, 1987). These arguments have become politically persuasive in spite of the critique by Rodriguez and Rodrik (1999) and many others of the weak methodological basis of measures of 'trade openness'. According to the neoclassical perspective, 'openness' creates competitive pressures and the potential for technology transfer so as to lead to productivity gains and restructuring of an economy towards its comparative advantage (Batra and Khan 2005:1). Thus what is often termed 'globalisation' is an extreme vision of the Walrasian 'market utopia' discussed in Chapter One and a rationale for a set of neoliberal economic policies as the 'means' to reach this 'utopia'.

As refinements to the trade-based definition of globalisation, some have defined globalisation as the 'knowledge economy', others have stressed 'the satellite-communication revolution' or developed the myth of the 'global village'. The history of the period between 1870-1913, the 'heyday of imperialism and colonialism' has also been re-written to make it appear as the period of 'universal growth' and 'catch-up' by poor countries (Milanovic 2002). Dissident voices, such as Wood (1998: 136) have, however, continued to point out the social changes that have underpinned some of the gains from globalisation:

Globalisation simply means that subordinate economies must be made vulnerable to the dictates of the capitalist market, by means of certain social transformations – such as, for example, the transformation of peasants into market-dependent farmers, as subsistence agriculture is replaced by specialisation in single cash crops (while, of course, the metropolitan powers protect their own domestic agriculture by huge subsidies and import controls).

The neoliberal economic perspective regards profit maximisation and the free flow of goods and more importantly capital as the cornerstones of an efficient and viable economy in the epoch of 'globalisation'. This sets apparently clear reform priorities for nation-states like India making the transition from low to middle income economies. The negative effects of such neoliberal globalisation on basic human development indicators in low and middle-income countries are well established (Weisbrot et al 2001).

Comparisons of similar episodes of 'globalisation' in terms of increases in movements of goods, people and capital in the history of capitalism reveal two very prominent departures in the international economic structure during the last three decades (Nayyar 1997). The first is the contradictions created by the increasing fluidity of capital movements across boundaries of nation states. The second is the growing strictures and boundaries imposed on the movement of labour.

Most economists now acknowledge that the 'free movement of capital' can open up economies to high degrees of vulnerability after the experience of the East Asian financial crisis. Moreover, many economists having diverse views on 'neoliberal globalisation' have argued that the flow of capital led by the 'chaotic' signals of a highly integrated but anarchic

market can often be 'irrational' (Lopez-Mejia 1999; Shiller 2000). In fact, 'irrational exuberance' was a phrase coined by Alan Greenspan (1996) chairman of the US Federal Reserve as a feature of advanced country financial markets. The 'irrational' aspects of speculative and herd behaviour even in sophisticated and competitive financial markets have been implicated in the financial crisis following the 'Black Monday' crash of 1987 and the financial crisis in Japan that started with a share price collapse in January 1990. The same assumption informs the official IMF line on resolving and preventing crisis in the quote they use (removed from its context of the nature of monetary systems and credit from the 17<sup>th</sup> to the 19<sup>th</sup> century) from Charles Mackay

Men, it has been well said, think in herds: it will be seen that they go mad in herds, while they only recover their senses slowly, and one by one (IMF 2001: I).

However, while the (occasional) irrationality of financial markets is now widely accepted in mainstream academia, its explanation has largely been based on an ahistorical analysis that focuses on the behaviour of small investors and does not permit any historical or structural analysis (Foster 2002). Apart from Marxist writers (Foster 2002; Tabb 2001; Patnaik 1999b, 2001b), two commentators on the East Asian crisis provide accounts, which challenge this simplistic analysis of mainstream economics. One is Joseph Stiglitz, previously Chief Economist at the World Bank. The other is Paul Krugman, trade adviser to US governments. They argue that many of the features of the 'globalisation' of the current epoch are the results of politics. The reduction of national controls on capital movements were driven by political pressures from the International Monetary Fund (IMF), the World Trade Organisation, the US government and the metropolitan banks interlocked with metropolitan trans-national companies. They both argue that it was their interest and intervention that created the financial structure responsible for the disastrous outcome of the 1997-98 financial crises in East Asia and Russia (Stiglitz 2002; Krugman 1999).

Private credit increased in international finance since the mid-1960s with private capital from OECD countries emerging as key lenders. The Organisation of the Petroleum Exporting Countries (OPEC) was a less important lender, but 'petro-dollars' were channelled into the international debt market through European banks (Bhaduri 1999). The growth of global lending and capital flows in the 1960s was not smooth. The most important contradiction arose from the international 'reserve currency' status of a national currency – the US dollar, leading to the breakdown of the Bretton-Woods system of fixed exchange rates between 1971 and 1973. For developing countries, a further shock came with the 'debt trap' created by the lending policy of trans-national banks in Third World countries (Pereira and Seabrook 1994).

The IMF itself recognises that

In recent years one of the most spectacular manifestations of globalization has been the rapid expansion of international private capital flows--investments and loans from one country to another. These flows have

brought significant economic benefits, but they have also exposed countries to periodic crises of confidence when inflows of capital are suddenly reversed. (IMF 2001: 1)

But 'crisis' in this reading is considered the sole preserve of the economies of the 'South'. What goes unsaid is that there have been about 70 financial crises in the past two decades. Since 1980, three quarters of IMF members have experienced financial crises. Of the 70 or so crises, one third has taken place in developed economies (Kregel 1996).

This context of fluidity of finance has often been the crux of the Marxist debate on 'imperialism' and the ability or inability of all states to 'intervene' have been related to the development of this form of 'fluid finance capital' distinct from the Lenin-Hilferding thesis of an emergent finance capital based on a growing inter-locking of banking and industrial capital which had decisive national characteristics. For example, Chase Manhattan Bank financed Standard Oil on the eve of the First World War. Both corporations had a distinct American identity as part of the Rockefeller group. Thus the interlocking of banking and industrial capital to amalgamate and produce 'finance capital' was a sign of the times. The inter-imperialist rivalry of Lenin's times was based on competition between these amalgamated forms of 'finance capital'. Finance capital today is not divorced from this amalgamation and national identity, though some authors contend that 'rivalry' between different factions of national capital has replaced collaboration and unity in purpose (Patnaik 1999b).

But the main difference with Lenin's analysis lies in the mobility of today's finance capital in forging quick but short-lived interlocking through direct mergers, predatory acquisitions and indirect investment through derivative financial instruments in the international capital market. This is argued to be the source of power that makes all states subservient to capital mobility and volatility. According to Patnaik (2000), any autonomy in the choice of economic policies or of the overall economic regime is threatened by this fluidity of finance capital. The domain of the state over which purposeful action is undertaken to fulfil socio-economic goals has to be relatively insulated from the effects of simultaneous actions by other powerful agencies. The fluidity of capital, and its proneness to being pulled out of the economy in accordance with the mood in international financial markets tends to destroy the possibility of having a 'controlled area' of the state. This subverts any meaningful state intervention (Patnaik 2000). Thus the social legitimacy of capitalism gets undermined by the existence and functioning of a state sector under neoliberal tenets (Patnaik 2001b). This view demarcates the limits of 'sovereign economic intervention' in the era of financial fluidity.

However, this is distinct from the view that the role or scope of the state for *intervention* has withered away and nation states have become irrelevant in the epoch of globalisation in the creation of an 'empire' without 'boundaries' based on the 'ontology of production' structured by 'huge transnational corporations' (Hardt and Negri 2000). The central theme in such readings of 'globalisation' is that nation-states have lost control of their national economies, currencies, territorial boundaries, and even their cultures and languages and that macroscopic forms of

power were shifting from the nation-state to the global market, transnational corporations, and globalised channels of communication (Barrow 2005).

Production by transnational corporations (TNCs) outside their country of origin has undoubtedly become important. Dunning (1981) established that in 1978, some 430 of the world's largest TNCs accounted for three quarters of overseas affiliates and direct investment. Relatively small numbers of firms dominate the economy when the analysis is broken down to sectors pointing to huge concentration in captive markets (Dunning 1981). Yet, domestic corporations still produce 85 percent of industrial output in a single geographic location (Tabb 1997). Transnationals account for about 15 percent of the world's industrial output. It is often argued that globalisation has led to a restructuring of the production process as capital will go anywhere in the world seeking the lowest possible wages. But this is at best an oversimplification. It misrepresents the actual investment patterns of TNCs. Three-quarters of foreign investment and production by U.S.-based transnationals is in Western Europe, Canada and other high wage countries and this investment is overwhelmingly to service these markets from local production sites. As for capital leaving the United States, it is important to recognize that since 1990 the United States has been a net importer of foreign direct investment, as the TNCs of other nations have located production in the US (Tabb 1997).

A postscript to this debate is the assertion that increased internationalisation has obliterated the difference between the 'First' and 'Third' worlds. For example, Berger (1994: 267-268) in pointing out the historical specificity of 'globalisation' argues

While a historical approach to the rise of East Asia calls into question prevailing conceptions of a 'Third World', the existence, and even the expansion, of 'Third World' conditions within the borders of the so-called 'First World' further undermine the notion of a 'Third World'. The 'internal colonialism' which has characterised the history of the United States and Australia, for example, has consigned native Americans and Australian aborigines to circumstances which mirror the conditions in which the rural and urban poor of 'Third World' countries live. Mike Davis's recent history of Los Angeles seriously qualifies any attempt to view the USA as simply a 'First World' country. For African-Americans and Chicanos, and recent arrivals from Latin America, life in Southern California is little different from the urban poverty south of the Rio Grande. At the same time, countries like South Africa have always presented a particular problem for anyone attempting to talk about a 'Third World'. In South Africa the white minority enjoys a standard of living comparable to any other industrialised country, while the black majority lives in 'Third World' conditions.

In spite of a convincing argument for specificity, this view, which is quite popular among many 'Left' intellectuals, attributes 'Third World' to a set of conditions of poverty, squalor and misery. However, the use of the term in its historical context signified those countries that, after the Bandung Conference, claimed a separate identity in 1956 based on non-alignment with the greater powers (Agarwal 1983). These nation-states emerging out of anti-colonialism and anti-imperialism carved their 'identity' as the Third World based on a decision by significant sections of the new ruling classes' reluctance to align with either the First world of imperialist states or the Second World of 'actually existing socialism'.

A variant on similar lines is the separation of 'poverty' from capitalism. As Kitching (2001) points out, most of the contemporary literature on globalisation and the Third World or globalisation and developing countries or globalisation and the South focuses on one question: Is globalisation, on balance, damaging or enhancing the situation of the poorest countries of the world? Kitching contends that the hypersensitive silence about class differences in much of the writing on globalisation is subtly and deeply connected to nationalism and nationalist approaches to the understanding of global capitalism and of its history. Thus the way forward is to assess the impact of globalisation on the poorer regions and the peoples of the world, in each of its dimensions (production, trade, labour migration, finance and communication). The differential impacts of each of these dimensions are important. The globalisation process may itself vary from region to region, or even from country to country within regions. 'Globalisation' may be improving the conditions of the poor in some regions and not in others. This view comes very close to the Fund-Bank project of 'making globalisation work for the poor' (Dollar and Kray 2000) even when it has been failing systematically for well over two decades now (Milanovic 2002; You 1998-99). Harriss-White (2007) has emphasised the systemic nature of poverty entailed in the fact that capitalism creates poverty while it creates wealth and productive assets. She identifies nine ways in which this takes place. These are the creation of the pre-conditions for capitalist relations, petty commodity production and trade, technological change and unemployment, petty commodification, the creation of harmful commodities and waste, pauperising crises, war, climate change related pauperisation, and the unrequired, incapacitated or dependent human body under capitalism (Harriss-White 2007: 5).

The nature of today's new capitalism is such that the political reach of the 'imperial power' of dominant economies cannot be mapped to a single logic of economic hegemony. But the ties between giant oligopolies, big finance and the dominant capitalist states are not difficult to trace. The influence and connection of the US treasury in the appointment of the chief economist and associated staff of the World Bank is a case in point (Wade 2001). Wood (2003) points out that the inability of weaker nation-states to exercise control over capital has also been regarded as the strongest sign of withering away of the nation-state and the emergence of a 'global state' namely the US that manages the world economy through a network of international financial institutions. This is true despite the fact that

...power in capitalist societies is so diffuse that it is difficult to identify a target for opposition. It is much harder to locate a point in capitalist society where power is concentrated in such a way that resistance and opposition can be effectively directed against class domination by capitalists in general, or against the logic of the capitalist system, which puts 'profits before people. (Wood 2003: 127)

The supposed withering away of the state is also supported by those like British ex-Prime Minister Tony Blair who has been at the forefront of projecting British power abroad. He argues that

What is called globalisation is changing the nature of the nation state as power becomes more diffuse and borders more porous. Technological change is reducing the power and capacity of government to control its domestic economy free from external influence' (Financial Times 20 March 1996).

Such views can also be found amongst the neo-conservatives in the Bush administration (Bush 2002).

Wood (2003) argues in contrast that the global economy is administered by a system of multiple local states, policed in turn by the most disproportionately powerful military force the world has ever known. The latter's global policing role has lately been justified by a new military doctrine of war without end, in purpose or time. Wood comprehensively articulates the importance of the nation state in the post-Soviet Union, new global order based on the belligerent imperialism of the neoconservative US government:

No institution, no transnational agency has replaced the nation state as a coercive guarantor of social order, property relations, stability or contractual predictability or any other basic conditions required by capital (Wood 2003: 17).

For Wood, globalisation does not mean the decline of the nation state. The new 'imperialism' is more than ever an imperialism that depends on a system of nation-states. Because the imperialism of globalisation depends on extending 'purely economic hegemony' and 'market imperatives far beyond the reach of any single state', it is dependent on a plurality of subordinate states to enforce those imperatives and to create the climate of legal and political order, the stability and predictability, that capital needs in its daily transactions. This analysis comes close to the reading of role of nation states under the aegis of globalisation put forward by the dominant sections of the organised Left in India (AIDWA 2002: 11).

In a similar argument, Barrow (2005) argues that nation-states are the principal agents of globalisation as well as the guarantors of the political and material conditions necessary for global capital accumulation. Countering the arguments of those who see a nebulous logic of empire, a network state, or even a global state as the repositories of a new sovereignty, he suggests that globalisation, in its current form, is actually a new form of American imperialism, a tool to extend the reach of imperialist relations in the carving of new empires. In this imperialism, globalisation is as much about preventing as it is about promoting integrated markets. It is the nation state that must perform the delicate balancing act between opening borders to global capital and deterring a kind and degree of integration that might go too far in levelling social conditions among labour markets and creating conflicts that threaten the political stability of countries. One example is the tightening of immigration policies in the USA, Western Europe and the Gulf countries (Kitching 2001).

The debates about liberalisation in India and the integration of India into the process of 'globalisation' have to be understood in the context of these broader debates. Our position is closer to that of Wood. We want to understand the specific role that the Indian state and Indian capital asserted for themselves in the new order that began to emerge in the 1980s.

## **2.2: The Problematic of State and Capital in India**

To address the questions raised by globalisation and the role of liberalisation, we need to address some fundamental questions about the interests of capitalists in developing countries like India. The emergence, survival and growth of developing country capitalists appears to depend on many restrictive activities of their states even when many capitalists strongly oppose these strategies. On the other hand, free movements of capital in developing countries have often been the source of financial crisis rather than industrial development (Patnaik 2001b; Kregel 1998). Large and rapid movements of capital in free markets are often based on perceptions informed by hedge, speculative and Ponzi finance (Minsky 1986), rather than 'economic fundamentals'. However, neoclassical approaches assume that economic fundamentals can be discovered by risk assessment agencies and rational capital flows can be achieved.

In reality, most low and middle-income countries that are today opening up to the global economy are characterised by balance of payments difficulties, domestic social or political turmoil, the vagaries of capital movements that force national governments to comply with the needs of globally mobile capital or face 'economic purgatory' (McChesney 1998: 2). For countries like India, there is a threat of capital flight from their own nationals since the 1990s (Macroscan 2002). This puts further limits on the powers of such states to contain capital flight. Macroscan sums up the problem in the following way:

...today the most significant aspect of this conflict has to be located in the sphere of finance. The inability of the nation-state to act in defence of its autonomy derives in large measure from the fact that the antagonist is an intangible entity and includes many of the country's own nationals who are not motivated by any malevolence but are merely responding to the dictates of capitalist decision-making. (Macroscan 2002: 2)

Clearly, the 'restrictions' imposed by the Indian state after independence was achieved in 1947 were largely driven by these types of fears, and the imperatives of developing and deepening the productive capitalist sector. The decisive shift to liberalisation came only in 1991 though the move towards a market-led growth process can be traced to the 1980s. We will argue that this shift was driven and desired by significant sections of Indian capital. The strategic ideological shift of a significant section of the Indian ruling classes was in keeping with the emerging unipolar world economy and polity. The collapse of the Soviet Union around about the same time was not a coincidence in our view. The emergent policy was definitely constrained by the nature of the relationships of Indian with international capital. The choice

regarding the nature of intervention was not just one of tactical choice by the ruling class but a deeper structural and ideological choice (Patnaik 1999b).

The change in international context only explains the imperialist pressures to conform to neoliberalism, it does not explain the actual process of transition in India. The starting point of our enquiry is to assess how a capitalist class emerging out of colonial production and exchange processes and bound by the limits of 'technology gap' and 'capital scarcity' in the post-independence period could dictate significant policy changes that affected the power of the state to constrain the allocation of capital. Framed in another way, how did the balance of class power shift so radically in favour of (sections of) capital in India in less than fifty years?

This directs us to the first methodological question of how to develop an analytical narrative of the relationship between state and capital within the changing international structure of capital in the last five decades. According to Brenner (1998), it is the class structures of peripheral regions that account for their place in the world economy and capitalist competition acts as the compulsive force that determines development. However, an alternative view suggests that the structure of global capitalism itself acts upon the class structures of peripheral economies (Amin 1997; Galeano 1997) and determines the limits of capitalist competition and the 'forces of development' that it may potentially be in a position to unleash. Wood (2003) distinguishes the nature of power very clearly in capitalist and non-capitalist societies. In capitalist societies, capitalists ultimately depend on coercion by the state to underpin their economic powers and their hold on property, to maintain social order and conditions favourable to accumulation. But there is a clear division of labour between the exploitative powers of the capitalist and the coercive powers of the state. For Wood, the clear line of distinction of 'non-capitalist' societies from 'capitalist' ones lies in the fusion of economic and political powers of coercion.

However this distinction is difficult to operationalise in the context of Indian society where capitalist industrial and trading enclaves already existed in the Indian economy at the time of independence. At the same time, in 1947 there was also an array of dominant groups basing their dominance not only on class, but also on religion, caste, race and gender. Thus capitalist enclaves existed since colonial times but were also amalgamated with non-capitalist relationships (Patnaik 1999; Bagchi 1972).

The state has been acknowledged to have a degree of relative autonomy (Ghosh 1998). The extent of relative autonomy, however, depended on the terrain of contests of the dominant interests outlined in the previous paragraph, which were often contradictory or uneasily reconciled in the prolonged transition since 1947. The separation of social, economic and political power in the public domain raises the question of 'relative autonomy' and how power relationships emerge within and between social categories that are sources of differentiation in inegalitarian societies. Poulantzas (1978) traced the relative autonomy of the 'state' in its institutional separation from capitalist production. This basis of relative autonomy is

inapplicable for the Indian state after 1947 as the state was not just a participant in the domain of capitalist production but was invested with powers to lead and direct the process. The development of the economy was one of the aims of the Indian state if not the only aim. Indian entrepreneurs, stunted by the impacts of colonialism were small in number but held a strategic political space in the formation of the post-colonial Indian state (Chibber 2003). The role of the state in this economic transformation was specifically determined by its relationships with business and industry in India and also by the demands of other classes and class fractions, sometimes from 'above' (other ruling classes) and sometimes from 'below' (Byres 1996).

We also need to locate these internal dynamics within a context of global accumulation processes. Some analytical work has, of course, recognised the importance of crisis and opportunities in key sectors of advanced economies in determining the direction of economic development in developing countries (Chandrasekhar and Ghosh 2002). Similarly, according to Bagchi:

Actual historical change cannot be explained without bringing in conflicts and collaborations within and between various classes, both within the confines and across nation states, as capitalism is probably far more of a contaminatory system than all systems that preceded it (Bagchi 1989: 5).

This discussion allows us to locate the method of this study against other approaches in the literature. The debate on the determinants of policy, policy changes and the drive to liberalisation in India can be classified into four distinct analytical frameworks. The first and simplest approach is to distinguish between right and wrong policies as a technical issue, ultimately attributing wrong policies to the poor understanding of some leaders and their advisers. Protectionism came from the (wrong) structuralist paradigms of development economics dominant in the post-war development consensus (for instance Bhagwati et al 1984). In this literature 'planning' and 'export pessimism' were the straw men for all the ills of the economy. Neoclassicism thus found two pegs to hang all its different coats (Harriss 2001). The neoclassical assessments on planning and state intervention on India draw strength from certain generalisations about the entire period of planning that preceded 1991 or 1980 depending on the author's view of when the 'Hindu' rate of growth ended (Panagariya 2004).

According to Baru (2006), the process of state led accumulation was essentially one which imposed a consumption squeeze on the working people and financed increased capitalist 'appropriation' even as government expenditure continued to benefit the middle and upper classes. This view has won some credence but leaves the main question unanswered. Was this a 'mistake' and if so, why did the state make this mistake for so long? Also there is no distinction in outcomes between the period from 1950-1966 and the period from 1966-1980 in such an analysis while there were significant differences in the domains of state intervention and non-intervention in the two periods. In the face of uneven development, regional differences in investment and growth unfurled a process of struggle over specific forms of state power and patronage not just at the national level, but very significantly at regional levels – a development

that has been discussed within the 'interest group' literature and in Baru's own writings (Baru 2000; Nayar 2001).

The second view focuses on ideology and changes in the dominant ideology to explain both the 'socialist' period and the transition to liberalisation. This view ascribes pre-liberalisation policies to 'socialist ideology' and dogma and to the 'visions' of key political functionaries like Nehru. The moves towards 'deregulation' and 'liberalisation' are then wholly explained by a series of crises and contingencies that brought about necessary changes in ideological perceptions. The explanation in this approach has been mainly in terms of studies of ideology and individual vision in the transition from Nehru to Indira Gandhi (Rodrik and Subramanian 2004). For example, Khilnani (2003) has argued that Nehru's achievement was to insinuate the idea of the state into the core of Indian society. According to this reading, the state in the post-independence period became enlarged and its ambitions inflated. It was transformed from something distant and alien into a ubiquitous source of jobs, ration cards, education, security and cultural recognition. Thus the state etched itself into the imagination of Indians in a way that no previous ruler had ever done.

Khilnani repeatedly asserts that Nehru's original vision has been parodied and democracy had been reduced in the next two decades to its basest definition: the winning of elections. For Khilnani, at the bottom of it all is the disappointing failure of the tightly controlled command economy, which has proven to be, in the author's words, "grandiose, irrelevant and even destructive". He argues that the profusion of controls has failed to create a productive public sector. "It has squeezed out private enterprise and given the state access to resources used not for welfare but as pools of patronage." Thus this approach has much in common with the policy error approach already discussed.

If state ideology could drive wrong policies, the state must have been autonomous enough to resist all the signals coming to it about the consequences of these policies. Indeed, many analysts who focus on policy mistakes to explain intervention argue that the Indian state enjoyed autonomy in the interventionist period that was lost subsequently. An example is Nayar's (2001) explanation based on the political events of the period. He argues,

...the domestic constraints had become more salient with the effective entry of the masses into the political arena during the 1960s, as witnessed in the food riots and agitations and in the popular reprisals inflicted on the Congress Party in the elections. Social mobilisation had advanced substantially compared to that of the earlier years during which *India's* distinctive economic strategy was initially formulated. Societal actors – whether in the shape of the farm lobby, business groups, mobs or even chief ministers – had become more active, reducing the earlier autonomy of the state, not only in relation to society but ultimately also to the international system. The immediate pressures for reform may have originated in the western powers, but the proximate cause was the unacceptability of the contemporaneous economic situation to Indian society. The remote cause, however, was the particular combination of the economic strategy, and the political framework, for it brought on in the final analysis both the economic crises in terms of shortages of food and consumer goods and the dependence on foreign powers for resources. (Nayar 2001: 104).

For Nayar, in his Rostowian periodisation of India's 'growth take-off', the year 1975-76 marks the beginning of liberalisation of the Indian economy and the end of the 'Hindu' rate of growth (Nayar 2006). This is based on the idea that the state lost its relative autonomy since the 1960s. Nayar's (2001) analysis rests on an assessment of the conventional analysis of 'failure' of socialist 'command economies' applied to India, quite oblivious to the all-important question that Thavaraj (1972) put very aptly as to 'who controlled the command economy' in independent India. Nayar's analysis is untenable as the 'interventionist' measures of the early 1970s clearly established a relative autonomy in the policy sphere that we will argue was an outcome of the balance of class power underlying the different sources of capital accumulation that were outside the purview of 'intervention' but related to the terrain of both the 'state' and the 'market' as sources of primary accumulation of capital.

The third approach is to analyse interventionist economic policies from a materialist perspective as a set of 'pragmatist' policies for a capital scarce economy and the economic constraints facing economies emerging out of colonialism (Chakravarty 1987,). According to Kohli (2004), it was the fragmented multi-class nature of the Indian state that accounted for its lacklustre economic performance. This would then beg the question whether this fragmented multi-class nature of the state changed in the last two decades so as to explain either liberalisation or the growth acceleration from the late 1980s. These approaches do not provide an analysis of the changes in social forces that could explain changes in state policies. At best these approaches refer to a series of 'patron-client' networks of the 'elite' in explaining the economics of 'dirigisme' in India (Rudolph and Rudolph 1998, Kohli 2004).

A class based perspective was expounded by Raj (1973) based on Kalecki's (1972) concept of the dominance of intermediate regimes in economies that have not made a complete transition to capitalism entailing the relative weakness of both the capitalist class and the proletariat. In the face of this relative weakness, intermediate classes were argued to have dominated the state and structured the intermediate regime. Kalecki (1972) stressed the difference between accumulation processes in such intermediate regimes and the accumulation patterns in early capitalism. He traced this difference to the role of the state as the main terrain of accumulation in intermediate regimes. However, this analysis completely occluded the social, economic and political power of the 'big bourgeoisie' in India that had been central to the trajectory of the post-independence Indian state (Namboodiripad 1973; Byres 1997). Chibber (2003) provides further evidence on the role of the organised political power of the capitalist class in India in the shaping of the policy structure of the post-independent state. This thesis adds further evidence to not only establish the dominance of the organised capitalist class at independence but also traces the increase in its political and economic power in the post-independence period. Harriss-White and McCartney (2000) have pointed out the conceptual obfuscation of class in the analysis of intermediate regimes based on an economic scale of gain and loss rather than a social relation emanating from the mode of production.

One explanation within this tradition that goes against the tide of such obfuscating narratives is Chibber's (2003) argument that the policies emanating out of the state structure at independence made the state subservient to the power of capital. The Nehru-Mahalanobis paradigm strengthened this political power of the capitalist class by endowing it with the convenient position of being politically strategic and economically unaccountable (Chibber 2003). Chibber traces the subservience of state policies to organised capitalist interests through the developments in and around the National Planning Committee. It is, however, questionable whether the simplistic dichotomy that Chibber poses between the policy regimes around import substituting industrialisation in India versus export led Industrialisation in South Korea, as the causal explanation for the difference in state-capital relationships in the two countries, is a sufficient explanation for the failure of the state to discipline the capitalist class in India and the concurrent success of the South Korean state in achieving it. Pakistan pursued export-led industrialisation even earlier than South Korea, but the power of capitalists to capture 'unproductive' rents in Pakistan led to failure of the strategy (Khan 2000, 2002). This indicates that there may be other causal explanations for the subservience of the Indian state to the power of capital. Chandrasekhar and Ghosh (2002) have argued that for Indian capital to break into export markets on its own, it was necessary to have not only very substantial backing of the state but also a massive effort on the part of Indian capital itself. It was incapable of making such an effort, partly because of its unwillingness to accept a certain minimum discipline, a point which Chibber also makes, but also because the export prospects of Indian capital remained limited (Chandrasekhar and Ghosh 2002; Patnaik 2000; Saith 2000). For 'big' capitalists, the incentives of import substituting industrialisation guaranteed a protected market, access to subsidised finance and underwriting and absorption of risks by the state. So even though there were early pressures to liberalise e.g. the formation of the 'Forum for Free Enterprise' (Shroff 1966), it did not find many takers.

Finally, a significant body of literature from a historical materialist perspective has traced changes in economic policies to the contradictions evolving out of the anti-colonial struggle, with the growth of a subjugated but nevertheless emerging class of Indian capitalists and the modalities of their expansion and social power in the post-independence period. In this approach the capitalist class features as an active social agency in the decisions made within the structures of state power. These structures moulded the relations of private property and defined the linkage between the public and private spheres of the economy, the market and the state as mutually linked spheres of accumulation (Patnaik 1984; Desai 1984; Bagchi 2002; Chandrasekhar and Ghosh 2002; Mukherjee Reed 2001). The methodology of this thesis follows this analytical framework based on social relations.

The question of the link between state and capital entered the mainstream of political debates in India once the Hazari report came in 1967. The Hazari report established empirically what had been perceived as a social phenomenon – the immense concentration of wealth among

the top 'business houses' in India. This brought the Nehru-Mahalanobis strategy and the role of the state in the economy under academic scrutiny. The explicit political debate on the nature of the relationship between state and capital in India took place not in academia though academics made significant contributions to it, but in the course of the formulation of the programmes of the Communist movement in India (Byres 1998). The debate was premised on the understanding of the role of the Indian bourgeoisie and its relationship with the dominant class of landlords and the relationship of these two classes with the state. This debate led to two significant splits in the Communist movement, the first in 1964 that led to the formation of the Communist Party of India (Marxist), CPI (M), that broke away from the Communist Party of India, CPI, and later the split in 1967 from the CPI (M) with the emergence of the 'Maoist' movement around Naxalbari.

The developments around the Communist movement are beyond the scope of this research, but the concepts that this debate was geared around are directly relevant. The debate from the 1950s that culminated in the 1964 split was about whether the Indian bourgeoisie after independence could be considered a 'national bourgeoisie' as argued by the CPI and dubbed as the 'Moscow line' and could be relied on as a force that was still anti-imperialist and interested in progressive nation-building, and thus an ally in the process of the 'national democratic revolution' (Ranadive 1990, 2000). The alternative analysis was that the Indian bourgeoisie was essentially a 'comprador bourgeoisie', a bourgeoisie entirely subservient to the cause of imperialist capital. This was the assessment of the Naxalites who constituted the CPI (ML) that later split into diverse Maoist groups. The CPI (M) developed a line based on the concept of the 'big bourgeoisie' that pointed to the monopolistic character of capitalist development in India. The stratification of the capitalist class and the power of the top layers of the bourgeoisie over the state and the barriers created by this 'big bourgeoisie' to pursue the cause of 'progressive nation building' meant that a 'people's democratic revolution' had to be forged against the monopolistic 'big bourgeoisie'. Section 5.1 of the CPI (M) programme states that

The present Indian State is the organ of the class rule of the bourgeoisie and landlords led by the big bourgeoisie, who are increasingly collaborating with foreign finance capital in pursuit of the capitalist path of development. This class character essentially determines the role and function of State in the life of the country.

What was common in all three readings was the recognition of the 'bourgeoisie' and the 'landlords' as the dominant classes. The debates in the 1960s led to different approaches to the question of 'programmes' for the party in building up the movements geared towards the respective 'democratic revolutions' and the role of parliamentary politics in achieving such an aim.

These debates have often been dismissed as crude and the key activist-organiser figures involved in the debates much maligned by later official biographers of Indian capital and labour. But these are the extensive debates that took place on the question of the specific nature of the relationship of state and capital in India from a Marxist perspective. This thesis derives its

central question from this debate by tracing the relationship between state and capital in India in the shift in the dominant policies of global capital from the neo-mercantile 'development consensus' of the post-War period to the neoliberal 'Washington consensus' and beyond. The central question of the thesis is to address the relationship between state and capital in the evolution of dirigisme in post-independent India, the crisis of dirigisme in the face of expanding accumulation and the subsequent turn to neoliberal policies of the state. Thus the focus is on developing an analysis that assesses the shift from dirigisme to neoliberalism in India through the lens of the relationship between state and capital to ascertain the key changes in this relationship.

### **2.3 Formulating a Methodological Paradigm**

Any discussion on the state inevitably starts with a definitional problem (Byres 1997). Marx and Engels traced the relationship between the 'development of the bourgeoisie' in Europe and the 'corresponding political advance of that class' as follows:

An oppressed class under the sway of the feudal nobility, an armed and self-governing association in the medieval commune; here independent urban republic (as in Italy and Germany), there taxable "third estate" of the monarchy (as in France), afterwards, in the period of manufacture proper, serving either the semi-feudal or the absolute monarchy as a counterpoise against the nobility, and, in fact, cornerstone of the great monarchies in general, the bourgeoisie has at last, since the establishment of Modern Industry and of the world market, conquered for itself, in the modern representative State, exclusive political sway. The executive of the modern State is but a committee for managing the common affairs of the whole bourgeoisie (Marx and Engels 1998: 37).

This was an analysis historically rooted in the transformations of European states with the emergence of capitalist relations as dominant and the bourgeoisie as the key ruling class. Marx in the third volume of *Capital* also points to the historical specificity of state formations and its relationship with social relations by arguing:

...It is always the direct relationship of the owners of the conditions of production to the direct producers – a relation always naturally corresponding to a definite stage in the development of the methods of labour and thereby its social productivity – which reveals the innermost secret, the hidden basis of the entire social structure, and with it the political form of the relation of sovereignty and dependence, in short the corresponding specific form of state. (Marx 1986: 791).

Further in the *Critique of the Gotha Programme*, Marx argues that while one can generalise about 'present society' across national boundaries, it is impossible to do so about the 'present state'. Thus whereas a 'capitalist society' could be found in all 'civilised countries' and varies only in degree of development, the form of the state changes with each country's border...and differs between the Prusso-German empire and Switzerland and 'different in England from that in the United States (Marx 1968: 312). Mandel (1980) also stresses the specificity of state formation in arguing that every attempt to define the class nature of the capitalist state, which abstracts from the historical origins of that state, i.e. which rejects the

genetic method, conflicts with historical materialism. This is our methodological starting point. The nature of states that emerged as material outcomes of anti-colonial struggles have specific histories and developed specific historical imperatives in their general task. However, in general the nation state has been an indispensable instrument in the process of capitalist development, not only in the sense that the military power of European nation states has carried the dominating force of capital to every corner of the world, but also in the sense that nation states have been the conduits of capitalism at the receiving end too (Wood 1995).

The state's role as a leader of the accumulation process has been characterised as 'capitalism from above' (Byres 1996). This is useful in terms of understanding the imperatives of a capital accumulation process that is directed from above by the state. This also suggests that in such accumulation regimes, state and society (civil or otherwise) have a relationship that is hierarchical as the state achieves political power to direct the method of accumulation through its interventions in society. But often this proposition is misunderstood to mean that the state is above the divisions in society and in some ways a supra-class entity leading to the debate on the nature and extent of the 'embeddedness' of states (Herring 1999). In our study, we examine the processes of accumulation originating both 'from above' and 'from below' to ascertain the extent to which the state was able to control and direct the accumulation process

The state can be invested with substantial power to mould the economy and civil society without being a supra-class entity (Patnaik 1999b). Indeed, the very proposition that the state has to be invested with this power suggests an agency or agencies that are in a position to invest such power. Niebyl (1946) argued that

...the *meaning* of seeing things as a whole lies in the ensuing *capacity* to act in line with reality thus understood. This capacity of man is a reflection of the fact that he, man, produces himself, is producing society, and that he is not doing so *consciously*. In doing so man changes the forms of social reproduction.

The second and more intense debate is about the nature of this agency that has the means to invest and divest authority to the state as representatives of 'society' and in turn allows the state to represent society. This is where the construct of 'civil society' permits a range of such agency to be the locus of power – but the stress in a bourgeois social formation is always on a separation of social, political and economic power in the public domain. Kohli and Shue (1994) argue that such exercises are best pursued not by a primary focus on that state's organisational characteristics, but by tracing the manner in which state and society are linked.

Certain abstract propositions have been made towards resolving these debates, but none of these abstractions can be applied without certain analytical questions related to praxis.

The first proposition relates to the primacy of class in the Marxist paradigm. In the Indian context, variegated structured social formations like caste, denominational community and religious structures constitute what Patnaik has termed an amalgam of the modern and the archaic (1999). The lack of a bourgeois revolution in the classical sense has often been the focus of debate around the persistence of non-capitalist relations in Indian society. Why the

bourgeoisie did not radically transform the social relations of the pre-modern period is a question that would take us beyond the scope of the thesis. However, it might be noted that this debate has been addressed in various ways. One strand of the argument has stressed the absence of a complete 'bourgeois revolution' in the classical Western European sense in colonised societies (Mukherjee 2000). A 'caste in class' approach has been advocated by Mukherjee (2000) rather than a 'caste and class' approach which had been dominant in the works of leading sociologists like Srinivas (1962) and Beteille (1966). Another strand has stressed the general role of such social relations in the entire cycle of labour central to the capitalist mode of production and reproduction (Wolf 2007). Taking cognisance of the theoretical problematic around the question of social formations and agency, we devote our study to trace the modes of social organisation of Indian capital. In this sense, we do attribute a primacy to class in our analysis. In this we follow Wood (1995), who argued that the primacy of class is

...not because class is the only form of oppression or even the most frequent, consistent, or violent source of social conflict but rather because its terrain is the social organisation of production which creates the material conditions of existence. (Ibid: 108)

The second qualification relates to the lack of a general theory of the state that has often been considered a 'problem'. The debate on the 'developmental state' (Woo-Cummings 1999) actually established the historical specificity of the rise of nation states and the specificity of state formation that cannot be disassociated or abstracted from any reading of state-society relationships (Amsden 1989, 2001). It is necessary to examine each state on its own terms rather than look for models of the state.

It is incorrect to adopt an essentialist approach to the state and that one must always engage in a complex process of analysis and synthesis in order to comprehend 'present states' and change them (Jessop 1982: 24).

However a broad range of institutions that are common to the constitution of the 'modern' state is worth mentioning (Byres 1998). According to Byres, the state could be said to be a set of institutions like the bureaucracy, public corporations, central bank, sub-central organs of power, representative assemblies, police, army, law courts, judiciary etc and personnel who exert authority over a territorially distinct area. In a Marxist framework that locates class as a social relation distinct from the treatment of class as a stratification or a layer in the hierarchy of society defined by economic criterion like income or occupation (Wood 1995), these sets of institutions underwrite the maintenance of social order and reproduction of class relations. In this sense, the state is an instrument of class rule. However it is the premises of 'nationhood' in a nation-state that demarcates the rights and boundaries of the people it 'represents' and 'governs'. For countries that emerged as 'nation states' from anti-colonial liberation struggles, the premises of 'nationhood' are dialectically linked to the social basis of the struggle. This is a complex topic because of the inherent complexity of the social processes that characterised the

period and the immense literature around it that has emanated since the 1970s that can obfuscate any attempt to answer the central question in the research. While the question is important in terms of the political developments in India, especially with regard to Kashmir, several north-eastern states, the brief interlude of the Khalistan movement in Punjab and the various movements in India for more regional autonomy, we note that the challenges to the overall legitimacy of the Indian state in its right to govern in the post-independence period has not really had any major impact on the relationship between state and capital in India and thus has been kept out of the purview of this thesis. However, the regional basis of accumulation is one of the central themes of the study.

The third qualification arises in the context of the literature on 'developmental state' based on the accumulation and growth patterns in East Asia where the states are characterised as interventionist but not dirigiste, the successful implementation of land reforms and the role and achievement of universal adult literacy (Amsden 2001). In this context, the interventionism in East Asia is believed to be pragmatist, while dirigisme is associated with dogma by neoclassical practitioners (Lal 1983). The question of geopolitical considerations of American support in bolstering the fight against Communism in Asia by creating a market for exports from East Asia has been made again and again in the literature (Bagchi 2002). Similarly Patnaik (1999b) argues that the post-war Japanese miracle could not have occurred, if the United States, for strategic reasons (having to do with the containment of Communism) had not provided such substantial market access to Japanese exports. The same can be said of the other successful East Asian countries.

Equally important is the question of the relative power of the state over capital in exercising methods of 'discipline' in East Asia. This was a product of the specific histories of the rise of the 'bourgeoisie' in each of the East Asian nation-states. The historical compulsions of operating within the paradigms of discipline laid out by the state have been traced to limits on political power of the capitalist classes in each of these countries (Khan 2000). In the sub-continental context, the rise of indigenous capitalism in the face of a crisis of Empire stemming from the rise of rival imperialist capital, and the direct and indirect link of the indigenous capitalists with the mainstream of the leadership of the national liberation struggle in the last decade of colonialism ensured their political power (Bagchi 1972; Ray 1979; Chibber 2003). Our research, starting from these premises, traces the contours of political development of the Indian capitalist class in the post-independence period to establish the continuities and changes in its relationship with the state.

The fourth qualification arises in the use of a Gramscian approach to study 'hegemony' and 'consciousness'. The developments in Indian society after independence has often been characterised as a 'passive revolution' based on a Gramscian paradigm (Chatterjee 1997). Chatterjee (1997) has argued that as a historical model, passive revolution is in fact the general framework of capitalist transition in societies where bourgeois hegemony has not been

accomplished in the classical way, that is, through a successful bourgeois revolution. This is based on the interpretation that Gramsci regarded passive revolution as a blocked dialectic, an exception to the paradigmatic form of bourgeois revolution. This interpretation in itself has been regarded as compelling, but we argue that the application of the concept of passive revolution that follows from this approach has serious limitations.

Let us examine the political economy basis of Gramsci's characterisation of the passive revolution. Gramsci in the concluding paragraph of his Notes on Italian History observes:

There is a passive revolution involved in the fact that – through the legislative intervention of the State and by means of the Corporate organisations-relatively far reaching modifications are being introduced into the country's economic structure...; in other words, that socialisation and co-operation in the sphere of production are being increased, without however touching (or at least nothing beyond regulation and control of) individual and group appropriation of profit. (Gramsci 1971: 119-120)

On the basis of this socialisation, Gramsci had argued that in the concrete framework in Italian social relations, the only solution would be to develop the productive forces of industry under the direction of traditional ruling classes, in competition with more advanced industrial formations of countries which monopolise raw materials and have accumulated massive capital gains. This was the political economy basis of the passive revolution of corporatism in Italian social relations under fascism.

Chatterjee's (1997) arguments on the 'passive revolution' in India is based on interpretations of the politics of vote banks and the rhetorical commitments to community development in Indian planning. For the second, Chatterjee merely asserts it without any kind of evidence. There is no historicised account of these processes for the fifty-year period after independence. But most importantly, the entire analysis does not address the question of capital accumulation and profit trends in post-independence India. This was after all the central question that led Gramsci to develop the concept of the passive revolution. Our research shows that in the Indian context, socialisation and co-operation in the sphere of production has retreated in the last three decades while individual and family based appropriation of profit has increased. Thus invoking the concept of the 'passive revolution' without situating it in the concrete framework of accumulation regimes in Indian social relations would be an exercise in futility.

In developing a theoretical basis for studying any state,

...the most reliable thing in a question of social science, and one that is most necessary in order really to acquire the habit of approaching this question correctly and not allowing oneself to get lost in the mass of detail or in the immense variety of conflicting opinion-the most important thing if one is to approach this question scientifically is not to forget the underlying historical connection, to examine every question from the standpoint of how the given phenomenon arose in history and what were the principal stages in its development, and, from the standpoint of its development, to examine what it has become today (Lenin 1964: 5).

This historical approach is undertaken within a framework of Marxist political economy. In studying the development of capital accumulation under the aegis of the state, a number of

theoretical concepts are involved which informs the entire narrative of the thesis. Here, we briefly summarise the concepts that are our major preoccupation in the form of analytical tools.

The first concept is that of primary or primitive accumulation. Marx (1976) in his study of the development of the capitalist mode of production in *Capital* (Volume One) established that the transition to a capitalist mode is marked by a process of accumulation based on expropriation and dispossession of the peasantry. Thus in tracing the early development of the capitalist mode in England, the origins of capitalism are to be found in the transformation of relations of production on the land. In countering the idea of 'previous accumulation' in Adam Smith that was argued to be a result of abstinence, Marx stresses the brutality of the process of such accumulation, which he terms 'the secret of primitive accumulation' (Marx 1976: 873), in the expropriation of the peasantry from the land and its transformation into a class of wage labourers in both agriculture and industry. Our use of the term 'primitive' or 'primary' accumulation encompasses the appropriation of means of production from outside the capitalist sector. The source of such 'primary accumulation' are varied and not just restricted to agriculture. In fact, we demonstrate later that a major role of the state in the post independence period was to facilitate the primary accumulation of capital. Marx (1976) also distinguished between primary or primitive accumulation and centralisation or concentration of capital in which he spelt out the processes through which capital accumulation expands within the capitalist mode of production. This concentration of capital in post-independence India is central to our analysis of regional accumulation patterns in Chapters Five and Six.

In this research, we assess the developments of the post-independent Indian state in the construction of dirigisme and then focus on the changes that led to a shift to neoliberalism. The term dirigisme is used to underline the active economic participation of the state and the emergence of a state directed process of development. In this, we follow Toye (1981) and Patnaik and Chandrasekhar (1998) who studied the structure of dirigisme in India and stressed the increasing role of public sector enterprises in infrastructure and basic services. The dirigiste state was not only highly interventionist, but was an active economic agent in the fostering of capitalism.

We focus on the role of financialisation as one of the causal factors in the shift from dirigisme to neoliberalism. In this, the role of rentier finance has been examined in detail. Keynes (1936) had defined rentier as the functionless investor who generates income through ownership of capital based on its scarcity value. Marx (1986) however had stressed the role of the owners of the credit system in the centralisation of capital, commented on the class of 'parasites' who wielded fabulous power and highlighted the dangers posed by the class in their separation from the process of production. Lenin had pointed to the interlocking of such capital with industrial capital in the construction of finance capital in early 20<sup>th</sup> century. Epstein and Jayadev (2005) have established that starting in the late 1970s, the advent of monetarism and then neoliberalism led to the re-emergence of a rentier class in finance. Our analysis follows

from Marx, Lenin and Epstein in stressing the role of rentier finance as an active agency in the construction of neoliberalism in India.

In this research, we argue that populism was one of the responses to the crisis of dirigisme since the mid 1960s. Kohli (1990) in his study of populism in South Asia had emphasised populism as a response of the political leadership and emphasised the personal aspects of the phenomenon. In contrast, Jalal (1995) looks at populism as a political programme to address the status of the dispossessed and downtrodden rather than empowerment through political mobilisation and organisation based on systemic class analysis of social inequities. Our emphasis in addressing populism is also on the political content of programmes and policies that were specific in their response to addressing poverty and unemployment beginning from the 1970s. Some of the measures initiated in the 1970s persist in the present, but populism as the key thrust of political strategy lost steam by the 1980s.

As outlined earlier, this research is based on a Marxist a political economy frame work. The exact nature of the framework is defined by the problematic – that of historicising a relatively recent period of Indian history, namely the post-independence period. The task is to trace the defining features of the relationship between state and capital in the shift from one distinct framework of state policies to another, namely dirigisme and neoliberalism. The framework of policies associated with the pre-neoliberal period in India has been characterised as ‘dirigisme’. The analysis is focussed on the sources and social modalities of such accumulation with an attempt to identify the contradictory pushes and pulls of the relationship that led to the shift from ‘dirigisme’ to ‘neoliberalism’. The effectiveness of the Indian state is mediated by a series of inter-relationships, both political and economic between various contestants in the accumulation process. The effort is to highlight the social relations of capital and the continuities and changes in the accumulation process that was characteristic of post-independence ‘development’ and formed the material basis of ideology formation and ideological change.

Two problems need to be addressed right at the beginning. The first has to do with the wide scope of the research theme in terms of historical time and the second in the number of sub-themes that need to be covered to come up with meaningful conclusions. This relatively wide canvas of the research requires a narrative structure that can straddle multiple methods within a methodological approach which we have defined in Marxist terms in the earlier part of the chapter. We call this narrative structure based on political economy an ‘analytical narrative’. This can be understood as a methodological exercise to address the predominant challenge that emerges in any critical study of contemporary history – the lack of standard archival sources because most private and some public documents are not in the public domain as they are not classified as historical material. Our analytical narrative combines four distinct field exercises – study of historical material, analysis of quantitative and qualitative data, case studies based on business histories and primary information collected through surveys and interviews. Without

being termed so, the straddling of the first two exercises in developing analytical narratives has been used in many of the accounts in Indian political economy. Some recent examples are Frankel (2005), Chibber (2003), Chandrasekhar and Ghosh (2002) and Nayar (2001). Of course, this is by no means an exhaustive list. This research is based on three parallel exercises: the significant developments in the economy in the post-independence period in terms of structural change or the lack of it, study of the policy framework of the state and its relationship with organised capital and the continuities and changes in the capital accumulation process that was characteristic of post-independence 'development'.

For the first two parts, a wide range of standard sources is available. First, there is a huge secondary literature that has been used consistently throughout the thesis. Second, published and unpublished material is also widely available. These consisted of a variety of material extracted from various parliamentary debates over the period 1947-1980; key speeches and writings of votaries of neo-liberalism, leaders of organisations of capitalists like chambers of commerce and other associations and state functionaries; and policy documents of the Government of India. This rich store-house of material lends itself to varying interpretations. However, official documents also occlude the unrecorded voices in terms of responses to or independent assessments of the same issues and problems. Thus 'dissent' is more difficult to capture in official documents. Detailed interviews of representatives of various organisations of industry and business, trade-unions and political parties and structured surveys of business groups and workers in the pharmaceutical sector were conducted to address the debate and dissent around issues which arose from the examination of the standard sources.

For macroeconomic data, we have used the National Accounts Statistics (NAS) from the Ministry of Statistics from 1950-51 to 1999-2000 and the EPW Research Foundation (EPWRF) from 1950-51 to 2001-2 and a compilation of Annual Surveys of Industries (1973-4 to 1997-8) from the EPW Research Foundation. The difference between the NAS data and the EPWRF compilation is that it provides a linked series that makes the data more comparable apart from the fact that it covers two additional years. At this point, one should note that the reliability of these statistics has been questioned and it has been argued that as measures of aggregate output, they are underestimated because they completely ignore the informal sector and the black economy. In addition, they underestimate the work done by women (Chandrasekhar 2001, EPWRF 2002b). For the purpose of this analysis, the prospect that the magnitudes of the social process of accumulation and investment might be even greater than the published national accounts, does not undermine our overall argument and in some aspects actually strengthens it. For example, we have observed that there was a significant growth in gross domestic capital formation and net additions to stocks between the period 1950-55 and the next period 1956-65 (See Chapter Four). We have demonstrated that even before the state had worked out the detailed nature of support to capital formation through planning and tariff support, the capitalist class was being supported through the licensing policy and credit from national financial

institutions in the first plan period. However, it was only after the intervention by the state through its planned strategies into the arena of public investment in the development of transport, communication, irrigation, education, research and development that domestic capital formation showed a visible spurt. The possibility that the magnitudes of domestic capital formation and output were higher than the official estimates does not affect our argument, but may actually strengthen it. However, to trace the social modalities of expansion of capital, two problems had to be overcome – data on gross capital formation is available only at the national and state level classified as private and public. But, to develop an account based on the role of family and the holding structures in terms of business houses as the key agency in the expansion of capital, this data is grossly inadequate. Thus business history, as a rich source of material was used to develop case studies on business groups. Second, due to the contemporary nature of the historical exercise, evidence pertaining to important developments like holding structures of capital by business houses, financialisation of capital and flexibilisation of the labour force was collected from two surveys: one of 100 workers in the pharmaceutical sector covering 10 companies in New Delhi, Kolkata and Mumbai and a survey of 50 family run business houses in Kolkata. This was supplemented by interviews of important political functionaries who have been known to have a defined ideological position on the processes of capital accumulation that have been central to the shift to neoliberalism. The choice of studying business groups in Kolkata may be questioned as the main seat of capital now has shifted to Bangalore, Hyderabad, Chennai and Delhi apart from the old centres around Mumbai, Ahmedabad and Baroda. However, Kolkata business houses were chosen as they have a continuous history from the late colonial period and thus provide an insight into the major changes in the post-independence period. The developments in the other metropolitan centres have been studied through business histories and region-specific developments. The survey of pharmaceutical workers in New Delhi, Mumbai and Kolkata may also be questioned as the main centres of the pharmaceutical industry are in Maharashtra, Gujarat and to a lesser extent in Hyderabad. But the focus of the survey was to identify the flexibilisation of the non-core section of the labour force namely in sales and service and this extends beyond the centres of production.

In our analysis, institutions of the state and its capacity to formulate and enforce policy in relation to capital emerges as a key sub-theme. The extent of dependence of the capitalist class on the state to discipline labour as opposed to systems of internal labour control also emerges as significant. Key political and social organisations – parties, mass fronts and the associations of capitalists are analysed as agencies of either continuity or change.

The basis of the periodisation that we follow – 1947-1956, 1956-1966, 1966-1980 and 1980-2005 has been discussed in detail in the introduction. However, it must be noted that the social role of these agencies and that of the state varied widely in the four distinct periods that we study. Similarly, in the introduction, the problems of a comparative region specific study over this entire historical period have been laid out. But, the regional specificities of the role of

various social agencies in the process of accumulation in different periods runs as a parallel sub-theme throughout the thesis.

Our main contention is that the effectiveness of the Indian state is mediated by a series of inter-relationships, both political and economic between various contestants in the accumulation process. The effort is to highlight the social relations of capital and the continuities and changes in the accumulation process that was characteristic of post-independence 'development' formed the material basis of ideological change from dirigisme to neoliberalism. To identify these processes, we need to begin by tracing the relationship between the growth of the capitalist class in the colonial period and the links of this process with ideology formation. The next chapter is devoted to this exercise.

### **Chapter Three**

#### **Independence and Emergence of State-led Capitalism**

This chapter is a study of the emergence of specific forms of state-led capitalism in independent India as a result of policies that came to be characterised as 'Nehruvianism' in popular parlance. This ideology and its relation with the small but politically powerful capitalist class in India's 'formal sector' is the subject of our enquiry. This chapter aims to arrive at a political economy perspective of the defining factors in the relation between state and capital that led to the formation of the Congress-led state ideology - the core of 'Nehruvianism'. Although this ideology was primarily directed at the formal capitalist sector, we will also argue in later chapters that the policy had important implications for capitalist accumulation in sectors not directly targeted by the policy. Here we provide a short historical account of the relationship between material processes and bases of ideology formation that defined the relationship between capital and state in the decades preceding the formal transfer of administrative power in 1947. The analysis in different sections of the chapter weaves backwards and forwards between the 19<sup>th</sup> and the 20<sup>th</sup> century. This is unavoidable if we are to establish the various dimensions of the developments in the trajectory of Indian capital in different historical periods within the making of the national liberation struggle that resulted not only in independence but also the paradigm of state led capitalism.

Chibber sums up the importance of this relationship when the 'spectre of communism' was enormously significant in Asia:

This massive nation of almost four hundred million, with its enormous diversity and history of conflict, was choosing to push forward within a bourgeois democratic framework – a fact that was of some significance in a continent which already boasted two large nations committed to Communism, hence making the Indian experiment all the more significant to the capitalist world. India was to be an exemplar, demonstrating the possibility that planning need not presuppose the abolition of property, but could in fact be harnessed to the engine of capital accumulation. (Chibber 2003: 2)

This chapter locates the ideological basis of this 'exemplar experiment' and the emergence of state led capitalism as the cornerstone of economic policy in independent India within the historical developments in the decades preceding independence that shaped the relation between state and capital. In our attempt to develop an understanding as to why social and political organisation in the late colonial period remained structured on pre-modern forms like caste, religious sect and denominational community in spite of the expansion of the capitalist mode of production, we rely on Ahmad (2000) for a political economy approach to the

question. This provides a materialist basis to the social forms of identity and organisation in contrast to essentialist explanations based on 'tradition' and 'modernity' offered by Chatterjee (1993). The chapter is divided into six sections followed by a conclusion. We begin with a historicised account of ideas as this has been the source of major debates in the post-colonial assessments of the period. Our main aim is to demonstrate that the ideas about modernisation and nationalism were clearly linked to the ambitions of indigenous capitalist development manifest in major policy decisions of the Congress-led state after independence. The early development of the indigenous capitalist class in India was characterised by acceptance of strictures imposed by colonial policies. The submission to and acceptance of colonial rule was the norm. The occasional petition to the state was marked by basic loyalism. This has been noted as supplicance to colonial rule (Bagchi 1972; Ray 1979, Sarkar 1983). Section 3.1 discusses the key aspects of supplicance and nationalism and the relationship of these ideologies with the limits of power of the Indian capitalists under colonial rule. 3.2 is an analysis of the contradictions and collaborations of the Indian bourgeoisie with the colonial state and the sources of its underlying ideological conservatism. 3.3 traces the rise of the Indian capitalist class within capitalist enclaves that was a product of the social relations under colonialism. The sources of primitive accumulation are located within the opportunities and limitations arising out of the political, and economic structures of colonial society. 3.4 is a discussion on the forms of political organisation that emerged out of the changing social relations under colonialism. 3.5 discusses the power struggle within the Congress about the ideological role of the state in independent India in the face of rising militancy both within the mainstream Congress and the increasing power of socialists and communists along with rise of organisations based on community. It provides an account of the struggles within the Congress over the ideological precepts of the independent Indian state in the run-up to freedom from British rule. 3.6 discusses the impact of the consensus in development economics after World War II on nationalist economic thinking in the formulation of state ideology.

### **3.1 Locating the Power of Indian Capital: Supplicance and Nationalism**

A large part of culturalist evaluations of Indian society and polity under colonialism has remained preoccupied with the 'making of nationhood' during the colonial period. These discursive studies, of which Chatterjee (1993) is one of the best known, have made a significant contribution to our understanding of formation and 'construction' of nationhood in India. But in separating the 'elite project' of the formation of the Indian nation-state from the project of capitalism, and replacing it with 'modernity' traced to the Enlightenment as we have argued in Chapter One, such renderings have undermined the significance of both the organised and the informal power of capitalists in the inter-war and post-war period. Corbridge and Harriss (2000) in their review of 'India in 1947' have pointed to the 'limited structural transformation' under British rule, but not really engaged with specific question of where the capitalist class was

located in the political turn of events that determined the path of state policies in Independent India. Our analysis supplements Corbridge and Harriss (2000) by focussing on the economic, social, political and ideological trajectory of Indian capital under colonial rule. The rise in the economic and political power of the fledgling capitalist class had immense impact on the contours of the direction of not just 'economic policy', but the specific social relations that defined the contours of state led capitalism in independent India (Bagchi 2002). The aim of fostering capitalism was one of the central aims of the project of 'nation building' if not the only aim.

In spite of the contentions of some historians of imperialist history writing about colonial priorities and the caste and community based priorities of the Indian elite (as in the Namierite readings of the Cambridge school and some of the subaltern studies initiatives), there is a broad consensus in the literature based on political economy that colonial rule in India was mainly about using India as a source of surplus and a market for staples for Britain (Moosvi 1997). British enterprise dominated in Eastern India in jute, tea and mining. Large British industrial interests like cotton textiles, shipping and engineering and British banks shared the larger imperial interests of maintaining stability within the British empire till 1914 (Bagchi 1972; Kidron 1965). The expansion of the railways was based on the utility of railways for expanding the market for British goods, increasing the demand for railway manufactures and increasing the flow of exports, all of which was the preserve of colonial capital (Bagchi 1972).

The political space for radical activities was confined by an extensive network of 'surveillance' of the colonial state (Chattopadhyay 2006) and industrial development was constrained by the nature of colonial rule (Bagchi 1972; Ray 1979). In this context, many organisations that took 'modern' forms were structured along forms of collective action already existing in 'premodern' society such as 'denominational community, religious sect and caste associations' (Ahmad 2000). Please see Section 2.3 on the theoretical implications of this social phenomenon for this work. In the course of the national liberation struggle, contradictions and conjunctures within the struggle led to the adoption of particular ideologies and political structures of organisation as the basis of the independent Indian state. The bourgeoisie did not necessarily 'sweep' away the 'fetters' of the non-capitalist modes of social organisation. Thus capitalists in the colonial period were organised in terms of community and caste apart from organisations based on class like the apex bodies of commerce and industry along with the development of capitalist social relations in the material basis of organisation of business

'Modernisation' and 'economic nationalism' became the dominant ideological core of the nationalist leadership in the course of the anti-colonial struggle (Patnaik 1999b). 'Economic nationalism' as an ideology dominated all strands of the struggle whether it was the Gandhian strand that argued for a 'self-sufficient village community'; or the modernising Nehruvian vision that argued for 'self-reliance' on the basis of a massive project of state-led industrialisation; or the socialist idea based on such industrialisation along with an extensive

'socialising of the means of production' through radical changes in the structure of property rights (Sarkar 1990). Each of these ideas of 'self-sufficiency' was a direct reaction to the history of economic plunder in the early phase of colonial rule and the discrimination based on race that characterised colonial attitude and policy not only towards indigenous capitalist development (Bagchi 1972), but also to the general pauperisation, destitution and dehumanisation associated with colonial rule (Dutt 1992).

'Modernisation' through industrialisation emerged dominant in the political contest as different strands of the liberation struggle became locked in ideological battle. This was concomitant on the rise in mass mobilisations against colonialism and imperialism by all the different strands from the 1930s onwards (Namboodiripad 1975). But the project of this modernisation was far removed from the 'pristine' ideals encapsulated in Nehru's writings and was tempered and cut to size based on the rise in political power of Indian capital within the Congress and the economic clout of different 'foreign capitals' that had penetrated the Indian market in the inter-war period. The historical analysis of different ideological strands in Indian nationalism would be beyond the scope of this research. However for the sake of establishing the relationship between state and capital that emerged with the formal transfer of power, a review of the political economy of the relationship of capital to ideology and political organisation is necessary.

The specificity of the capitalist path in the 'modernisation' project of the Congress-led state was summed up in three major policy decisions after independence – the decision to protect the sanctity of private property, the use of indicative planning in allocating resources for development (Chibber 2003) and an assurance of a 'level playing field for foreign capital' by Nehru in 1949 in the debates leading to the provisions of non-discrimination against foreign capital in the Companies Act of 1956 (Chenoy 1985). These were decisions that were upheld by the leadership of the Congress in India and endorsed by leading capitalists involved in the higher echelons of Congress organisation and other 'social organisations' of capital (Sarkar 1983).

The first development that is important for our analysis is that the nascent Indian capitalist class profited and found avenues of economic expansion in the inter-war period in a number of ways. This was directly linked to the crisis of the British Empire in the inter-war period. With the industrial rise of Germany and the USA, by the eve of the First World War close to one-fifth of imports into the British economy were no longer paid for by the export of goods. By the Second World War with the rise of Japan, two fifths of British imports were no longer compensated by exports. In the build up to the First World War, this adverse balance of trade was covered by overseas income from foreign investment, financial commissions and shipping. By World War II, even this overseas imperial income could not finance the balance of payments crisis facing the British state (Dutt 1949: 23-24).

The second crisis of British capital in India came from the threat of penetration of the captive colonial market in India by competing foreign goods. It was in this context that in 1905, with the establishment of a new Department of Commerce and Industry under Lord Curzon, the first Industrial Conference was held. By the beginning of the First World War, the American state had finished its comprehensive survey for entry into the 'mass market' in colonial India. The US department of Commerce's Special Consular report stated

In doing business (in India) with the upper and middle classes it is possible to secure a rather wide margin of profit, but the sales must be comparatively small. In doing business with the great masses of the people the margin of profit must be extremely small; however the sales and collective profits may be enormous. (Baker 1915 quoted in Ray 2002: 119-120)

The fear of losing the Indian market was expressed by Lord Hardinge, the Viceroy of India between 1910 and 1916, in his observation that India would become 'the dumping ground for the manufactures of foreign nations' (Dutt 1992: 151), an activity that had been the prerogative of British capital since the late 19<sup>th</sup> century (Bagchi 1972). The weakening of imperial capital in the inter-War period followed by the imperatives of World War II led to the penetration of American capital through trade into India. The value of American exports to India rose phenomenally between 1938 and 1947 from 42.8 million dollars in 1938 to 399.7 million dollars in 1947 (Dutt 1949: 51).

Historians widely agree that the first priority of the British state was the maintenance of stability in the imperial system (Bagchi 1972). The interests of individual industries in Great Britain and British industrialists in India were subordinate to that objective (Panikkar 1959; Bagchi 1972; Markovits 1985). Nevertheless, the crisis of empire created niches for the development of Indian capital with a strong argument for the introduction of a system of tariffs to protect the Indian market from foreign competition. This system of tariffs mainly aimed to protect British capital in the inter-war period and maintain 'stability' in the British empire but it also provided limited concessions and protection to Indian capital (Markovits 1985) as a result of the imperative on the colonial state to accommodate basic demands from Indian capital and maintain it as an ally in the face of a rise in labour militancy since the 1920s (Chandravarkar 1994; Basu 2004). The concessions to Indian capital, however, were arbitrary, discriminatory and often short-lived. The Tariff Board received a series of applications from Indian capitalists after iron and steel were granted protection in 1924 for three years, after which the subsidies were abolished and tariffs and basic duties were lowered. In the majority of cases, the most important being cement and paper, the applications were rejected. However the match industry, which was the preserve of British capital in India, was granted protection (Dutt 1992: 153).

The Indian capitalist class on the whole remained an imperial supplicant during this period, but many of the mill-owners of Bombay and Ahmedabad also pledged their allegiance to Gandhi. It was only with the rise in momentum of the national liberation struggle and the commitment of the Congress leadership to the sanctity of property that this supplicant attitude

changed in favour of a socially conservative economic nationalism based on a leadership role for the state in developing capitalism after independence. The social conservatism was reflected in the non-engagement of leading Indian capitalists with the material basis of caste and gender oppression even though programmes of social awareness against 'untouchability' were part of the Gandhian agenda.

### 3.2 Political Economy and Ideology in India in the Late Colonial Period

The constitutional reforms of the Government of India Act, 1935 laid the structural foundations of the independent Indian state that would gain 'dominion status' on 15<sup>th</sup> August 1947 (Desai 2004: 15). This is distinct from the argument that there was no difference between the state in independent India and the colonial state as has often been put forward by many postcolonial authors. However the administrative structures in the 1935 Act were geared towards a 'transfer of power' whose contours and limits were still controlled by the British state. The legislative, executive and judicial structures along with the Constitution and right of sovereign administration which, would distinguish the post-Independent state from the previous one were yet to be shaped depending on the internal developments within the Congress and the settlement with the Muslim League within the colonial framework of 'dyarchy' in adopting a programme on the social basis of the state. The Congress leadership's freedom to alter the existing social structure was also limited by the power of landlords and 'big' capitalists (Namboodiripad 1975). With the attainment of full 'sovereign' status as a republic on 26<sup>th</sup> January 1950, one could argue that political independence and the fostering of a bourgeois form of democracy characterised by universal adult franchise was completed. Thus the transfer of power and the achievement of full sovereign status took three years after 'formal independence', the culmination of almost a decade of power struggles and the modalities of partition. Nationalist historians have pointed out that the ideology of the new state derived its legitimacy to a significant extent from a vision of improvements in living standards in an economy that had seen less than 1% growth for decades preceding independence (Tripathi 1990). But this 'vision' of adopting a capitalist path was hardly a representative one as each of the institutions including the constitution was primarily adopted by individuals representing the propertied classes (Bettelheim 1968).

According to Ahmad,

...the emergence of modern forms of power, in the shape of the state and of colonial capital, *required* the emergence of corresponding political forms through which the colonized could represent themselves; however in blocking collective representation in the form of equal citizenship rights and universal suffrage, the colonial state fragmented the emergent nation into its social units and greatly accentuated the cleavages, even though the fact of being governed by the same colonial state gave to each of these units a certain investment in nationalist rhetoric and some rudimentary form of nationalist consciousness. (2000: 9, original emphasis)

The Indian landed classes were a weak plank in the nationalist movement. The British adopted one of three land revenue systems: landlord-based systems (also known as *zamindari* or *malguzari*), individual cultivator-based systems (*raiyatwari*) or village-based systems (*mahalwari*) (Banerjee and Iyer 2002). These revenue systems covered all of colonial India through the Permanent Settlement in 1793 in Bengal and similar institutionalisations of land ownership in other parts of the country through the Zamindari system in Bengal, Bihar, Orissa and parts of the Presidency of Madras or the minor variation in the Mahalwari system in the United Provinces and parts of Northern India and the Raiyatwari system in all other parts of British India (Patnaik 1999). These systems mainly defined who had the liability for paying the land tax to the colonial state and by default designated who had “property rights” on land.

In spite of the differences in the different kinds of land settlement in various parts of British India, the systems institutionalised property rights to Zamindars and raiyats respectively in exchange for heavy rates of land revenue in cash (Patnaik 1999). If the holding failed to pay its revenue arrears, it was taken over by the state and sold to the highest bidder. This burden of land revenue, the clutches of the moneylenders and sahkars (merchants or traders) who pushed through the production of commercial crops, led to transfers of estates and land to a propertied class. This in turn resulted in rack-renting that led to the extensive pauperisation of small, marginal and landless peasants (Bhattacharya 2005). These land settlements initially aimed at establishing proprietary control over land weakened the old aristocratic elite in India by the beginning of the twentieth century (Desai 2004). Merchants and moneylenders penetrated into rural areas by becoming conduits for loans to both declining landlords and to impoverished tenants.

Peasants, traders, and merchants participated in the exchanges that transferred goods from the fields to the marketing centres of the region. By its very nature, in other words, the local marketing system had many points of entry for men of enterprise and means to stake out roles as agents of exchange (Yang 1998: 223).

These ‘agents’ gained control over agrarian products and in some areas like Bengal, the heart of the colonial experiment, they bought Zamindari estates which had become commodified because of arrears in land revenue and thus could be bought, mortgaged and sold by individual owners. The Mahajan who often was a *jotdar* (rich peasant) in Bengal, the moneylender, and the trader became the main providers of finances to pay these cash revenues. Based on legal bourgeois norms, they secured command over crops and land. The British legal system, money and the market economy, monetary and fiscal policy helped them to gain economic ascendancy (Desai 1984). It must be noted that the commodification of land was not a uniform feature in British India but rack-renting in land was common. However this in itself did not necessarily entail capitalist social relations. The bulk of the peasantry was tied in to tenancy and debt relations that often entailed ‘forced’ labour and hereditary employer-labour relationships (Patnaik 1972).

Landlessness was also a feature of the colonial period. One could argue that landlessness was in evidence in the Mughal period and was the basis of an active internal labour market in India with massive movements of people in the so-called military labour market of late medieval India under parts of the Mughal Empire in Northern and Western India (Kolff 2002). Habib (1975) also provides evidence of a large rural proletariat consisting of the menial and untouchable castes in the first half of the eighteenth century. The zamindars and the upper peasants had their farms or *khudkash* holdings cultivated by labourers, who were paid wages in cash as well as grain, and who in some areas, like parts of Bihar and southern India, were held in conditions of semi-bondage. But the colonial state's massive reorganisation of land rights and rent arrangements intensified the creation of a growing class of dispossessed people all over British India that saw dual origins in pre-capitalist hereditary employer-labour relationships on one hand and peasant pauperisation, hunger and famine on the other (Patnaik 1999).

Some of the dethroned princes, the zamindars and other big landlords who lost their landed property, and the heads of religious and caste institutions, saw in the colonial transformation brought about by the British rulers, a threat to the continuance of their rule. While some collaborated with the colonial rulers, many of them were uncompromising in their opposition to foreign rulers and were using every means, including firepower, against the enemy (Namboodiripad 1975). This formed the backdrop of the first war of independence in 1857. The militant nationalism in these early stages of the struggle against British colonialism was based on a strand of revivalism that saw in the restoration of the Mughal empire the route to liberation from the 'foreign' yoke. Revivalism in the mid to late nineteenth century especially after the subjugation of the 1857 uprising was the preserve of the old ruling class that was slowly collapsing. After 1857, the British state pursued a policy of renewing and consolidating its links with princes, zamindars and other notables (Sarkar 1983). In the context of the rise of nationalist politics since the late nineteenth century, the landed aristocracy lost further ground due to the collaboration of those that remained with or renewed their ties with colonialism.

From 1855 to 1920, the British state was faced with the rebellion of militant adivasi movements against the erosion of joint property systems because of the entry of moneylenders, traders, land-grabbers and contractors. This started with the Santhal rebellion and was followed by episodes of revolt spread over Chhotanagpur, Cachar, Gujarat, the Deccan and Madras Presidency. These anticolonial movements were 'rebellion from below' often articulated in ideologies of internal religious and socio-cultural reform (Sarkar 1983). The 'ulgulan' led by Birsa Munda between 1899 and 1900 based on a militant agrarian, political and religious idiom was pitted against the commercialisation process that impinged on the life and collective property rights of adivasis. Birsa died in jail in 1900 after the rebellion was put down with a heavy hand and 350 of his compatriots were tried, hanged or deported for life. But by 1910, the collective (*khuntkatti*) rights of Santhals in Chhotanagpur was recognised and *baithbegari*, a form of hereditary tie to employers was officially abolished (Singh 2002). Anti-colonial revolts

thus were not just the preserve of the dominant classes. Seventy-seven 'lower class' peasant rebellions against the British in India have been documented (Gough and Sharma 1973) that had elements of 'reform' as well as 'revivalism' but the rebellions always had a material basis in the oppression of the land ownership and revenue systems.

A second plank of nationalist ideology developed in the context of the development of different strata of capitalists and petty-bourgeois interests from the 1930s. The opportunities created for Indian business by World War II brought prosperity to Indian big business houses. At the same time, it increased mass suffering with 'rampant inflation, widespread corruption, chronic shortages and vigorous 'black' markets, especially between 1942 and 1945, culminating in a devastating famine that ravaged Eastern as well as parts of Western and Southern India (Basu, Bhattacharya and Keys 1999: 2). Some variants of nationalist ideologies were finessed and developed by an urban petty-bourgeois leadership inspired by religious nationalism and in some cases fascism as in Golwalkar's (1939) definition of nationhood exclusively in terms of the myth of a 'Hindu race'. This resonated among sections of the

...bewildered petty bourgeoisie, harassed and endangered by processes of remorseless economic change beyond their control, torn from their familiar moorings, tossed without compass, in the storms of a period of transition and conflict, and vainly seeking the comfort of some rock of ancient certainty (Desai 2004: 623).

This formed the social premise of popularity of an idea of a 'Hindu' nation in the structures of the Hindu Mahasabha and the Rashtriya Swayamsevak Sangh (RSS) that gained ascendancy in the 1930s. Even provincial Congress committees in Northern India were dominated by Mahasabha members up to 1939 (Gondhalekar and Bhattacharya 1999). In contrast, Gandhi was an advocate of reconstructed ancient Indian civilisation which stressed 'syncretism' as opposed to Hindu chauvinism, but invoked 'Hindu' idioms adapted to the limits of 'modern' conditions possible in a society of the colonised, based on a renovated village economy and with limitations on industrialism. These limits were dependent on the 'self-control' of businessmen who would act as 'trustees' of the nation's wealth-making processes. But big business also had close links with revivalist Hindu ideologies. The first ban against the RSS was imposed after Gandhi was assassinated in 1948. Among the mediators who worked to lift the ban included G.D. Birla, the doyen of the biggest 'business house' — a fact that symbolises the links between the RSS and a section of the capitalist class in the period around independence (Kanungo 2002). During the rise in militant strikes in the 1920s in Calcutta and Bombay, attempts by capitalists to break strikes by divisive measures based on religion have also been noted (Chattopadhyay 2005).

Different strands of the Indian liberation struggle had different ideas of what economic policy in free India should be. For capitalists the main problem under colonialism was discriminatory commercial policy and lack of state assistance and that is what they lobbied and argued for. For socialists and other constituents the goals was much wider. That the British state was not just a force that had dehumanised and brutalised society, but also stunted the growth

and power of the earlier ruling elite replacing it with a new class of people with origins in mercantile and industrial capital along with the landed rich. This analysis identified a new configuration of ruling classes that were subservient to colonial interests and operated under colonial strictures. However, as the liberation struggle gathered momentum, their interests became pitted against colonial capital. According to Bagchi (1989: 27), the extension of the bourgeoisie in this colonial context had a dual aspect – an increase in the power of the class as a whole and the erection of barriers to keep it contained - without in the process losing its capacity to extend its control over resources. The key mechanism of containment was racial discrimination that drew the informal and formal boundaries for the Indian capitalist class.

### **3.3 Indian Capital under Colonial Rule**

The links of the capitalist class with pre-capitalist forms of control was intrinsic to its growth and expansion in the colonial period.

The various forms of class subordination had accumulated and mutated sometimes under the impact of capitalism from the colonial period to produce an amalgam of the modern and the archaic (Patnaik 1999: 181).

Alavi (1982) argues that theories of “modernization” are explicitly or implicitly theories of capitalist development, in as much as they are premised on the creation and maintenance of the basic structures and institutions of a capitalist society, which may be contrasted with the notion of revolutionary change that would aim to make a decisive break with the internal structures and the international framework of global capitalism. Both would involve the dissolution and transformation of pre-capitalist social and economic structures, but each in a different way. According to Alavi (1982:289), in “modernizing” societies, the direction of such change is towards their subsumption under peripheral capitalism. The possible extent of this subsumption depends on the extent of capitalist social relations beyond the capitalist enclaves in the colonial economy. This is the social basis of the observation that few among the ‘modern’ bourgeoisie in India were particularly modern (Ahmad 2000). The bourgeoisie in their economic practice deferred social conservatism. They accepted the equal rights of Indian ‘machine-made’ cloth, and Gandhi’s Eleven Points programme of 1930, which was an extensive advocacy of capitalist trade, industry and finance (Dutt 1992: 629).

State policy under the British in the later part of the 19<sup>th</sup> century promoted European enterprise through railways under the guarantee system and allotment of vast tract of lands to tea planters in Assam at nominal prices. The organised money market was under white control. The monopoly over the bulk of external trade was most pronounced in Eastern India because of the early British hegemony over indigo, tea and coal. Western India was more difficult to penetrate till the construction of the railways and due to Maratha rule upto 1818 and the survival of native states (Sarkar 1983).

Capitalist enclaves set up by settler capitalists such as plantation owners characterised the colonial economy by early 20<sup>th</sup> century. Within these enclaves, through the contradictions of

colonial policy, oligopolistic Indian capitalism emerged in a few specific sectors. The railways, plantation and mines, jute mills, banking, insurance, shipping and export-import companies, promoted through managing agency firms was the direct innovation of colonial rule in India. The most influential foreign capital in India, the British managing agencies, emerged as the commercial agents of British industrial enterprises. Later, they ventured into manufacturing themselves, but its scale and spheres were limited by the agencies' function of marketing goods produced in the metropolitan countries (Malyarov 1983: 2). This created capitalist enclaves in the economy combining financial, commercial and industrial activities under foreign control. British control over the decisive sectors of the economy inhibited indigenous capitalist growth till the 1910s (Sarkar 1983: 37-38).

The British state indirectly and sometimes directly curbed indigenous manufacturing, merchant and money-lending classes, depriving them of both foreign and domestic inter-urban trade and commerce (Desai 1984). However, the grip of indigenous commercialism could not be easily detached in the rural areas. The second half of the nineteenth century saw a proliferation of Indian traders and moneylenders all over northern, eastern and central India. Their status has been defined as 'dependent collaborators' and it remained so till the First World War (Desai 1984: 40). Before the First World War, modern factories in India constituted an 'enclave' economy with only two major centres of industrial production – Calcutta and Bombay (Bagchi 1972: 424).

Calcutta was dominated by British capital while Bombay and Ahmedabad were the preserves of relatively autonomous Indian merchant capital often traced to Parsi and Gujarati ethno-linguistic origins. In Bombay and later in Ahmedabad a genuinely indigenous capitalist textile industry developed. The primary accumulation of capital for the development of this industry has been traced to merchant capitalist accumulation in the trade with China in opium and yarn (Bagchi 1972; Sarkar 1983). This opium trade was one of the key sources of revenue for the colonial state accounting for 15% to 17% of total public income (the principal constituent items as percentage of total gross revenue of the Government of India) between 1858-59 and 1870-71 (Bhattacharya 2005: Table 1.1: 326).

Not surprisingly, the literature on the nature of capitalism in India before independence have characterised the economy up to the beginning of World War I in 1914 as an economy consisting of capitalist enclaves (Kidron 1965; Malyarov 1975). Calcutta and Bombay were the major industrial centres. Indian entrepreneurs were concentrated in Bombay and Ahmedabad. The source of their primitive accumulation apart from comprador trade gathered momentum in the scarcity conditions during the period of World War I. Gandhi advocated village based small enterprises in handloom as a solution to the growing pauperism in rural India in 1908. By his own admission when the Satyagraha Ashram was founded in Sabarmati, handlooms were introduced but no one knew how to operate a handloom as

...all of us belonged either to the liberal professions or to business; not one of us was an artisan (Gandhi 1927: 450).

Even more significantly, though the 'khadi' and the 'charkha' became symbolic for Congress workers, the cotton-mill industry in Bombay and Ahmedabad grew substantially in the twenty years before 1914 (Dutt 1992). The small but cautious set of Indian capitalists were finding niches of operations within the limits set on them by the colonial system of production. Demands for fiscal autonomy and tariff protection became stronger during and after World War I coming from both British industrial and financial interests and Indian capitalists in the context of the economic turbulence of the inter-war period (Bagchi 1972: 422). The landlords were sometimes against tariff protection as they feared adverse terms of trade in agriculture but this was case-specific as they often invested in industry and were producers and suppliers of agricultural raw materials. Thus, tariffs often worked in their interest (Bagchi 1972: 427). In the late colonial period capitalist and landowner interests in terms of demands for protectionist policies from the colonial state did not necessarily conflict. The main motto was caution: to seek safe profits, remain supplicant to the colonial state and prevent any stirring of the social order (Bagchi 1972; Ray 1979).

Between the first and second World Wars, the first wave of economic diversification took place. Once the example of potential profits in manufacturing had been established, Indian entrepreneurs who had made their money in trade and finance began to invest in industry. Between 1914 and 1939, the share of Indian capitalists in modern industry grew rapidly. Indian industry attained self-sufficiency in the production of consumption goods like cloth, sugar and matches. Small business in cotton presses, rice and oil mills and other small units developed and grew even before World War I.

The social origins of new entrepreneurs who came to the fore in the economic diversification of the inter-war period were traced to trade and finance rather than the westernised professional classes (Bagchi 1972). Large-scale units in consumer goods industries catering to the home market emerged in textile, sugar, match and paper industries. By World War II, the sugar mills based in Bihar and the United Provinces in Northern India catered to internal demand. Cotton mills expanded from Bombay and Ahmedabad to Kanpur, Madras, Madura, Coimbatore and Delhi. The small-scale sector in industry was mainly in cotton gins and presses, jute presses, rice mills, khandaris (open pan process of sugar manufactures), and small powerloom and handloom manufacturing set up since World War I (Bagchi 1972).

Bombay emerged as a centre for producer goods like iron and steel, cement, shipping and chemicals. However the development of capital goods was meagre. It was primarily restricted to the environs of the productive base around capitalist enclaves (Ray 1979). With one or two exceptions, capital requirements were sourced from the local economy in the small-scale sector. The separation of the formal banking system under British control from the sphere of commercial operations of Indian capital led to a massive structure of informal credit systems that formed the bulwark of money-commodity relationships. Capital shortage became an

endemic feature of the economy after 1914 limiting the diversification of the Indian economy (Kidron 1965).

The nascent working class in India grew in the early part of the 20<sup>th</sup> century though it was miniscule. The percentage of total population employed in organised industry was 0.69% according to the census of 1911. However, indentured labour in tea plantations in India was part of the 'modern' economy, along with the working class in mines and factories. Together, they constituted the new Indian working class at the turn of the last century (Sarkar 1983: 41-42). The modern industrial sector in India from the first half of the 20<sup>th</sup> century up to the First World War consisted mainly of cotton, jute, coal and tea industries, of which the first was controlled by Indian capital and the others remained overwhelmingly under British management and control. Cotton and jute were characterised as major industries while paper and wool were considered minor industries in terms of size and production techniques (Saini 1978, Table VII: 157).

By 1939, India became nearly self-sufficient in the production of cotton textiles and became a major exporter during the Second World War. The sugar industry was large enough to cater to domestic demands. Steel and cement emerged as large industries during this period. However, India in 1939 was almost entirely dependent on imports for machinery, machine tools and chemicals. The beginnings of an industry producing modern cotton textile machinery can be traced to the Second World War when the Birla Brothers floated the Textile Machinery Corporation in 1941 (Sarkar 1983). But capital goods industries did not develop and industry as a whole was heavily dependent on European technical expertise and imported machinery (Bagchi 1972). Foreign capitalists also controlled the trade in staple industries and international cartels indirectly controlled much of Indian industry through the managing agency houses (Bagchi 1972: 440-442).

Nevertheless, new Indian entrepreneurial groups emerged through their access to trade or construction and the opening up of opportunities in different fields and regions. The new groups of entrepreneurs did not always belong to specific castes. Most entrepreneurial groups coming from different castes had been connected with trade or construction before entering industry (Bagchi 1972: 433-434). A classic example is the family of Bhai Mohun Singh who were to emerge as owners of Ranbaxy – a major pharmaceutical enterprise in about forty years time. The founders of the family made their fortune in construction during the Second World War in undivided Punjab and the North West Frontier (Bhandari 2005).

With the proliferation of these miniscule capitalist enclaves, the industrial working class also grew in numbers though just 6% of the population was employed in factories and could be said to have a status of 'formal' employment. This population was predominantly male. The livelihoods of a majority of both men and women remained in the informal sector. Thus, a huge informal economy characterized the Indian economy from the colonial period. Colonial

capitalist labour relations used informalisation as a tool based on 'coolie gangs' in construction works in railways and factories and as 'temporary labour' in tea, rubber and coffee plantations.

However, unionisation and organised dissent among workers based on both political and economic demands began to be articulated by the end of World War I.

According to Basu (2004: 3),

...between 1918 and 1920 Bengal witnessed widespread industrial strikes that provided a powerful momentum for organizing the Khilafat non-cooperation movement. Political parties now began to see the advantages of developing links with, and establishing a foothold among, the jute mill labourers.

By the 1930s, trade unions were fast becoming a political force to reckon with in Bengal and Bombay Presidency and an organised working class made its presence felt through militant strikes (Basu 2004). This class of workers in the organised sector became one of the most radical voices of class based organisation in Indian politics till both state-led capitalism and 'neoliberalism' began to portray it as a 'barrier' to economic 'progress' as we shall see in later chapters.

The period between 1919 and the government of India Act of 1935 saw three changes: first, the British government in London decided not to interfere with problems affecting Indian finances as long as the Central legislature in India and the Government in Delhi were in agreement under the system of dyarchy introduced by the Montague Chelmsford 'Reforms' (Panikkar, 1959). The second was the acceptance of the policy of limited protection for Indian manufactures reflected in a cautious policy of tariff that were extended to steel, sugar, cement, silk and with some hesitation even cotton (Panikkar 1959). The third was the inter-locking of Indian banking and insurance with the colonial banking system during this period, a departure from the earlier policy of not interfering in the 'indigenous informal sphere of credit' (Ray 2000). What this amounted to was a recognition that with the strengthening of Indian capital in the inter-war years, there were areas where Indian and British capital could co-operate to the benefit of the colonial power (Ray 2002).

Thus, the British administrative machinery had on the one hand limited the economic development of India by separating the link between economic and political power. This meant that emerging Indian capital could only develop in and around the 'capitalist enclaves' in a society where non-capitalist social-relations still dominated. On the other hand, the Indian commercial classes were protected from the wrath and struggles of the exploited strata through the 'rule of law' enforced by a huge police force and judicial structure. The British provided convenient means of depriving the rural masses of their crops, resources, customary security and personal protection. Economic resources were thus created and can be argued to have furthered the basis of primary accumulation by emerging Indian capitalists.

The political interests of Indian capital therefore remained subservient to imperial interests till the end of the First World War. Indian business was cautious in its demands and

was (Ray 1979: 426) content with a framework of limited tariff protection even when tariff policy was blatantly racist in its identification of sectors of protection. However between the two World Wars, capitalist groups grew in strength. In spite of variations in attitudes and conflicts between short-term and long-term interest that asserted themselves in national politics in the 1930s and in constitutional discussions, the role of organised Indian capitalists in the nationalist movement gradually became more important.

By mid 1932, a faction of big business saw dyarchy under the Government of India Act as a positive development through which they could further pursue their interests and hoped that Gandhi would decide in favour of accepting office. This coincided with a period of disillusionment with civil disobedience in the broader nationalist movement and the rise of the radical left wing within the Congress. The broad Left was organised around their support for labour and kisan (peasant) organisations and their struggles mainly in the princely states of the time. The Left in this period included the 'Congress Socialists, the followers of M.N. Roy, and the 'illegal' Communist Party of India that worked through the Congress Socialist Party' (Sarkar 1983: 370). These conflicts also created new opportunities for Indian capitalists to play a leadership role in the nationalist movement in ways that would be more acceptable to the colonial power.

The supplicant attitude of Indian capital to the British state that Sarkar (1983) noted in the early support of Indian capitalists within the Congress to British rule changed with the prospect of Congress provincial governments being formed after 1935 and the defeat of the Congress socialists in the leadership struggle at the highest echelons of the Congress organisation - the Working Committee. This was the outcome of the ideological conflict between the 'Right' and the 'Left' within the Congress from the Tripuri to the Haripura sessions of the Congress between 1938 and 1939 (Tripathi 1990). With the ascendance of the Right, blessed by Gandhi, clearly evident by 1939, the major decisions affecting the modalities of the 'state to be' became the preserve of the new 'ruling class' to be. Chibber (2003) locates the installation of the capitalist class as the key driver of state policies in the workings of the National Planning Committee. But this was a somewhat foregone conclusion with the decisive win of the right in the Tripuri Congress in 1939. The anti-colonial and anti-imperialist liberation struggles now led to a demand for power and participation in 'governance' and the formation of provincial ministries by Congress in 1936-37 under the provisions of the Government of India Act 1935. This strengthened the political clout of Indian capital in the last decade of the struggle for independence (Ray 1979). However many other forces were at play that also made the emerging capitalists very dependent on state support to preserve their leadership role. The Congress decision to resign from ministries at the outbreak of World War II (Ahmad 2000); the extension of the Quit India movement far beyond the limits envisaged by the Congress leadership; and the legalisation of the Communist Party made capitalist organisations even more dependent on the colonial state for the protection and stability of 'business' and property in the face of rising

militancy of the Kisan Sabhas and the strike-waves by workers in the Bombay Presidency and Bengal (Rasul 1989; Sarkar 1990).

The emerging Indian capitalist class was not only a highly dependent one; it also supported ideologies that were far from modernising. They remained orthodox in social and religious matters. The family firm remained characteristic of business units. Caste and ties based on ethno-linguistic affinities along with the joint family set-up remained vital to business organisation and expansion. In spite of the contradictions faced by Indian capitalists within the colonial economic structure, the class remained overwhelmingly loyalist till the 1920s (Sarkar 1983: 63-64). Capitalist groups in different regions were at different stages of development and there were conflicts over control of resources and markets. These conflicts were one of the crucial factors in the growing support for Partition within the capitalist class.

The characteristics of nation-states that emerged out of anti-colonial liberation struggles is thus linked to the specific history of colonialism and imperialism (Patnaik 1984) and to the specific imperatives and limits that emerged out of the mass struggles against the colonial state (Bhambhri 1998). The key fact according to Ahmad (2000: 1) is that the rise of modern politics in a colonial context in India was not based on rights of common citizenship. So the basis of bourgeois democracy through popular representation, the right to vote, when it did come in colonial India meant that only the 'propertied educated' could vote. This added to the strengthening of the 'voice' of the organised platforms of Indian capital in the outcomes of elections before independence. Not surprisingly, these facts help to explain the privileging of the interests of private property and the characteristics of capital accumulation from the inter-war period onwards.

The dominant fractions of Indian capitalists were supporters of Gandhi. Either as Congress functionaries or as representatives of 'business interests', many were involved in the direct policy making apparatus of the state-to-be like the National Planning Committee (Chibber 2003). They were also represented in the Economic Policy Committee of the Congress (Chenoy 1985). They formed an important part of the decision-making apparatus at the provincial level along with the landed gentry after the Congress ministries were formed in 1937 (Malyarov 1975). In this politics of representation in policy making at the highest levels possible for Indians before independence with limits on the right to vote confined to the educated propertied, and the nature of organisations that could be 'legal', they became relatively more powerful than the declining landed aristocracy. This was because of their proximity to the central institution of the Congress, the Congress Working Committee and its undisputed leader Gandhi. Thus they exercised a more direct say compared to the upper strata of the rich landed peasantry that had gained political power at local levels of Congress organisation (Rasul 1989).

Nevertheless, there were internal disagreements about the extent of state involvement in the economy within the Congress. The organised platforms of capital like the different chambers of commerce and industry overruled the adherence of Gandhi to his theory of

'trusteeship'. The bigger oligopolistic 'family owned business houses' reached a consensus on the role of the state as a protector of property, the sanctity of 'personal laws' based on religion to define the legal entity of the Hindu Undivided Family (Sachdeva 1987), the security of business ventures and primary accumulation to develop large scale modern industrial development (Sen 1975).

The relatively big capitalists based in Bombay initially led by Modi tried to form the Reforms Party based mainly on commercial and industrial interests to counter the threat posed by the rise of a 'powerful' left wing within the Congress, their disappointment with the liberals in their vacillation in accepting the new constitution and the growing influence of rural interests in Congress politics (Markovits 1985). However Birla and Thakurdas lobbied firmly for the Congress to take office and by 1935 it was clear that dyarchy would be accepted. This forged the unity of the Bombay business class behind Congress mainly because of a British policy of drastic budgetary cuts and a threat of a possible change in tariff policy (Markovits 1985).

The ambivalent attitude of Indian capital towards a planned and protected economy emerged out of the complex interplay of national and provincial factors between 1937 and 1939. However, the overall dominance of the National Planning Committee by capitalist elements soon led Nehru to acknowledge that 'constituted as the Planning Committee is, we can hardly begin tackling the question on a socialist basis' (Markovits 1985). 'Development' would take place within this economic framework of bourgeois democracy and the state would lead through a process of indicative planning. Freedom came in the form of a historical compromise with the partition and the perpetuation of overseas capital in India. According to Malyarov (1983: 5) in 1948, the number of companies registered abroad but operating in India accounted for 63 per cent of the total foreign direct investment in the country. Another 21% fell to the share of the Indian subsidiaries of foreign companies in which the share of Indian capital was just 5 per cent (Malyarov 1983: 7).

### **3.4 Political Organisation till Independence**

In the colonial context, till the First World War, political organisation arose under severe legal restrictions. Elite groupings arose initially as supplicants to the colonial state and remained so as long as they could follow two-track policies of radical rhetoric and supplicant action (Ahmad 2000: p13). The development of class based politics remained weak due to the colonial blockage of industrial development through discriminatory tariff and excise policies, active promotion of European enterprise and white control over the organised money market (Sarkar 1983: 39). Till the end of the First World War, the proletariat remained small as discussed above and so did the bourgeoisie. Organisations arose on the basis of community, religion, sect and caste. However some organisations based on class appeared on the political horizon quite early.

Bhattacharya (2005: 7) provides an extensive survey of the characteristics of political organisation under the term 'pressure groups' in colonial India. Myriad forms of organised

associations of capital emerged from the mid to late 19<sup>th</sup> century. Europeans dominated the Chambers of Commerce in Calcutta, Madras and Karachi. The Bombay Chamber of Commerce was more representative of Indian businesses especially the Parsi business houses of the 19<sup>th</sup> century. The chambers of commerce were mainly interested in tariffs, duties, and land regulations affecting plantations. Traders associations had a more limited agenda - that of obtaining tax relief (Bhattacharya 2005).

In 1895, five engineering firms, all members of the Bengal Chamber of Commerce and Industry, came together to form the Engineering and Iron Trades Association (EITA) with the aim of pressurising the colonial government to place government orders for iron and steel and engineering goods with companies based in India. At that time the practice was to place all government orders with firms based in Britain. The change in name from EITA to Indian Engineering Association (IEA) was in keeping with the association's decision to exclude traders from its membership and concentrate on promoting the cause of manufacturers. By their own account, this reflected the association's commitment to the development of a production base and to dissociate itself from the short-run interests of trade. Till 1942, IEA was the only all-India association of the engineering industry and represented mainly big engineering companies, particularly British firms. This led to a situation where the interests of the smaller Indian firms, which could be characterised as medium and small-scale, were not sufficiently represented. This led to the formation of Engineering Association of India by Indian firms in 1942 as an affiliate of the Indian Chamber of Commerce (Tyabji 2000).

It must be noted that the division of interest between traders and industrialists existed in the 1940s in spite of the efforts of the Federation of Indian Chambers of Commerce and Industry to bridge this divide. Visvesvaraya's All India Manufacturer's Organisation (AIMO) representing mostly small and medium scale enterprises had suggested that FICCI's opposition to the taxation measures proposed by Liaqat Ali Khan's budget proposals in 1947 were due to its predominant support base consisting of 'businessmen' seeking quick profits, and not 'true industrialists' (Tyabji 2000).

An 'early socialist nucleus' came into being in the early 1920s (Chattopadhyay 2005) drawing inspiration from the Bolshevik Revolution in Russia in 1917 and based on an understanding of colonialism as 'imperialism' defined as the highest stage of monopoly capitalism in keeping with the Lenin-Hilferding thesis. With the formation of the Communist Party of India in the 1920s, spheres of influence and links with the working class soon emerged leading to a series of strike waves in the late 1920s. The rising tendency of socialism with varying degrees of clarity, understanding and interpretations (Zachariah 2005) won wide and 'increasing support within the national movement, especially among the younger generation' (Dutt 1992: 623).

Simultaneously, apex bodies of industrial organisations and associations (Rudolph and Rudolph 1998: 31) became politically active as Indian capital gained economic strength at the

beginning of the twentieth century. The Associated Chambers of Commerce and Industry, the representative body of white colonial capital came into being in early twentieth century. Their elected presidents, permanent secretariats, and sponsored research organisations and publications had a say on industrial relations, wage policy and productivity issues. The Federation of Indian Chambers of Commerce and Industry (FICCI) was founded in 1927 with the support of Gandhi. The commercial and industrial bourgeoisie were also a part of the Congress and shared a close relationship with Gandhi and other nationalists like Sardar Patel. The section of capitalists in FICCI, propelled by requirements of survival and possible expansion opportunities, forged dual relationships. They supported mass struggles for extracting concessions from the colonial state, and exerted pressure to restrain such struggles for fear of the growth of radicalism (Sarkar 1990). The coming of the popular provincial governments under the Government of India Act 1935 and the relative weakening of the British economy due to the Depression increased the opportunity for Indian capitalists to influence policy.

The era of mass politics combined with organised peasant struggles led by the Kisan Sabhas emerged in various parts of India in the 1930s. The expansion of the bourgeoisie and the intensification of class struggle around the world because of the events of 1917 in Russia provided two alternative paths to the national liberation movement in India (Desai 1984:102). In the next two decades, the anti-colonial struggle was widened with politics from below in terms of mass participation and an ideological widening with the assertion of socialist and communist strands. However, the Second World War; the heightened contradictions of the liberation struggle; the politics of communal divide, aided and abetted by the colonial state; and the strategic defeat of the socialist section of the Congress leadership by the Congress right between the Haripura (1938) and Tripuri (1939) sessions, took its toll. Further, the ensuing bloody history of partition and war over Jammu and Kashmir with Pakistan soon after Independence emerged as the most striking precedent and immediate result respectively of the birth of the Indian state.

### **3.5 Struggle within the Congress over State Ideology**

The Congress national leadership was drawn from the upper echelons of the predominantly Hindu upper caste propertied and professional classes. This leadership represented a mix of Brahmanical and Westernised cultures (Desai 2004: 15). In the 1880s,

Congress demands put forward in the form of gentlemanly resolutions at staid annual sessions, which still eagerly asserted their basic loyalism, could find as yet no resonance amidst the peasant millions.  
(Sarkar 1983: 2)

However, in the next fifty years, the Congress leadership went beyond its confines to lead the biggest chunk of the mass movement that was the Indian liberation struggle. The struggle for freedom had brought to positions of leadership men and women drawn mainly from the intelligentsia and professional groups, but whose political philosophies ranged from the

strongly conservative to support for socialism. The ideological ambiguities pulled in different directions on the basis of mobilisations both within the Congress and outside it (Sarkar 1990).

The professional elite and capitalist leadership of the Congress gained ascendancy as the logical inheritors of the independent Indian state after their strategic win in the struggle against the socialists in the Congress, which began at the Haripura session in 1938 and ended in the Tripuri session in March 1939 (Frankel 2005: 59). The Kisan Sabha even in the early period of its existence was demonstrably a militant mass organisation in a number of provinces and regions upholding the class interests of kisans (peasants) as against the exploiting interests of landlords and sahuikars (moneylenders) which were represented by the provincial Congress leadership in general. (Rasul 1989: 28).

The Congress leadership had an uneasy relationship with the class basis of the Sabha mobilisations. The session of the National Congress at Haripura in Gujarat in February 1938 banned the rallies of kisans when thousands of kisan marchers arrived. While the Congress was leading the ministry in Bihar, the Bihar Provincial Congress Committee entered into an anti-kisan agreement with the zamindars. In the ensuing struggle, the Congress Working Committee supported the provincial committee making it clear that the class agenda of the 'kisan struggle' would not have any endorsement from the national leadership of the Congress (Rasul 1989:18).

While reiterating its support for the anti-imperialist activities of the Congress, the All India Kisan Committee condemned the

... wanton, undignified and mischievous attacks levelled persistently at Kisan sabhas, Kisan workers and Kisan activities by some responsible Congress leaders who are being reinforced in their campaign by zamindars, sahuikars and other allies of the British. (Rasul 1989: 19).

A powerful campaign developed in Bihar in July and August 1938. The Congress Ministry dreading the mood of the irate kisans against the agreement issued an order banning the carrying of lathis in processions and meetings for 10 days in the face of a huge rally of kisans in Patna on 15<sup>th</sup> August 1938.

By 1945, in the Netrakona session, the Kisan Sabha leadership noted

...the scarcity and mal-distribution of controlled essential commodities such as cloth, kerosene, salt, sugar and agricultural implements due to inadequate supply and black-marketing. It also launched the save Bengal campaign after the Bengal famine. (Rasul 1989:120).

In 1942 the Communist Party was finally legalised and by 1945 the Kisan Sabha leadership was dominated by communists. Meanwhile, disenchantment with the provincial governments was growing. Although Congress took office in 1937, the October meeting of the All India Kisan Sabha passed a resolution attacking the ministries for the 'piecemeal, superficial and perfunctory manner' in which they were dealing with peasant grievances (Frankel 2005: 59). Congress socialists like Indulal Yagnik, N G Ranga and Swami Sahajanand became alienated and 'depressed' about the developments in the peasant mobilisations led by communists though the communists assured the separation of party and mass front. This was

reiterated in Muzaffar Ahmad's presidential address at Netrakona session in 1945 (Rasul 1989). By 1947, the leadership of the biggest mass front of the Congress, the Kisan Sabha, was dominated by Communists in Bengal, Hyderabad and Bihar. By July 1948, 2,500 villages in the south were organised into communes as part of a peasant struggle that erupted into the communist led Telangana uprising. Simultaneously the Andhra Thesis for the first time demanded that the 'Indian revolution' follow the Chinese path of protracted people's war. In June 1948, a leftist ideological document the 'Andhra Letter' laid down a revolutionary strategy based on Mao Tse Tung's New Democracy (Rasul 1989).

The prospect of transition to a socialist or even 'socialistic' system was never a serious agenda for the Congress leadership after the victory of the Congress right in the Tripuri session. Gandhi's theory of state-regulated trusteeship emphasising voluntary reform through the moral regeneration of the exploiting classes was his answer to the Marxist claim that class war was the only effective weapon of social revolution (Pandya 1994:11). The industrial bourgeoisie while swearing allegiance to Gandhi's ideology and leadership never permitted it to stand in the way of its requirements. Ideology however was always bent on opportunism as illustrated by the early financing of the Muslim League and the Hindu Mahasabha by powerful sections of the capitalist class who had direct links with the Congress either as members or supporters (Gondhalekar and Bhattacharya 1999).

However, the twin daggers of communist challenge and socialist dissent within the Congress loomed as a threat and forced Congress towards a dialogue over the form of 'development' that would be most suitable for the Indian state. The National Planning Committee was a step in this direction.

Gandhi's theory of state-regulated trusteeship was never taken on board very seriously even by the capitalists who were close to Gandhi. It was very clear to Nehru as early as in 1939 that planning need not pre-suppose socialist aims. The aim of the Congress was to create a nationalised sector in basic industries, banking and services based on the Karachi Resolution of 1931. The other aim of planning for Nehru was to ensure a balance between production and consumption and limit the 'profit motive' in production. But it was clear to him that this 'was perhaps not possible' within the 'present social structure' and he felt it would be wrong to challenge the structure. He expressed these views in a letter to K.T. Shah, the Secretary of the National Planning Committee on 13<sup>th</sup> May 1939 (Nehru 1984: 373-374). So it was hardly surprising that the modern Indian capitalist class assured by these guarantees threw its weight behind the National planning Committee set up after the Industrial Planning Conference in 1938 (Dutt 1949: 629). The colonial institutions within which the class had to operate made them arrive at the consensus opinion that the state's developmental role was important and could not be reduced to the Smithian one of guaranteeing property rights and maintaining a competitive market.

Parliamentary democracy was widely accepted by the Congress neither as an ideology nor as a set of immutable “rules of the game” but only as a workable modus operandi for resolving conflicts over distributions of power and pelf. It was acceptable to those sections, which enjoyed or could aspire to power, wealth and status. No group or alliance of classes could aspire to a monopoly of political power as political majorities were only transient class coalitions of minorities in India (Yang 1998).

### **3.6 Post World War Consensus on Development and Indian Capital**

The tradition of nationalist economics began to develop in India from the 1870s. The nationalist critique directly related the abysmal and growing poverty of India to certain deliberate British policies, particularly to the ‘drain of wealth’ through an artificial export surplus, destruction of handicrafts followed by hindrances to modern Indian industry, and excessive land revenue burdens (Naoroji 1962). The ‘drain of wealth’ theory provided the core of the Indian critique of British domination in all ideological strands of the heightened anti-colonial struggle in the first four decades of the twentieth century (Sarkar 1983: 86-88).

Ideas about how the state could act as the leader of a planned investment strategy as incorporated later in the Mahalanobis model were widely shared by economists of the time. The Indian economists and planners who shared this consensus after World War II included for instance, Bhabotosh Dutta, Sukhamoy Chakravarty, and Bimal Jalan. An entire generation of post-Independence Indian economists wrote within a statist framework of ‘developmentalism’. The underlying causes of structural backwardness in India like the shortage of capital, the low level of savings, structural limitations preventing the conversion of savings into investment were accepted by the dominant economic thinking of the time (Nayar 2001: 60). Elements of the Lewis and the Harrod-Domar models were apparent in the structure of the Mahalanobis model.

The Prebisch Singer hypothesis about the secular decline of the terms of trade against countries exporting primary products and importing manufactures had an important impact. The theories based on rural unemployment (Lewis 1954) and underemployment (Nurkse 1955) also informed a wide range of economic policies. Developments in economic theory reinforced these ideas as in theories of the ‘big push’ (Rosenstein-Rodan), of the take off (Rostow), the minimum critical effort (Leibenstein) and backward and forward linkages (Hirschmann). The set of policy conclusions from this literature supported state-led regimes based on protection, planning and industrialisation within the theoretical frameworks of the ‘unbalanced growth’ school. Much of this theory was based on general models of a ‘typical developing country’. However, based on the general theory, economists and policy makers in specific nation-states formulated specific strategies of state-led capitalism even though neoclassical economics began to ‘refute’ these theories by the 1960s (Schultz 1964).

The first plan drawn up between 1950 and 1955 reflected the centrality of the state in facilitating growth, accumulation and investment and the strong argument in favour of self-

reliance as a strategy to ward off imperialist economic dominance. Not free trade, but the growth in the volume of manufacturing explained the growth of trade from 1945 to 1973 (Nayyar 1997). The key drivers of growth in the planning models were capital accumulation, technological progress and improvements in labour productivity. Much of economic policy was generated within this framework of political economy. The planners and academia worked in close tandem and the idea of 'development' driven by a 'strong state' was very much part of the Third World consensus.

In fact, the actual process of planning in India had started much earlier in the 1930s (Datta 1992). However, during the colonial period, technological dependence on foreign capital (not just British) and dependence on techniques of production persisted. The shift into autonomous machine good production was not possible within the frameworks of colonial policy. State support for moving up the technology ladder more rapidly even in the late period of colonialism when some protection in the form of tariff structures were granted for the emerging capitalist sector was limited (Ray 1979). There was also a narrow base of technological personnel and skilled white-collar technicians were few and far between because of colonial education policy. Large foreign firms like Unilever, ICI, Dunlop and General Motors had already started Indian subsidiaries (Bagchi 1972). Competing with these giant firms would not be possible unless the state sector provided suitable incentive structures. This was clear to the representative organisations of capitalists (FICCI 1954).

The limits on the profits of Indian capitalists at independence came not from any state strictures on profit but from the low productivity base ensured by colonial policies. No amount of private initiatives could be enough to break out of this structurally vicious circle. The only way out lay in the provision of a broad range of inter-related facilities by the state, the lack of which had till then rendered a whole range of economic activities unprofitable (Ray 1979). This was the view of capitalists involved in the National Planning Committee.

According to Frankel (2005: 71),

...after independence, two contradictory tendencies were already well advanced inside the Congress party. On the one hand, the national party executive endorsed principles of state ownership, regulation, and control over key sectors of the economy in order to improve productivity and at the same time curb economic concentration. On the other hand, the national Congress government pursued liberal economic policies and incentives to private investment that were justified in terms of the sole criterion of achieving maximum increases in production. The phenomenon reflected a serious attrition in the strength of the socialist and Gandhian intelligentsia at all levels of the party organization, and the inability of the national leadership to command effective support for the implementation of official Congress policies on economic and social issues.

This meant that after Partition, it was clear to landlords and big capitalists that in order to serve their interests they had no better alternative than to support, if only from their purses, Congress and Congressmen. The ravages of partition dealt a severe blow to the jute industry as the jute growing regions became part of Pakistan. A similar fracturing of the structure of

industry also affected cotton textiles but the import of cotton cushioned this effect. Indian industrialists who combined financial and commercial functions moved over from one historical stage to another in the period between 1946 and 1956 (Frankel 2005). Indian capitalists mainly emerged out of trading-houses and thus were as much traders and financiers as industrialists or potential industrialists. They were not in abstracto committed to industrialisation but supported it as a strategy of increasing their profits (Markovits 1985:185). One of the central tasks of the state-led path to capitalism was to design effective ways of transforming at least a part of this predominantly mercantile capital into industrial capital. Indeed, one could argue that this was the most significant transformation being attempted in the post-independence period as we shall see in the next two chapters.

Patnaik (1999b) sums up the situation at the time of independence.

India's was the classic case of bourgeois economic nationalism. The bourgeoisie was more developed as a class at the time of independence from colonial rule than its counterparts elsewhere in Asia: it had a stronger productive base, owing to greater industrialisation in the colonial period, and a greater social weight because of this, as well as its association with the anticolonial struggle. Correspondingly, however, it also faced a more organized proletariat, a more vocal petty bourgeoisie and salariat, and a peasantry made militant by Depression-induced impoverishment. It used the state for relatively autonomous capitalist development, and asserted itself both politically and economically *vis à vis* imperialism: protection against foreign goods and capital (even while collaborating with the latter), non-alignment, a democratic polity, and a strong state capitalist sector were the hallmarks of the Indian *dirigiste* strategy. (Patnaik 1999b: VI, original emphasis)

The bigger oligopolies reached a consensus on state-led capitalism as a conduit for protection, security and growth. In spite of the political power wielded by this rising capitalist class, the private entrepreneurial base supporting this development was numerically very small. The wide ambit of the 'developmentalism' of 'state-led capitalism' meant that the independent Indian state was meant to create an economic structure conducive for a capitalist economy. However, there was reluctance to overturn existing social relationships based on caste, community and religion harnessed earlier by colonialism using the local dominant classes. The dominant classes after independence did not want these relationships to be harmed in any way.

Thus the amalgam of the 'modern' and the 'archaic' in social relations and its contradictory ideological facets marked the 'civil society' in which the Congress-led state was expected to harness and lead the 'engines of growth'.

## Chapter Four

### Growth of the Indian Capitalist Class: 1950-1966

This chapter is a study of capitalist consolidation and diversification strategies and its relationship with the structural nature of social relations from 1950 to 1966 in India during the first three 5-year plans after independence. This chapter will address the process of growth through which the relation between the Indian state and the capitalist class emerged in the period of the first three plans that ended in a major crisis within two decades. This crisis manifested itself in the form of a severe balance of payment crisis accompanied by high inflation and shortages of wage goods by 1965-66. This crisis has been scrutinised thoroughly in the literature but it remains a critical turning point for understanding the nature of the relationships between the emerging Indian capitalist class and the state. This chapter also studies the presence of foreign capital in India, ventures abroad by Indian capital and the role of the state. It discusses the response of First World states to the developments in India. The debates around the role of labour are briefly traced and the nature of political schisms and consolidations in the face of the severe crisis that undermined the legitimacy of indicative planning are examined. We examine the strategies of organised capital in this period to establish that sections of Indian capitalists had burgeoned to the extent that they were confident enough by the 1960s to themselves become exporters of capital and technology to other developing countries. The preoccupation of organised capital centred on ways to subjugate labour in the absence of strategies to enhance productivity growth. Cracks appeared in the understanding between state and capital that had been achieved at independence and soon afterwards over debates around the Companies Act and the jurisdiction of the Industrial Disputes Act.

In this chapter we follow the periodisation outlined in the introduction. Mukherjee Reed (2001) analyses the period from 1947 to 1985 in terms of a historical 'interventionist' model. However, this broad classification does not suitably indicate the decisive changes in the process of intervention by the state and its changing relationship with capital. McCartney (2006) in his study of growth in the Indian economy from 1951 to 2004, analyses the first period from 1951/52 to 1964/65 to investigate the role of the state in finance, production and institution building. A similar periodisation is also followed by Nayar (2001). This periodisation by both Nayar (2001) and McCartney (2006) is based on one hand a stress on the observation of a sustained spell of economic growth, the structural break in this growth process at the end of the period and the role of the state in planning, protecting and directing the process of this growth. However, we argue that the relationship between state and capital from 1947 to 1967, the acknowledged period of 'planning' and 'protection' can be periodised into two distinct phases,

the first of which is the decade from 1947 to 1956 and the second from 1956 to 1966. This distinction between the two periods is necessary as in the first decade, state policies were informed by liberalism while the institutions for state led development including the operationalisation of indicative planning were put into place only in the second decade. For a detailed discussion on the basis of this periodisation, please refer to the introduction to the thesis.

There are three purposes of this chapter. The first part of this chapter from Section 4.1 to Section 4.3 presents a historicised account of the relationship between state and capital that emerged in the period from 1947 to 1966. The most important argument is the shift from a relatively 'liberal' role of the state to a more direct interventionist set of policies in this period. This transition took place with the active support of the capitalist class in spite of a small section of dissenters. The second part of the chapter from Section 4.5 to 4.6 is a detailed analysis of how the operations of foreign capital in India, ventures abroad by Indian capital, the role of First World states and the structuring of capital-labour relations figured in the process of transition to dirigisme. The main point is to demonstrate that the operations of international capital and expansion of Indian capital abroad were not necessarily constrained by the nature of dirigisme. Similarly the structure of capital-labour relations that emerged was not necessarily pro-labour as the contours of the relationship was totally defined by the political power of the two classes. The third part in Section 4.7 examines the source of political schisms and the process of consolidation of the power of sections of capital that were a result of the severe crisis that undermined the legitimacy of both the specific policies of the Nehru-Mahalanobis strategy and the foundations of indicative planning as a whole in the design of dirigisme.

Section 4.1 summarises the consensus that developed within the capitalist class about the necessity of a state led path of development based on protection. Section 4.2 is a study of the relationship between state and capital from 1947 to the end of the First Plan period in 1956. Section 4.3 provides a similar analysis for the period from 1956-1966, which marked the full implementation of detailed indicative planning in the Second and Third Plans based on the blueprint of the Nehru Mahalanobis model. Section 4.4 is a study of foreign capital in India, ventures abroad by Indian capital and state assistance. Section 4.5 discusses the response of First World states especially the USA to India's 'exemplar' experiment. Section 4.6 challenges the notion of a 'labour aristocracy' in the organised sector in this period by tracing the disputes and debates around 'labour legislation'. Labour legislation was a product of the political strength of trade unions rather than any settlement with capital. Section 4.7 identifies the nature of the political schisms and consolidations in the face of the severe crisis that undermined the legitimacy of not just the Nehru-Mahalanobis strategy, but the foundations of indicative planning as a whole.

#### **4.1 The Consensus on State-Led Development**

In Chapter Three, we argued that the weakening of colonial capital just before independence due to the ravages of World War II and the rise in mass resistance in the last phase of the national liberation struggle, created a new space for Indian capitalists. They used these opportunities to engage in a process of expansion and diversification from the capitalist enclaves that had already begun to emerge in the inter-war period. In 1947, private industrial capital in India emerged out of the war with huge profits, but was faced with a society scarred by war and partition and an economy in recession with very high rates of inflation (Mukherji 1988).

The consequences of partition did affect some of the emerging capitalists, but very differently from its effects on the general population who suffered from displacement, poverty, trauma and misery during the Partition (Menon and Bhasin 1993; Butalia 1993). For instance, the founder of Ranbaxy, Bhai Mohan Singh's history during this period is significant as an illustration of how emerging capitalists could deal with partition in a relatively painless way. His father, Bhai Gian Chand was a landlord and moneylender who accumulated a significant amount of wealth as a government contractor in Rawalpindi during World War II building Prisoner of War camps, airfields and a highway to Rangoon from Assam. At partition, the family chartered a plane from Rawalpindi to fly in to India, with most of their wealth intact by paying a ransom tax of Rs 5 crore (a very big amount those days) to the emergent Pakistan government. In Delhi, they checked in at the Imperial Hotel on Janpath. Within two decades Mohan Singh was an established moneylender in Delhi and also invested in several bungalows the first being on Prithviraj Road. To this day, much of this property remains intact (Bhandari, 2005). The family moved on to lead India's pharmaceutical development in later years. This and other case studies will be followed up in later chapters.

At independence, it was clear to Indian business interests that they were financially not significant enough to take upon themselves the responsibility of participating in a big way in major sectors like heavy industry or infrastructure (Basu 2004). This is also supported by the position taken within the largest chamber of commerce representing Indian capital (FICCI 1956). There were limits to this process as the capitalist class was reluctant to take on the 'risk' and 'discipline' that could have led to a state guided neo-mercantilist transition that happened in South Korea (Chibber 2003). They were, however, in a political position to reap the advantage of an independent Indian state as a site of primary accumulation. Thus the expansion of capital could be furthered within an evolutionary framework of state-society relations that guaranteed the sanctity of individual property and social channels of capital accumulation (Bagchi 1972; Desai 1984).

According to Patnaik (1984), the historical reasons for the adoption of the Nehruvian vision of building a 'modern society' as state ideology and its 'developmental' agenda of fostering state-led capitalism lies rooted in the specific context of the formation of the Indian nation-state. Freedom for a large section of the political leadership meant freedom from the

domination of metropolitan capital and metropolitan commodities in the economy (Patnaik 1994). The specific task of nation-building in independent India assigned a major role to the State in building up infrastructure, expanding and strengthening the productive base of the economy, setting up new financial institutions and regulating and co-ordinating economic activity. The capitalist class was content as long as profitability was guaranteed in its predominantly mercantile and secondarily industrial ventures. Capitalists on the whole were always cautious about any upsetting of the social order by communists and socialists who still formed the biggest chunk of the opposition to the Congress even after their political defeat in the Tripuri Congress discussed in Chapter Three.

The choice of the bourgeois democratic framework facilitated a radical rhetoric while the political economic parameters of social transformation remained pinned to the protection and furthering of capitalist interests as a way of developing the economy. Nehru identified 'political democracy' and 'economic justice' as the fundamental precepts of the new Republic (Nehru 1963). Congress's one party dominance was initially a legacy from the emergence of Congress as the biggest platform for the movement for Indian independence. The underlying inclinations of the Congress under the Nehru-Mahalanobis paradigm had been primarily disposed to a notion of 'welfare' that did not emerge from neoclassical definitions of welfare economics. The Congress definition of welfare was predisposed towards the discouragement of class conflict using the state machinery of law and order, the protection of property, the encouragement of upward social mobility and state support for increasing agricultural and industrial production.

Direct intervention to alleviate poverty through anti-poverty programmes was not considered a priority as the 'trickle down' hypothesis reigned (Bhatia 1965). The three basic functions of the state: law and order (an euphemism for repressing challenges to property and propriety), economic stability (the protection and reproduction of the social structure) and ideological legitimacy (ensuring the acceptance of dominant values and normative assumptions) were conceived within this framework of state-led development (Desai 1984: 34). Just four months after independence, Nehru was assuring the representatives of big industrial houses that the 'just redistribution of existing property would be kept in the realm of *idea*' in his address to the First Industrial Conference in December 1947 (Nehru 1995: 64, emphasis added).

Chibber (2003) in his work has argued that because of the nature of Import Substituting Industrialisation (ISI) as an investment model – in Indian conditions, there was ample opportunity for profits without state discipline. Bhagwati (1987, 1993, 1998) has explained India's trade policy through the conventional neo-liberal logic of extensive bureaucratic controls over production, investment, and trade. Huthseeing summed up the arguments of why the capitalist class saw ISI as desirable and its relation with desired growth of exports very precisely.

The backlog of unemployed of 9 million in the Second Plan will inflate to 12 million in the Third Plan. The level of underemployed has been estimated to be 15-18 million. In this perspective, we have to make a clear choice between

greater employment and higher wages, based on its cumulative effect on income and employment in the long run. This choice (ISI) also has relevance to the cost structure which will influence our capacity to export and our ability to earn the necessary foreign exchange to finance the import content of investment and production. So the priorities are in the apportioning between the distribution of a given level of income and better distribution of an increasing income. The industrial history of other countries proves that greater production eliminates the more acute tensions associated with inequality, and that increasing aggregate output is an alternative to distribution and even to reduction of inequality.

One would think this was a statement on behalf of the state but it was Huthseeing's annual address as President to FICCI (1962: 9) in the period of the Third Plan.

Chibber (2003) has argued that the situation as it presented itself to Indian business at the end of the War in early 1945 was bursting with opportunities. The years immediately following Independence 1947-1951, according to Chibber, constituted a critical conjuncture, in which a strong developmental state was the result of an elite consensual political agenda (Chibber 2003: 8). He goes on to assert based on the report of the National Planning Committee that any future policy would have to centre around state support to industry; based on the decision to set up an elaborate system of tariff protections for local industry in the new economic policy – and indeed this was to be a centrepiece of future policy.

The bourgeoisie initially had mixed feelings about the aspects of the 'mixed economy'. This was reflected in the insecurity among certain sections such as the Associated Chambers of Commerce in Calcutta, which represented foreign capital in India and certain representatives in FICCI, the biggest forum of Indian capital. This drew reassurances from Nehru on 18<sup>th</sup> December 1947 at the first Industrial Conference after independence about the sanctity of private enterprise and no discrimination against foreign enterprise (Nehru 1995: 66).

The majority of FICCI members were in favour of regulated capitalist development. This had been agreed in the National Planning Committee report so long as the parameters of the planned economy were defined in consultation with capitalists (Chibber 2003). In a situation of low development of private finance capital (Rudolph and Rudolph 1998: 25), the commercial and industrial bourgeoisie in India at Independence were dependent on state patronage and protection for its profits and capital accumulation. From the Annual Reports and Presidential addresses of the All India Organisation of Industrial Employers from 1954 to 1959, it is clear that every annual conference was an exercise to determine these parameters as well as to express the persistent concern of Indian capital with the problem of 'disciplining' labour.

While Congress was clearly committed to a strategy of development driven by the capitalist sector, its compromises with other sections of the population were resented by the very capitalists emerging under its patronage. By 1959, twelve years after independence, the Swatantra Party was formed to articulate the interests of a section of private capital in industry and commerce and landed property in agriculture. According to an interview with Jagannath Sarkar, Ex-Member, Bihar State Committee, Communist Party of India, this reflected the deeper

cracks within the ruling class about the direction of India's political economy since independence. This observation is corroborated by Rudolph and Rudolph (1998: 25). The effectiveness and legitimacy of the Swatantra Party was however limited. The lobbyists for organised capital and individual business houses found the strategy of directly influencing government departments, bureaus and commissions much more useful. Business interests in India had adopted pluralist forms and methods to influence state policy and public opinion through industry associations and apex bodies (Kochanek 1971). Thus business 'interests' in India, while not publicly represented directly in competitive party politics, were better represented than those of organised labour in bureaucratic, parliamentary and (informal) party processes (Rudolph and Rudolph, 1998).

While the modalities of political role of organised capital in this period has been addressed by Kochanek (1974), in the following sections, among other things, we establish the key political preoccupations of capitalists. Thus, unlike Kochanek who dwelt on 'how' capitalists organised as interest groups, we analyse the role of political mobilisation of capital in the context of the expansion of capital accumulation and the increased confrontation with labour, elaborating on 'why' capitalists organised politically as a class in this period.

#### **4.2 State and Capital: 1947-1956**

The state sponsored and guided path to capitalism in the first ten years after independence was faithful to the idea of the state restricting itself to Smithian duties: ensuring order and providing infrastructure. The state was working to guarantee the continuation of the existing system of property rights and to make markets work better. In the period under consideration, all wartime controls were removed from foodgrains and the liberalisation of controls in the market for food was a significant policy move (Ghosh 1998). Some import controls were periodically enforced but on the whole there was no substantial policy push towards import substitution. The most important initiatives aimed at protecting the interests of the propertied classes were those incorporated in the legal and institutional framework of the political order in the preservation of personal laws defining the holding and transfer rights of property.

Strategic industries, such as defence and communication, remained under state control through the provisions of the Industrial Policy of 1948. Under the Industrial policy of 1948, only three industries were reserved for the state and another six were kept in the domain of the 'public' sector (Government of India 1948). The Industrial Policy resolution in 1948 gave assurances to the classes owning business and industry that no existing enterprises would be nationalised. The policy of 1948 categorically ruled out the take-over of existing private industry by the state for at least ten years (Chenoy 1985). The first five-year plan document also made it clear that new ventures were to be exempt from all possibility of public acquisition for a

period of ten years (Government of India 1951). The government assured foreign firms that they could continue to operate under the same conditions as Indian-owned enterprises. No action was taken to break up the big business houses either domestic or foreign, that exercised managerial control over scores of firms through the managing agency system. On the contrary, negotiations were set in motion with the major British business groups to attract additional investment (Frankel 2005: 77).

In an assessment based on Reserve Bank of India (RBI) figures, Bose (1965: 526) found that 18.1% of foreign capital was invested in branches of foreign companies, 70.8% was invested in foreign controlled companies and 10% was invested in Indian companies controlled by Indians as on 31<sup>st</sup> December 1955. Total foreign investment, of which 95% was invested in branches and subsidiaries of foreign companies amounted to a total of Rs. 4112 millions. This amounted to 38.7% of gross capital formation in the economy based on the National Accounts Statistics (NAS) data for 1955. The profits from foreign investment were shared between foreign and Indian investors in a ratio of 15.9:1 (Bose 1965).

On 6<sup>th</sup> April 1949, in his statement on foreign investment in India, Nehru assured foreign investors that their investment would be treated at par with similar Indian enterprises (Chenoy 1985: 16). This met with severe protests from the Federation of Chambers of Commerce and Industry (FICCI) though they had not been particularly in favour of 'swadeshi' prior to Independence. These protests came in spite of support of the state policy of non-discrimination towards foreign investment from certain representatives of 'big' capital like G.D. Birla (Chenoy 1985). According to the assessments of Mukherji (1988), state policies in this period reflected an even more liberal attitude towards the private sector and 'foreign interests' than under British rule.

Until 1950, the government took a series of key decisions on constitutional arrangements that set very narrow limits on the Centre's power to implement social and economic reforms as it could never violate the fundamental right to property (Frankel 2005: 77). Thus the possibility of a central programme of land reform beyond the 'abolition of Zamindari' retreated into oblivion in spite of the political impact of the Telengana peasant uprising in 1948 and the Tebhaga movement in Bengal in 1946, and despite the passing of the Bargadar Act limiting the crop share of landlords in Bengal by the League Ministry in Bengal just prior to independence. In the first decade between 1947 and 1956, the state pursued a policy of non-interference in the realm of social relations fearing it might upset the delicate social balance of contesting and competing elements.

Existing economic structures were accepted almost in its entirety especially in agriculture. The unwillingness of the new rulers of India to do anything concrete about changing production relations in agriculture ensured, that in most parts of India, except in areas with militant peasant or left-wing political movements, even the much celebrated tenancy reform and land ceiling laws, enacted in however diluted a form, would never be implemented beyond the

minimum abolition of intermediaries between the state and the cultivators through abolition of Zamindari and Jagirdari (Bandopadhyay 1988). These two systems had already become redundant as a systemic source of social power. Even this abolition came with forms of compensation to the Zamindars and the right to retain Khudkasht (owner-cultivated) land (Khusro 1965). This opened up the possibility of retaining huge areas of land that were shown on paper to be 'owner-cultivated' by a variety of coercive means (Kongar 1978).

Minimum land reforms constituting the abolition of intermediaries after Independence remained woefully inadequate. Nevertheless, it turned large sections of middle caste tenants in Zamindari areas into owners, bringing them on par with corresponding groups in the rest of the country, where they had historically been owners. Thus all that zamindari abolition did was to remove the nominal revenue collecting rights of zamindars. Their real control of land had long disappeared. The transformational significance of the abolition was therefore in most cases negligible and symbolic. Land became a commodity, crops were transferred to the market through powerful intermediaries and a strong class of owners with massive money-power emerged in significant parts of India (Desai 2004: 15).

This class of middle and upper caste big farmers and landlords combined patronage rooted in pre-capitalist structures of surplus extraction with the transformational structures of the independent Indian state. For example agrarian class relations in Bihar were embedded in caste. Whether a person owned or controlled land was conditioned by that person's caste status. Caste and class were thus very closely related and one reinforced the other (Mohanty 2002). Dumont's characterisation of caste as a 'structure of ideas' was based on material relationships in land and associated assets. After a point, according to Bandopadhyay (1988), policymakers comforted themselves into believing that further agrarian reforms were unnecessary. This ensured the domination of the agrarian structure and structures of the state by a class of landlords whose existence was rooted in pre-capitalist structures of surplus extraction (Das 1983). Collectively, they formed a significant center of political power in their ability to resist or circumvent any measure aimed at changing agrarian relations (Kongar 1978).

The First Plan was a string of budgets designed to finance projects in areas such as irrigation and power, which were already in the blueprint stage (Kurien 1969). Kurien (1969) has argued that it was a plan without any overt strategy of growth. In his evaluation of the first five-year plan, Kurien argues quite convincingly that there was a theory of growth implicit in the assumptions of the plan document, which were based on historical correlations between capital formation, savings rates and growth in the USA (1870-1900), Japan (1900-1930) and the USSR. Thus the plan was based on a Harrod-Domar type of post-Keynesian growth models (Kurien 1969: 89-90). However, a plan based on a Harrod Domar model reliant on calculations of necessary capital output ratios and savings ratios to achieve target growth rates is not necessarily a plan with a strategy elaborating the domains of intervention by the state to ensure the achievements of such targets.

R. K. S. Chetty, Minister of Finance, 1947-48, in his budget speech in 1947, spelt out the short-term financial priorities of the state. The state was dealing with the economic consequences of partition. Through the Partition council, state representatives had to deliberate and decide on the division and allocation of resources with Pakistan, including the national debt, the railways, the assets of Reserve Bank, the stores held by the Army, and to encourage the free movement of trade between the dominions and decide on taxes and duties.

The food position was grave. Prices were rising due to decreases in agricultural and industrial production as a consequence of the Partition (Lok Sabha 1947: 746-761). The state had very limited budgetary revenues of Rs 171.15 crores from customs and income tax while budgeted expenditure were Rs 197.39 crores in 1948. The largest allocation of Rs.92.74 crores went to defence, followed by the civil accounts of refugees, food and administration. This budget had a revenue deficit of Rs 26.24 crores. A survey of budgetary allocation in the period between 1947 and 1951 shows that the state's professed objective of leading the capitalist transformation was not reflected in its own financial allocation processes (Lok Sabha 1947, 1951).

This does not mean that the state did very little for a capitalist transformation during this period, as budgetary allocations are not the only ways in which the development of capitalism can be supported. For instance, support for the development of capitalist capacity can be provided through the repression of wages, through the support of different types of primitive accumulation or the creation of a variety of 'rents' that assists capitalist accumulation.

National income rose in the First Plan period from 1951 to 1956 by 18%, an average annual growth of 3.6% according to calculations based on the official NAS data. Average per capita income between 1946 and 1954 was estimated to be Rs 253 (Mukerji 1965: 702). The First Five Year Plan laid down that an abrupt increase in wages was detrimental to the economic stability of the country, as it would get reflected in the costs of production and consequently in a rise in the prices of products (Government of India 1951). Thus in the First Plan period, the state policy of encouraging depressed wages continued unhindered from the late colonial period (Kuzcynski 1965). Capital operated without many strictures after the brief interlude of economic uncertainty for two or three years due to the partition and War.

From Table 4A below, it is clear that there was a simultaneous process of capital deepening and diversification of capital in industry during this period. There was intensive growth in the old sectors like cement, steel, paper and sugar whose expansion dated back to the period since World War I. This was the process of 'deepening'. But this was far outweighed by the extensive growth reflected in the index of industrial production in the 'new sectors'. This diversification process was pronounced in the rapid growth of 'new' industries like diesel engines, bicycles, sewing machines, soda ash, caustic soda and super-phosphates reflected in the indices of production. Thus both the deepening and diversification of capacity dominated the accumulation of industrial capital in this period.

Table 4A: Index of Industrial Production (Base: 1946 = 100)

<b>'Old Industries'</b>	<b>1951</b>	<b>1955</b>
Cotton Textiles	101	127
Jute Textiles	80	94
Steel	116	132
Cement	207	286
Paper and Paper Boards	124	174
Matches	140	147
Sugar	121	173
<b>'New Industries'</b>		
Machine Tools	52	82
Diesel Engines	1532	2124
Bicycles	266	1143
Sewing machines	726	1658
Electric Motors	311	549
Soda Ash	396	644
Caustic Soda	508	1181
Super-phosphates	1356	1598

Source: Shroff 1966:25,

In an assessment of the two decades of 'change' since independence undertaken by the Government of India, the Minister for Finance, K.C. Pant (1968) was not over-stating anything when he argued that the industrial structure of the economy has been greatly strengthened with the development of many key consumer industries, which were non-existent only a decade ago. Yet he attributed it to the process of planning (Pant 1968), when it is clear that this process preceded any kind of planned model of diversification.

State policy also supported industrialisation through its licensing policy that implicitly created rents for Indian capitalists by limiting entry into Indian markets. Licensing as a policy existed from the colonial period, but before it became an instrument for directing investment into particular sectors in the Second Plan period, it first worked simply as a mechanism for enhancing the profitability of investment and the direction of credit. The records of licenses under IDRA in the period from 1952 to 1955 show that 1440 applications were made, and 1142 were granted. Out of these, 363 were for new schemes, 657 for expansion schemes and 122 for organisational changes without additional capacity (Hazari 1967). Not all of these licenses were used, as Hazari's (1967) study would reveal in a few years' time. This process of pre-empting capacity, undermining the effectiveness of licensing as a tool of allocation but establishing its

importance as an instrument for creating rents, was thus a feature that preceded the detailed allocative role of planning in the economy.

The Industrial Finance Corporation of India Annual Reports show that under the stipulation of the first Industrial Policy Resolution of 1948, the total amount of loans sanctioned rose from Rs 9.5 crores in 1951 to Rs 43.20 crores in 1956 (Industrial Finance Corporation of India (IFCI) 1951, 1956). From the office of the Registrar of Joint Stock Companies, companies registered and in actual operation rose from 22,675 in 1947-48 to 29,779 in 1954-55 (Shroff 1966: 26). Thus even before the Second Industrial Policy and the 'Period of Planned Development' from 1956 was ushered in, the capital deepening and diversification process in the domestic economy had already started.

The findings presented above corroborate the argument that even before the state had worked out the detailed nature of support to capital formation through planning and tariff support, the capitalist class was being supported through the licensing policy and credit from national financial institutions in the first plan period.

Far from a strong 'developmental' paradigm, however, this period was more a 'free market' as far as the allocation of investment was concerned. The relation between state and capital was also defined by an ideology of liberalism as far as domestic and foreign capital was concerned. But most important, this period of 'liberalism' during the First plan period did not make any big difference to the capital formation in the economy as a percentage of GDP as shown in Table 4B below. Capital formation hovered between 12 and 17% of GDP. The change in the stock of capital was below 0.5% in three out of five years. Thus 'liberalism' ensured a political status quo in terms of property relations, but also meant a status quo in capital formation.

Table 4B: Gross Domestic Capital Formation (GDCF) as Percentage of GDP, 1950-55

Year	GDCF as % of GDP at Market Prices	Change in Stock as % of GDP at Market Prices
1950-51	14	1.7
1951-52	17	1.5
1952-53	13.8	0.3
1953-54	12	-0.7
1954-55	13.5	0.3

Source: Table 11, p78, EPWRF 2002b

The state's 'politics of accommodation' emerged during this first decade. (Jannuzi 1990: 25). The displacement of metropolitan capital's direct links with the Indian economy was a process that continued until the mid 1960s though it found many new ways of maintaining its existence. One immediate strategy was the formation of subsidiary entities. In any case, the displacement of metropolitan capital was only peripherally on the agenda of the state in this

period and displacement only happened on a significant scale in the period between 1966 and 1980. It was not even a key feature of Nehruvian development during the Second Plan.

#### **4.3 State and Capital 1956-1966**

In 1956, with the adoption of the Second Industrial Policy and the implementation of the Second Five Year plan, the state moved into the implementation of the ambitious premises of the Feldman-Mahalanobis model (Chakravarty 1987). This was a significant departure from the previous decade and encompassed all the major policy issues that were associated with giving the state in independent India a major role in building up infrastructure, expanding and strengthening the productive base of the economy, setting up new financial institutions and regulating and coordinating economic activity.

In terms of the strategy elaborated at that time, the State would ensure a sharp increase in the rate of savings in the system, an enhanced allocation of those savings to the heavy industrial sector in general and machine tools in particular, so as to reduce the economy's dependence on international capital and commodity markets (Patnaik 1984). This was perceived as necessary for building capitalism itself. This was the essence of the Nehruvian strategy in its pristine form as an 'idea' (Khilnani. 2003). The state was also responsible for the expansion of the domestic market through increasing expenditures. This was one vital aspect of the stress on releasing the wage-goods constraint in the economy that existed since the colonial period. The terms of trade between agriculture and industry were another crucial instrument due to the existence of the wage goods constraint. Thus, a number of instruments were perceived as necessary for building capitalism by creating the conditions for primitive accumulation appropriate for a post-independence nation-state.

The state's role in guaranteeing social order and protecting existing property relations continued to be important. This is most suitably illustrated in the continuation of the state's non-efforts to implement land reforms in agriculture beyond the very minimal progress in the abolition of intermediaries in spite of land reform legislation in many states. This remained one of the primary zones of 'non-intervention' by the state.

However the state faced many more complexities in the terrain of industrial relations. The All India Organisation of Industrial Employers was visibly upset about the provisions of the Industrial Disputes Act and the Companies Bill proposed as an Act in 1956 (Annual Report, All India Organisation of Industrial Employers, 1956.) But they could not do much as the state needed to accommodate the organised section of workers due to the rising strength of the trade union movement (Ranadive 1990). Thus the state was a terrain of contest for the dominant classes and class factions with diverging interests and uneasy but symbiotic relationships.

There were two new interventions in the Second Plan. First, 'indicative planning' was used together with licensing to influence the allocation of critical resources, in particular, savings and foreign exchange (Bagchi 1988). Second, the sheltering of Indian capital from

excessive foreign competition was accomplished through a detailed system of tariffs and non-tariff barriers. This was put in place without excessively antagonising powerful international capitalist interests through the stipulations of non-discrimination against holding and subsidiary companies of multi-national corporations under the Companies Act 1956. The interests of big capitalists articulated by the Chambers of Commerce dominated the import-substituting (ISI) model in the design of tariffs and import restrictions (Bagchi 1988). To facilitate the economic expansion of capital, public investment was directed towards the development of transport, communication, irrigation, education, research and development.

The Congress led state thus chose to pursue a capitalist path of development based on 'mixed economy' postulates and sought its implementation through indicative planning (Desai 1984: 25; Chakravarty 1987). The choice of this path implied three things. First, it meant that a lot depended on the state's success in achieving enhanced resource mobilisation and then succeeding in influencing the priorities of allocation of these resources in various fields and sectors. Second, the strategy determined the classes on whom reliance for economic growth was placed and the conditions needed for strengthening their economic, social, political, cultural and ideological power. Third, it shaped the policy of the government to provide special inducements and encouragement to classes who were viewed as 'agents' of development (Desai 1984: 24). Thus 'capitalists' as a class were the key agents of transformation of society in the implementation of developmental goals based on the mixed economy.

Domestic industrial interests remained secure within the import substituting industrialisation (ISI) policy and tariffs and import restrictions. The big trading houses, in the face of reduced profit margins due to high import duties on final goods shifted to manufacture under the license-subsidy schemes. A significant number of big trading houses entered the realm of production in this period. The capitalists themselves argued that breaking into export markets was impossible (FICCI 1956). The nature and direction of world trade based on a principle of comparative advantage calculated on the basis of factor endowments hardly seemed a convincing argument to any section of the capitalist class in that period (Agarwal 1983). The fact that multinational companies had a level-playing field through holding companies added to the reluctance to build up competitiveness. We shall see later in this chapter that there was a considered move by top sections of Indian capitalists to model themselves as trans-nationals through joint ventures abroad, but little evidence of any support for liberal trade to cut down trade barriers to allow production on the basis of conventional comparative advantage.

All of the state's resources were deployed to increase production in the new areas identified in the Plans (Kurien 1994). In the heterodox literature on rent and rent-seeking, this has been conceptualised as a process where the state was trying to accelerate productivity increase by creating 'learning rents' for new industries through protection but it failed in creating associated systems of compulsion to ensure that rents were not wasted (Khan 2000). In another view, this was attributed to the inability of the state to impose even a minimum measure of discipline

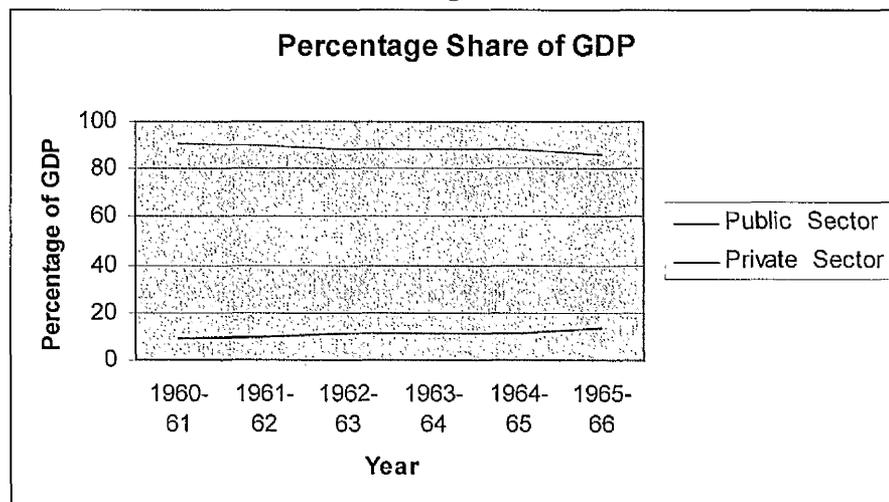
because of the political power of capitalists that was exercised both formally and informally within the ruling party (Chibber 2003). No yardstick for such discipline was envisaged within the policy strictures. The profit motive combined with the state's role as 'risk-absorber' were judged to be sufficient incentives for the model to work, and not much attention was given to the importance of compulsions for capitalists.

One important break from the earlier period was the weakening of British Managing agencies that had held sway over the industrial clusters that had been the preserve of foreign capital. Restrictions on managing agencies through the new Companies Act of 1956 came into being. This led to a further weakening of British managing agencies that had already started to decline during the Second World War (Malyarov 1983). This opened up new opportunities for Indian family businesses. Indian family businesses acquired holding companies, plantations and jute mills. The Associated Chamber of Commerce (ASSOCHAM), which was the preserve of what remained of British capital, was opposed to the abolition of managing agencies. So were some representatives of Indian business (FICCI 1955) as this would have involved a restructuring of their own businesses as a few managing agency houses had come to be owned by Indian businessmen at the end of the colonial period. Nehru once again assured ASSOCHAM of 'no discrimination' in the organisation of business in the run-up to the implementation of the Industrial Policy of 1956 (Chenoy 1985).

Nevertheless, the state through its planned strategies moved into the arena of public investment in the development of transport, communication, irrigation, education, research and development. Public sector enterprises were started with the objective of providing a steady source of capital and intermediate goods to sectors that were capital constrained and had long gestation periods in terms of profitability (Frankel 2005: 128-134). Public funding of technological institutes to provide the necessary personnel was also a feature of this period.

The second and third plan period also witnessed an unprecedented fiscal expansion to stimulate demand, public investment in basic industries and creation of 'loan' capital through financial institutions to stimulate private investment. The stepping up of loan capital for industry through state initiatives was in response to industrial lobbying to widen the sources of credit. In real terms, the state directly granted protected markets through its complex network of tariffs and quotas. It also facilitated the supply of capital and intermediate goods to the private manufacturing sector and took up the difficult task of co-ordinating markets for industrial and agricultural goods through its pricing policy. External assistance and taxation were the two most important sources for plan financing. Due to the feeble direct tax effort, the burden of taxation fell on indirect taxes, which doubled from 1948-49 to 1963-64 (Government of India 1971). Thus part of the cost of financing this industrialisation effort was directly passed on to the general population. These policy measures gave a tremendous boost to those industrialists who already had an established hold over the 'old' and 'new' industries enumerated in Table 4A.

Fig 4.1



It is evident from Figure 4.1 that there was a very gradual shift in the share of GDP from the private sector in favour of the public sector. The share of the public sector increased marginally from 9% to 13% in six years between 1960/1 and 1965/6. The share of the private sector on an average was 88.1% of GDP. This has to be seen in the context of a non-existent 'public sector' until 1950. Bhagwati's accusation of 'a substantial public sector, going well beyond the conventional confines of public utilities and infrastructure' (Bhagwati 1993) is thus hardly a tenable criticism for this period. Beyond utilities and infrastructure, the state set up public sector units in fertilizers, chemicals, steel and oil and natural gas exploration, sectors in which the private sector was incapable of venturing into in spite of its diversification measures. FICCI welcomed these measures as vital for private enterprise in dyestuffs, paints, medicines, antiseptics and so on, and appreciated the need for 'vertical integration' through the creation of 'linkage enterprises' (FICCI 1956). G.D. Somani as President of the All India Organisation of Industrial Employers, a key body within FICCI argued in 1956

...would it not be better if the expansion of the public sector is viewed not as an end but as a means? (FICCI 1956: 6)

He went on to argue:

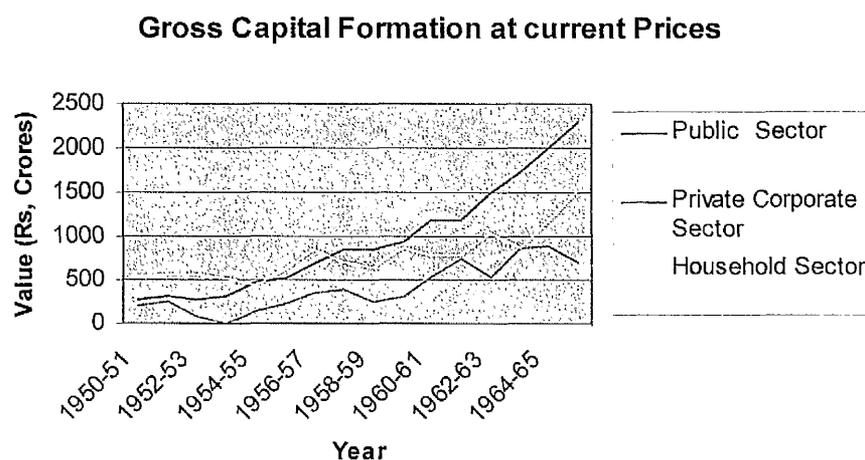
...the State has a purposive role to play in economic affairs, but this role should not be equated with or identified with the expansion of the public sector only. It should be much more pervasive in the sense that, within the framework of social objectives, constructive individual effort is helped and an atmosphere is created for the flow of new talent. (FICCI 1956: 7)

So the biggest representatives of capital did not envisage the role of the state in investing in the public sector as a problem at the beginning of the Second Plan period. This empirical

evidence also refutes the generalisation by Nayar (2001) that the representatives of FICCI were opposed to the expansion of the public sector. The public and private sectors were not pitted as competing elements in the economy. Capitalists within FICCI asserted that production beyond the most primitive type was *capitalist* wherever it obtains in any part of the world with any political system within the postulates of a mixed economy (FICCI 1956).

The fact of the matter is that today every national economy is a mixed economy in varying proportions. (FICCI 1956: 7)

Fig 4.2



Capital formation in the public sector increased substantially from 1959/0. Fig 4.2 shows that between 1950/1 and 1959/0, the rise in capital formation in the corporate and household sector followed more or less the same cyclical pattern. From 1960/1, the cyclical patterns diverged and household sector capital formation reached a peak when the corporate sector reached a low and vice-versa.

According to an appraisal of this period carried out by researchers at the NCAER on behalf of the state in 1966, the performance of the industrial sector was described as 'tardy' compared to the explicit targets set in the five-year plans. Industrial production increased by 36% against the planned target of 70% in this period. The major causal factors that were cited were the non-availability of raw materials and more importantly, the persistently high import content of industry (NCAER, 1966). Shortage of foreign exchange was cited as a crucial constraint and the country's export earnings were not sufficient to provide for the imports. Imports of industrial minerals increased hugely both in relative and absolute terms. The relative plan outlay in agriculture had not changed, although the absolute outlay grew in the Third Plan. The same was true for power, while the outlay on irrigation declined relatively (Negandhi 1966: Appendix I). The failure to allocate sufficient resources to agriculture, which employed more than two-third of the labour force and produced more than 50% of GDP, remained a shortcoming of the indicative planning of the Third Plan (Chakravarty 1987). This failure was

even more remarkable as policy makers claimed that they had rectified the neglect of agriculture in the Second Plan (Government of India 1961).

The Congress government in 1966 benchmarked the economic growth in this period to the pre-independence decades, when growth rate was around 1% per annum and claimed that this had been an 'era of rapid change'. Echoes of this view are found in K. C. Pant's article as Union Minister for Finance in 1968 when he cited these figures to argue on behalf of the government that

The present economic difficulties of the country especially of the past two years, may sometimes tend to blur one's view of the progress India has made during the twenty years since Independence... The country has made many-sided progress under the first three Five-Year plans...A strong wind of modernism is blowing over the agricultural sector, with increasing demand for fertilizers, pesticides, improved varieties of seeds, power for irrigation and other inputs that go to increase agricultural productivity...Education and medical facilities are reaching more people today than at any time in the past. (Pant 1968: 37)

The optimistic prose underwrites the idealism inherent in the idea of physical planning. It never really acknowledged that the process of capitalist diversification in an impoverished, capital constrained economy where agrarian relations saw little change was bound to face structural constraints sooner or later.

National Income increased by 21% during the Second Plan period between 1956 and 1961, an average annual growth of 4.2%. Moreover, the share of agriculture in GDP fell from 58% to 53% between 1950/1 and 1960/1, though GDP measured at 1993-94 prices from agriculture reached a level of Rs 109254 crores from Rs 81069 crores in the same period (EPWRF 2002:32 Table 3A). The Third Plan envisaged an investment programme of Rs 10,400 crores over the period 1961/2 to 1965/6. Out of this, the target of investment in the public sector was fixed at Rs 6100 crores. The targets for generating resources were also laid out at Rs 7500 crores for the public sector and Rs 4100 crores for the private sector (Hanson 1996). The resource mobilisation envisaged in the public sector was expected to cover the cost of its investment programmes and current expenditure and also transfer Rs 200 crores to the private sector to assist selected investments in agriculture, industry, housing etc (NCAER. 1966:7). In the Third Plan period between 1961 and 1966, National Income grew by 14%, an annual average of 2.8%. The slowdown in manufacturing was much higher. Table 4C shows that the annual percentage of gross domestic capital formation hovered between 15.7 and 21% in this period with a steady increase in the period of the Third Plan. The net addition to stocks was between 1% and 2% for most of the period except for 1955-56 and 1958-59 when it was below 1%. Thus capital formation in the economy showed a break in its pattern from the period of the First Plan if we compare the figures in Table 4B and 4C. This is also reflected in the patterns of capital formation in the public, private and household sector illustrated in Fig 4.2.

Table 4C: Gross Domestic Capital Formation (GDCF) as Percentage of GDP, 1955-65

Year	GDCF as % of GDP at Market Prices	Change in Stock as % of GDP at Market Prices
1955-56	16.3	0.6
1956-57	20	1.7
1957-58	21	2
1958-59	15.7	0.1
1959-60	17.5	1.2
1960-61	18.9	1.9
1961-62	18.6	1.3
1962-63	19.5	1.6
1963-64	20	1.2
1964-65	20.7	1.3

Source: Table 11, p78, EPWRF 2002b

However, the slowdown became perceptible by the mid 1960s. By 1964-65, growth rates in GDP had slowed down. This was combined with high levels of inflation and balance of payment problems that assumed crisis proportions by 1965-66 and accompanied the slow down of economic growth. Explanations in the literature emanating from state functionaries of the period had initially underplayed the structural nature of this slow-down and attributed it to bad weather conditions and stagnation in agriculture in three out of five years during the plan period along with the conflict with China in 1962 and the war against Pakistan in 1965 (Economic Survey 1968-69). These factors may have been important, but on their own, they failed to explain the long structural retrogression in the economy that started from 1965-66 (Shetty 1994). Neoclassical assessments have argued that the problematic for India was the lack of dynamic capitalist growth based on commensurate productivity increase (Bhagwati 1993).

One argument in this context relates to the fact that development planning began in India with no radical redistribution of assets. The vast mass of rural unemployed and underemployed remained as before. Even though output growth increased substantially in the post-independence period, the gap between the unemployed and the employed, the gap between those employed in the organised sector and those employed in the unorganised sector, the gap between blue and white collar workers within the organised sector, and above all the gap between workers of all descriptions and the propertied classes increased in the period between 1947 and 1967 (Patnaik 1984). The 'elite' designed and 'elite' benefiting nature of the development process could be seen in the consumption patterns of a majority of the fragile groups of the population who experienced reduced proportions of consumption of industrial

goods in 1964-65 compared to the Second Plan Period (Patnaik 1994, Table 3 and Table 4: 41-42), reduced consumption of items of government current expenditure and in the continued feeble direct tax effort (Roy 1998).

The literature relating to this period cites many basic impediments like shortfalls in agricultural production (Vaidyanathan 1994), faulty planning to absorb large volumes of aid in the face of foreign exchange shortages and lack of trained technical personnel (Srinivasan and Narayana 1994), faulty premises of plan schemes (Bhagwati 1993) and inadequate employment growth (Chakravarty 1987; Shetty 1994). K N Raj (1994: 51) in his study of gross investment between 1951 and 1966 established that a strong correlation between the build up of unutilised capacities and the slowing down of growth between 1964 and 1966 was not tenable. He emphasised the narrow base of demand that led to a constraint on the demand for wage goods due to the inability of the state to release the demand constraint in the economy. This work hinted at the lack of agrarian redistribution by the state and its inability to tax the rich as the source of the demand constraint. According to Raj, the state needed to 'tackle the problem at the root even if it implies facing squarely the power groups that are in the way' (Raj 1994: 64).

According to Chakravarty (1987), for Nehru and his colleagues planning was a positive instrument for resolving conflict in a large and heterogeneous subcontinent. The principal aim of planning according to Chakravarty, was to overcome the shortage of capital in relation to availability of employable persons. Public sector earnings did not increase proportionately to private earnings; investments relied on borrowing from households. Chakravarty's assessment was that planning benefited Indian capital in the first two decades after independence as a structural break in the economy was achieved by the mid 1960s. This is reflected in the analysis put forward by Kirloskar (FICCI 1965: 5) that

Indian business was...a partner in the economic development of the country and for the first decades a beneficiary of the regulatory system that was put in place.

However, Chakravarty also pointed out that the process of planning was unable to generate sufficient employment opportunities and ensure adequate production of the basic necessities of life.

At the same time, the capitalist class was caught in a peculiar ambivalence towards the material needs of a state-led process of capitalist transition. In a context where many overseas markets were opening up as national liberation struggles in Africa led to formation of independent nation-states, the prospect of state regulation and control would only have appeared as a massive hindrance to the expansion of businesses into new and bountiful lines. Chibber (2003) argues that G.D. Birla himself was going over to the other side, railing against the consequences of controls and government regulation of industry, and demanding greater freedom for private enterprise. Yet in spite of their public speeches, voicing their defence of free enterprise, the big capitalists always recognised the necessity of the state-led process in this period. Their main preoccupation lay in the political opposition to a progressive taxation policy.

Further, capitalists saw the licensing and regulatory process as an irritant even though they had seen the need for it in the late 1940s. This tension lay behind the growing capitalist pronouncements against 'control'.

Hazari's (1967) work makes it clear that capitalists like the Birlas, Tatas and the Thapars took full advantage of the licensing policies to build huge monopolistic empires throughout this period. These policy measures gave a tremendous boost to those industrialists who already had enormous resource power. While state policy professed to hold a balance between the big capitalists and the emerging smaller ones, R.K. Hazari's official study conducted in the late sixties showed that the big business houses had been able to circumvent certain provisions specifically meant to prevent further concentrations of economic power.

As the state got enmeshed in a growing fiscal crisis (Roy 1998), it resorted to fiscal management. The Second Parliament passed more than 300 acts of which 5 were in respect of amendments of the Constitution and more than 100 related to fiscal matters and finance. By 1965, the state faced either inflation or balance of payment problems or both (Raj 1994). To maintain the tempo of growth in the economy it increased the squeeze on large sections of workers through greater indirect taxation, hikes in administered prices that were 'passed on' and inflationary deficit financing (Patnaik 1994). But by the mid 1960s, to keep this inflationary squeeze in check, it was cutting back on its own investment and thereby undermining the expansion of the economy. The BOP crisis came to a head in 1966 and India borrowed from the IMF for the first time.

The dynamism of Indian capitalist development depended crucially on a continuous expansion of public investment. The expansion of the state sector was an essential stimulant for the continued expansion of the capitalist sector (Patnaik 1994). The capitalist argument from FICCI was intent on confining the 'role of the state' to Keynesian aspects of demand management *except* for 'progressive taxation' and leaving supply related aspects to the 'free market'. Singhania (FICCI 1959) took this further to argue that

...there is a tendency to introduce rigidity e.g. in the field of revenues for the Railways or the General Exchequer. Additional levies are imposed based on plan assumptions or other reasons. If costs and prices are pushed up by regular increments in taxation, this is bound to have adverse consequences of a cumulative kind. Since the cost of living will rise, there will be a demand for increased wages and salaries; the demand for goods and services will not keep pace, and the main hope and spring of economic expansion which lies in stimulating demand will receive a setback. A forward looking tax policy like a forward looking price policy must aim to secure larger revenues and profits on a larger turn-over (FICCI 1959: 9).

To summarise, the Nehruvian model of state-led capitalist development was focussed on increasing production without the requisite structural transformation in social relations to make the process sustainable. A strong argument emerges in the heterodox literature that the state's crisis from the mid 1960s was due to assumptions of fiscal omnipotence and failure to generate tax revenues (Patnaik 1984). This was directly linked to the state's inability to exercise

any control or discipline over the agricultural and industrial elite. The public sector was unable to expand beyond a certain capacity to generate adequate funds for state activities. So it was not a crisis of economy, but a crisis of the state's sustainability as a site for primary accumulation of capital. This can be attributed to the state's inability to discipline the capitalist class not only to raise taxation as has been argued by Patnaik (1994) and Patnaik and Chandrasekhar (1995) and Chandrasekhar and Ghosh (2002), but also more importantly to raise productivity growth as argued by Khan (2000).

Ideological opposition to Nehruvian 'developmentalism' once it ran into crisis came from the Communists and Socialists on the Left and the short-lived Swatantra party representing capitalist and landed interests including the deposed 'princes' on the Right. But the social premises of the two forms of resistance were very different. The Communists subsequently weakened due to a historical split, but were a force to contend with due to their mass organisational activities and movements uniting workers, peasants and the petty-bourgeoisie in parts of India. The Socialists appeared as fragments, reappeared as reconstituted fragments, and finally disappeared in the 1970s. Opposition parties based on jati or caste and community were particular to a region. The base of Hindu nationalism widened as independence also saw a shift in the Rashtriya Swayamsevak Sangh (RSS) strategy with the formation of a political front in the shape of the Bharatiya Jan Sangh ending its so-called confinement to the field of culture. Besides, there was the emergence of a mass front, the Akhil Bharatiya Vidyarthi Parishad, to organise students. It also set up in 1955 its trade union wing, the Bharatiya Mazdoor Sangh (BMS) to organise workers (Kanungo 2002).

However, the Congress patched together its pluralities and majorities from India's vast pool of heterogeneous interests. Held together in fragments and factions, its dominance was gradually undermined from within and by the push and pulls of external political turmoil throughout the 1950s and 1960s. Congress governments had commanded majorities of 70-80% of seats in the Lok Sabha on popular vote pluralities of 40-49 per cent. In 1967, a 4 percent loss in Congress's popular vote cost the ruling party more than 15 percent of its seats in the Lok Sabha (Frankel 2005). Thus a significant aspect at the end of the period was a crisis of legitimacy for the Congress as a ruling party.

While the overall strategy faced serious constraints, and did not in the end amount to a strategy of capitalist transformation that could be sustained, it did create pockets of very successful capitalist growth. We shall see in the next sections that the state-led process had worked in favour of a small group of 'big capitalists' so well that they were diversifying into establishing units abroad.

#### **4.4 Foreign Capital in India and Indian Capital's Early Ventures Abroad**

The number of foreign collaborations in India increased dramatically from 81 to 302 during the period between 1957 and 1964, the peak era of planning (see Table 4D).

Table 4D. Listing of Foreign Collaborations in India 1957-64

Country	1957	1958	1959	1960	1961	1962	1963	1964
UK	17	34	52	120	126	79	70	76
USA	6	4	10	61	77	57	67	55
West Germany	2		13	58	67	42	48	58
Japan	1	3	8	39	30	24	32	24
Switzerland		2	1	13	19	19	19	17
France	2	1	2	9	6	14	16	11
Italy	4	4	4	9	13	11	6	5
E Germany			1	5	4	5	10	19
Holland	1			6	10	7	4	5
Sweden	1		1	13		6	1	2
Denmark			2	6	4	2	3	7
Belgium			2	4	2	4	3	5
Austria			1	3	5	4	2	4
Canada		1		1	3	6		2
Poland				1	6		3	3
Total	81	103	150	380	403	298	298	302

Source: Table 3, Appendix 1, Negandhi 1966

The data in Table 4D is corroborated by the Annual report of ASSOCHAM in 1966 which estimated the number of foreign firms in India to be around 300 (ASSOCHAM 1966: 24). Outstanding and new foreign business investment in India was concentrated in manufacturing. The UK was still the leader but its share was declining and that of the US was increasing (Kidron 1965: 241-243).

A powerful myth that is often propagated about this period is that the Indian economy became technologically constrained because it was tied into low productivity growth under low grade Soviet technology as a result of its rejection of assistance from the West. On 13<sup>th</sup> October 1949, Nehru in his address to the House of Representatives and the Senate in the US explicitly stated that assistance in machinery and technology would be overwhelmingly welcome in 'New India' on a basis of 'mutual advantage' (Nehru 1995). External assistance in the form of aid towards technology and machinery import was mainly provided by the US in the period between 1957 and 1964. It provided Rs 7.7 billion out of a total of Rs 19.9 billion. In contrast, despite India's close relationship with the USSR the latter provided only Rs 200 million in the same period (Lok Sabha 1965: 73; Negandhi 1966: 36).

Foreign collaborations were mainly in the field of industrial machinery. Foreign capital was also welcomed in heavy chemicals, pharmaceuticals, synthetic oil, heavy machinery, iron and

steel and aircraft manufacturing. In 1957, the first of a series of tax concessions were granted to foreign firms affecting salaries, wealth tax and super-tax (tax on super-profits). This was followed by the announcement that the '51 per cent rule' requiring majority Indian ownership was no longer required. Double taxation avoidance agreements were signed with a number of Northern European countries, Japan and the USA by 1964 (Kidron, 1965).

In building capitalism, the state required the assistance of foreign capital and thus developed a dependence on the First World for technology and finance. According to an interview with P.K. Ganguly, a leading member of the CITU, responsible for the organisation of the informal sector, this was due to the scarcity of capital within the nation-state in spite of the diversification of the capitalist class. The scarcity of technological capacity may have been even more binding. But why foreign capital may have been interested in operating in India in this period is clear from Table 4E below. On the one hand, in spite of the tax concessions, taxation rates as a percentage of profit was high. But on the other, earnings ratio (earnings per share as a proportion of the current price of shares) after tax was much higher compared to other countries. We must take into account that the earnings ratio can be misleading as an indicator of profitability. This is because the ratio depends on what happens to the share price. In countries with high risk, the share price may be depressed below fundamental value or replacement value and give a high earning ratio. This is good news for bargain hunters in international equity markets, except that at that time this was not a possibility in India because of tight financial controls. But it is not good news for existing investors in such companies. The underlying return on the original investment may be low. Here, we are reliant on Negandhi's figures where it might be difficult to ensure comparability of the data. However, the comparisons are based on foreign companies operating in different countries and provide a basic comparison based on tax-benefits and declared profits of foreign companies in India. These are much more robust in terms of reliability of data.

Foreign investors at that time regarded economic growth and stability, market potential and profitability, socio-political conditions including labour policy, government attitude towards private investment, remittance and repatriation policies as favourable factors in India according to Negandhi's case study based on interviews in 1966. However, the unfavourable factors, according to them, were the government decision-making apparatus, rigidity in private foreign investment policy, and the tax structure. The Indian capitalist class or at least a section of it agreed on many of these issues but differed on the very premise of concessions to 'foreign business'.

Table 4E. Taxation and Profits of Foreign Companies 1962

Country	Tax Rate (as % of Profit)	Earning Ratios after Tax
India	67.5	20.6
Japan	44	9.1
Australia	49	11.8
New Zealand	50	35.3
UK	53.75	10
South Africa	35.25	17.9
Philippines	35.25	18
Malaya	40	9.1
Canada	51	7.1
Venezuela	45	6.1
Peru	49.5	13.5
Colombia	43.6	4.3
France	57.5	6.3
Italy	38	7.5
Netherlands	47	5.3

Source, Table 37, p118, Negandhi, 1966

Significant imports of foreign investment and technology took place, even in Schedule A and B industries which normally should have been banned to the private sector. Whereas foreign capital accounted for 29 per cent of fixed investment in the private corporate sector between 1948-53, this relative proportion increased to 32 per cent in 1960-61 (Negandhi 1966). Thus the tie of private corporate sector with foreign investment was quite significant in the first two decades after independence. However, Indian monopoly capital had another ambitious strategy in mind – that of capital and technology exports. The export-oriented industries were still controlled by foreign capital (Kidron 1965). The only way in which the state could offer to level the field was through protection and expansion of industry. Apart from reaping the benefits of state protection and industrial expansion, however, the top sections of Indian capitalists were trying to set up industrial units in other Third World countries.

The efforts of Indian capitalists to find opportunities abroad were directed not only to export capital equipment, which was only beginning to feature in Indian exports, but also to explore the scope for financial and technological participation, especially with other developing countries. In the early phases of granting approval, a detailed framework for clearing proposals did not exist. In fact Agarwal (1984) argues that the policy evolved as a result of pressure from Indian enterprises.

Under the foreign policy doctrine of 'non-alignment' and Third World solidarity, a comprehensive strategy of expansion through joint ventures was launched. The Indian Industrialists' Goodwill Delegation (September-October 1964) to African countries, under the leadership of A M M Murugappa Chettiar, a former President of FICCI, observed that

...in her own self-interest, India can no longer rely on conventional methods of trading' and that 'the newer techniques of trade demand that we must actively participate in setting up joint industrial ventures in as large a measure as possible (FICCI 1964: 9).

The first Indian joint venture abroad was sanctioned as early as 1959. The Birla group was given permission to set up a textile mill in Ethiopia. Indo-Ethiopian Textiles was set up in 1960 near Addis Ababa (Agarwal, 1984). In 1962, an assembly plant for sewing machines was set up in Sri Lanka which was functioning until the 1980s. Until the mid 1960s, Indian enterprises received permission to set up units in Iran for investment in manufacture of hosepipes, electric motors, transformers, bicycles, automotive components, electric fans etc. Only a few of them went into production. One unit for spare parts and automotive components was commissioned in 1969, but stopped operations in 1971 (Agarwal 1984: 43).

Soon after Kenya's independence in December 1963, industrial units were set up by Indian entrepreneurs for textiles, gripe water, printing ink and allied products, woollen textiles, light engineering goods, and paper and pulp. Some had to wind up relatively soon, but quite a few made good progress. Some important destinations were Nigeria and Nepal though in Nepal the investments were mainly in trades and hotels. The only venture into Latin America was in Colombia for the manufacture of twist drills but it was soon to prove unsuccessful. Other destinations were Libya for a RCC pipe plant and a hardboard factory in Canada which Agarwal regards as 'very successful for a few years', and sugar and jute products in Uganda. More than 50% of total Indian equity overseas was accounted for by the leading business houses of Birla (17 projects), Tata (4), JK (4), Thapar (5), Godrej (4), Kirloskar (8), Sarabhai (2), Mafatlal (1), Shriram (1) (Agarwal 1984). By 1970, it was clear that in the initial phase of enthusiasm, similar to the cases of internal licensing, many permits were obtained to set up joint ventures abroad, but the licences gathered dust on shelves and were never utilised (Agarwal 1984).

#### **4.5 First World Response to the Indian Experiment**

The leading capitalist countries were not hostile to India's 'exemplar' experiment in state-led capitalism and were willing to go along with it driven by the imperatives of 'developmental aid' characteristic of the Cold-War period. The 1950s and 1960s were years of significant 'foreign aid' to India. First World states, the USA being the chief among them, along with the Bretton-Woods institutions were willing to support the Indian effort at long-term development because stability in the capitalist world economy called for a certain level of overall growth. Even more powerful was the incentive to keep a big country like India from the possibility of going over entirely to the Communist camp given the revolution in China in 1949

and the potent threat of peasant militancy in significant areas of India in the 1950s. Until 1949, US aid to India was negligible. On 28<sup>th</sup> December 1950, a general agreement on technical co-operation under the 'Point Four' programme was signed between the two countries. Under this agreement, India received direct aid from the United States in the form of grants. By 1952, following the 'Technical Co-operation Mission', American technicians and professional persons started working in India (Tewari 1977).

The purpose of Public Law 480 was to encourage the sale and export of surplus American agriculture commodities. In the words of an official USAID presentation to the American Congress in 2000,

U.S. support for overseas food aid was formalized in the Agricultural Trade Development and Assistance Act of 1954, also known as P.L. 480 Food for Peace. The basic legislation, which has been modified many times, establishes the U.S. policy of using the country's abundant agricultural resources and food processing capabilities to enhance food security in the developing world... (USAID 2000).

In 1951, the US extended a loan of \$189.7 million towards two million tonnes of wheat imports (Tewari 1977). By 1953-54, the largest part of US aid to India under the name of 'Development Assistance' was under the title of Public Law 480 or the more common version PL 480, where the aid was repayable in rupees (Hanson 1966: 162). After Nehru's visit to the US in 1956, another \$350 million was transferred by the US to buy wheat from the US. The amount of 'assistance' under PL 480 in 1960 was \$1276 million, in 1962 \$539.8 million and in 1964 \$225 million (Tewari 1977:112).

By 1963, according to Nehru, Indo-American relations were at their closest and friendliest. This was a direct outcome of the support extended by the USA during India's border dispute with China (Nehru 1963 in Government of India 1995). However, the relationship with the USA was not always smooth.

By the late 1960s, Indian rupees in US accounts piled up unspent as a result of the PL 480 agreement. This became a source of conflict to such an extent that despite her humiliation, Mrs Gandhi was forced to renegotiate the conditions of PL 480 during her visit to the US in 1971. Finally in February 1974, in the context of 'radical' developments within India with the nationalisation of banks and restrictions on profit repatriation of multinationals in the Foreign Exchange Regulation Act (FERA), there was a public renunciation of the conditionalities of PL 480 (Nayar 2001). At that stage, the US wrote off part of the PL 480 loans under the advice and initiative of Henry Kissinger (Tewari 1977).

There were other minor irritants to US-India relations such as the Indian state's proclaimed preference for a socialistic pattern of society under Nehru and the economic and technical support it got from the Soviet Union along with Soviet support for its active military intervention in the liberation struggle in Bangladesh in 1971. However, trade restrictions and other protective measures adopted by India did not invite any retaliatory action; on the contrary,

from time to time the major capitalist states proved willing to bail India out of food scarcity, foreign exchange crises and other economic problems (Kurien 1994: 33).

We have seen that foreign capital remained in India and expanded through the provisions of the 1956 Company Act. Food dependency defined India's relationship with developed countries through aid and trade in foodstuffs especially cereals. Food output in India grew faster than the developed countries but lagged behind the demand generated by rapid population increase and increase in incomes. Therefore India remained a net importer of food and an exporter of cash crops. This made export diversification difficult but export of capital through joint ventures abroad were attempted.

#### **4.6 Capital, Labour and State: A Tripartite Struggle**

The particular framework of 'state-intervention', through which the Indian capitalist class followed a process of diversification, was replete with contradictions. This has been a characteristic of many late industrialisers. However, contrary to the assertions in the literature as in Krueger (1975), it was not so much the process of planning and ISI per se, but capital's relationship with labour, in an ideological climate that was hostile to capitalism, that, defined the contours of the capitalist class's relation with the state. Since the state failed to successfully implement policies that raised profitability through productivity growth, the maintenance of profitability through restrictions on labour acquired greater importance.

Within an overall aim of profitability rather than 'productivity gain', the process of planning and ISI were important in the relationship between state and capital, but it was the capitalist class's relation with organised labour which defined the contours of the capitalist class's relation with the state. Neoclassical arguments represent the state in this period as a pro-labour entity (Debroy and Bhandari 2005). However, we will argue that it was the organised power of trade unions that forced the state to come to a tri-partite settlement about basic working conditions in the organised sector and give it a 'formal' shape.

It must be noted that there was only marginal change in the structure of the workforce between 1951 and 1961. In 1951, industrial workers numbered around 10 million and constituted 6% of the total workforce and 17% of the non-agrarian sector (Breman 1999). The share of industrial work force in the total work force was 9.49% in 1951, 9.95% in 1961 and 9.98% in 1971. However, the compound annual growth rate of factory employment increased from 1.7% in the First Plan period to 5.7% in the Third Plan period (Patnaik 1979: 11). But, the total employment in mines and factories in the private and public sector increased at an average rate of only 1.7% between 1966 and 1977. Thus the maximum relative growth of livelihoods in the formal sector co-incides with the period of the first three plans. Breman (1999) argues that the period from 1968 and 1984 marked an accelerated flexibilisation of the labour force which has further accentuated since the 1990s.

After independence, the capitalist class was dependent on the state in the 'disciplining of labour' – the other class that had developed legitimacy and power through the plurality of trade union organisation since the 1920s. This is not a problem that is particular to India. However, the collective rights of labour had emerged as a socially legitimate cause. Out of the total labour force in the mines and factories, only a fraction was trade unionised. Statistics on trade union membership for this period is hard to come by and often difficult to estimate. However, the records of the Ministry of Labour based on information from trade unions filing returns provides some official statistics. These statistics possibly underestimate the number of trade unions as unions that have not filed returns are not included. According to this dataset cited by the Second National Labour Commission Report (Government of India 2002), the number of Trade Unions increased to 6813 in 1961 from 2002 in 1951. The membership increased from 1.76 million 4.01 million in the same period. The strength of the trade union movement did not lie in its numbers, but its militancy and politicisation. According to Breman (1999), in this respect, the Indian trade union movement has played an emancipatory role. The dependence of the Congress on its own trade union wing for legitimacy combined with the growth of rival political trade unions especially on the Left gave organised workers a new significance (Government of India 2002), even though the majority of workers in the economy remained outside the fold of the trade union movement (Breman 1999).

On 24<sup>th</sup> October 1953, the Industrial Disputes (Amendment) Ordinance was promulgated providing for the regulation of lay-off and retrenchment compensation. This was in direct response to the concern over the crisis that had arisen in the textile industry due to accumulation of stocks and the consequent threat of closure of one or more shifts of mills. This process involved lay-off or retrenchment of a large number of workers. The capitalists were unhappy with the provision of the Act. They felt that the problem of accumulation of stocks could be solved through other means than insisting that the units remain open, a demand that had come from the concerned trade unions of workers (All India Organisation of Industrial Employers, 1954).

They were also unhappy with the adjudication process, which they thought needed overhauling. M.L. Shah, a reputed industrialist and the President of the All India Organisation of Industrial Employers (AIOIE) in 1954 argued that the reconciliation process through collective bargaining and negotiation was preferable to adjudication procedures involving the state machinery in settlement of labour disputes in opposition to trade union demands of the state as an arbiter. By 1956, it was clear from the political strength of trade unions that the adjudication machinery would involve the state in some way or the other. So the members of AIOIE demanded that tribunals be approved by High Court or Supreme Court and not by Government (AIOIE 1956). G.D. Somani, a leading voice of capital within FICCI argued that if needed a separate cadre should be created within the judiciary to handle labour disputes.

The Industrial Disputes Act 1947 had applied to all cases where one person was employed by another irrespective of the type of employment, the resources of the employer and his income from his business. Thus in the period of liberalism between 1946 and 1955, an Act had actually envisaged the formalisation of all employer-employee relations in India at least on paper. Indian capitalists wanted this to be changed and industry needed to be defined very specifically. The 1953 amendment did not include this even though there was pressure from the organised sections of the industrial top brass to do so (FICCI 1954). Due to pressure from the leading trade unions (Ranadive 1990), the Act widened the definition of "workmen" to cover supervisory personnel drawing up to Rs.500/- per month. Capitalists cited serious difficulties for the management, particularly of medium and small units. Once again taking the examples of the USA and Canada, they argued that 'in almost all the advanced countries industrial disputes legislation does not cover persons employed in confidential and supervisory capacity. In USA, 'employee' excludes any individual as supervisor. In Canada it excludes any person who exercises supervisory powers or is employed in a responsible capacity' (FICCI, 1956). So, according to FICCI in 1956, supervisors should have been able to organise themselves into their own unions rather than joining the worker's union.

By 1956, labour militancy had reached a peak, not just in textile but in many other industrial sectors. The capitalists in the face of this ascendancy of the trade union movement felt that the Act provided unending opportunities for disputes. In 1956, they insisted that amendments should be introduced to set time limits within which a workman or an employer could file an application for settlement of an industrial dispute (AIOIE 1956).

The capitalist class were wary of the process of adjudication. The views of Indian and foreign capitalists converged on this issue. They felt that collective bargaining should be encouraged (ASSOCHAM 1960) and the role of adjudication should be streamlined (FICCI 1960). By 1956, the state had introduced the last of the legislations in the industrial field and had assured the 'organised representatives of business' that no other Acts or laws would be introduced. But the adjudication process itself did not necessarily work in favour of the capitalist. The decisions of Tribunals and of the Supreme Court according to Singhania (AIOIE 1962) and Huthseeing (AIOIE 1960) continually increased the 'burden' on industry. By 1960, they felt that the judiciary was enforcing payment of gratuities (a form of ex-gratia payment at retirement based on number of years of work) along with payments under the Provident Fund scheme (a lump sum payment on retirement based on contributions from employees and employers and managed by the State through regional level Provident Funds Commissioners) even though in 1952, the then labour Minister Shri Jagjivan Ram had given assurances to employers that when the Provident Fund was introduced employers would not be called upon to bear the burden of gratuities (FICCI 1952). The capitalists in individual cases as well as through FICCI argued that the Provident Fund should be deemed as a substitute for gratuities and both schemes should not run concurrently.

By 1960, Wage Boards for the cotton textile, cement and sugar industries were investigating the working of these industries so as to fix an appropriate wage structure and their reports had also been published.

Shah in 1954 as President of the All India Organisation of Industrial Employers argued:

The multiplicity of trade unions is a serious obstacle to smooth industrial relations. Any 7 persons can join together and get themselves registered as a trade union under existing legislation. So there are as many unions as there are political parties. No sooner than the employer has settled a dispute with one Union, workers belonging to another union put up fresh demands, these demands being naturally higher than those already conceded (AIOIE 1954: 7).

Numerous statements and reports by the All India Organisation of Industrial Employers held 'mounting indiscipline' of workers due to trade union rivalry, illiteracy and political influence responsible for worsening industrial relations. The President of the Congress led trade union INTUC committed to FICCI that his union will keep itself independent of political influences (FICCI 1957). In spite of such promises, by 1957, the trade unions were on the offensive.

Factory employment increased by 59.9% between 1950 and 1963. The largest increase was in electrical machinery, apparatus and appliances. Employment in the textile industry showed the least growth, although it was the largest and oldest industrial sector. The number of industrial workers was 7 million out of the total labour force of 154 million in the country in 1956 (Annual Survey of Industries 1957).

There were major industrial strikes in that one-year alone. A brief summary of major strikes went as follows: Jamshedpur (14 days, 45000 tonnes of steel production lost), Premier automobiles (110 days), dock workers' strike at all major ports (16 days – disrupted the economy, called off after Prime Minister's intervention), Calcutta Tramway (42 days) strike and strikes in Kerala plantations (with participation of many trade unions) (FICCI 1957, AITUC 1957).

However, given the political situation, the capitalists could not possibly call for either the banning of multiple political parties or trade unions. They depended on the INTUC, the Congress affiliated trade union to keep the more militant trade unions on the Left in check (FICCI 1960). In the last three years of the Third Plan period, it was agreed that industrial establishments should consider the possibility of formally setting up joint councils of management on a voluntary basis. The state formulated a Code of Discipline which was in response to the capitalist call for 'disciplining labour', the only class they felt needed to be 'disciplined'. This was a landmark in the history of relations between capital and labour in this period as the state sided with the capitalist class in declaring the need to tame labour militancy not only in the private sector but also in the state sector. The code came into effect on 1<sup>st</sup> June 1958. When Nehru deplored the strike in Heavy Electricals in Bhopal as "a stab in the back of the nation", he expressed a sentiment which resonated with employers in the private sector. For

the first time, the State and the private capitalist sector shared a common 'spirit and purpose' as embodied in the code which placed the maintenance of 'discipline' on the 'parties concerned' i.e. capitalists and workers.

The capitalist class did recognise that this was an open war with labour. They saw the 'imperative that a close watch is kept on day-to-day developments on the labour front' (FICCI 1962). They called for the strengthening of their own organisations and associations by increasing membership and '*extending active support*' (FICCI 1962 emphasis added).

In the period after the second general election the impact of the labour movement showed in the process of tripartite processes concerning capital-labour relations. The Second Parliament passed 20 acts concerning labour of which three were in respect of industrial disputes, four in respect of wages and two in respect of Employees Provident Fund. To these must be added the incidence of labour awards and of the pressures of executive directions and of work-a-day circumstances.

The biggest resistance from capitalists came in addressing labour demands for wage standardisation and social benefits. Industry spokespersons like Singhanian, the President of AIOIE argued that 'in the past decade of planning, we have made some impressive progress, but it is not enough to initiate any large-scale programmes of social benefit as understood and extended in advanced industrialised countries' (FICCI 1962). The success of the second plan 'production bonus' according to Birla was a substitute for minimum wage (FICCI 1960). Huthseeing, the President of AIOIE argued that 'the labourer must be worthy of hire. Basic technical training for students should be provided immediately after their high school studies. There should be emphasis on increasing productivity'. From this point in history, the link between education and productivity became the strongest argument against the standardisation of wages and granting of social benefits to workers in the capitalist sector.

The First Five Year Plan laid down that an abrupt increase in wages was detrimental to the economic stability of the country, as it would get reflected in the costs of production and, consequently, in the rise in prices of products. From the Second Plan period, however, wages had come to be determined by industrial tribunals whose approach reflected the growing strength of the labour movement. So by 1960, the doyens of industry were already appealing to members of parliament and legislatures to 'bend their legislative energy to review and rationalise the present Acts and regulations' (FICCI 1960).

To contest the increase in wages recommended either by Industrial Courts or even by the Wage Boards, the demand to measure productivity was launched by the employers' organisations as they argued that there were anomalies between earnings and work performance. They lobbied in favour of the Government of India's proposal to set up a National Productivity Centre but this was 'challenged by the labour side of the ILO' because of inadequate reflection of labour concerns.

The most important development in 1961 was the constitution of the Bonus Commission to study the payments of bonus based on profits to workers in industrial establishments. The various capitalist associations argued that it would be wrong to have a uniform formula applicable to all industries when the conditions, as much as practices, were varied. But they also felt that the emoluments in a particular undertaking or industry could not be far out of alignment with the prevailing standards of the country. They actually argued on the basis of the Lewis model that public policy must have in mind not only the improvement of the conditions of living of the industrial worker, but also the massive labour force on the farms and other sections of the community. (FICCI, 1961, Indian Chamber of Commerce, 1961) The Labour minister Gulzarilal Nanda gave the assurance that only the unanimous recommendations of the Commission would be implemented.

The net result from all this was the reinforcement of the capitalist dependence on the state not just for disciplining labour, but for laying the institutional contours in a 'democratic framework' in which the state would formulate the rights of organisation, representation and formulation of 'industrial relations'. The struggle between capital and labour in India was not very different from that in other countries. Marx describes in Capital Volume 1 how the regulation of working conditions was an indispensable part of the institutional framework in the first capitalist transition. However, the account above is important for dispelling the myth that the state was benevolent towards labour and granted concessions. Every little benefit to labour was the outcome of the political struggle between capital and labour within the terrain of the state's power as adjudicator.

#### **4.7 State and Capital: Contradictions and Cracks**

One inevitable result of this strategy of growth was asset concentration (Chandrasekhar and Ghosh 2002: 1-2) and consolidation in terms of size and market share for big Indian capitalists (Hazari 1967). The nature of state intervention was such that India's capital represented by the top ten business houses could consolidate and expand their oligopolistic positions in the first two decades after independence (Yechury 1992). While state policy made an attempt to hold a balance between the big capitalists and the emerging smaller ones, the official study conducted in the late sixties by R. K. Hazari showed that the big business houses had been able to circumvent certain provisions specifically meant to prevent the concentration of economic power especially in the total undermining of the licensing policy of the state (Hazari 1967).

The ability of the state to garner resources for the continued expansion of the state capitalist sector without resorting to an increasing rate of surplus extraction was limited. The state's ability to tax the rich shrank progressively through tax evasion and failure to implement a policy based on direct taxation (Roy 1998).

Cracks began to appear in the understanding between state and capital that had been achieved at independence and soon afterwards. One issue that was cause of rancour for capitalists was the restructuring of managing agencies. The passing of the Companies Act in 1956 marked a distinct effort on the part of the state to define legal structures for corporations and business houses. The Indian capitalists believed that the 'Minister for Commerce and Industry was charged with the task of protecting and developing the private sector' (FICCI 1956). They were very unhappy with 'legislations like the new Companies Act' and felt that these 'should be reviewed as quickly as possible'. Although G. D. Somani, the President of FICCI publicly complained that 'the company law of no other country contains so many restrictions and checks in regards to various matters pertaining to company formation and management' (FICCI 1956), their main problem lay with the threat to the managing agency system. Mohanlal Shah in 1954 argued that

...the important role which the managing agency system has historically performed in our industrial development and services which the managing agency houses even render today to their managed companies must be noted. Managing agencies are not feudal and disliking them is not enough reason to scrap them. (FICCI 1954: 10)

The other source of uncertainty for capital lay in the ideological climate of the 1950s. Justifications of 'profit making' and 'capitalism' had to be made repeatedly. The capitalist class in spite of its increasing economic power through the state-led diversification process felt morally shunned and not regarded as part of the 'people'. The balance of social forces was such that the capitalists continuously felt the need to justify their own existence. G D Somani in his Presidential Address on 4<sup>th</sup> May 1956, in New Delhi at the Annual Conference of the All India Organisation of Industrial Employers expressed these sentiments very precisely when he stated that 'in certain influential quarters, private enterprise has become an epithet of reproach'. He stressed that

...Those engaged in industry and trade are of the people and with the people. (FICCI 1956: 9)

The need to justify the existence of the class was a characteristic of this period. Sometimes they argued in defence of big enterprises. Citing examples from the USA, Shah argued that

...the larger the corporation or the company, the more active it is in matters far removed from profit making. An inductive study of the growth and behaviour of some 50 large corporations shows that General Motors now makes charitable grants of 4.5 million dollars to higher education. Westinghouse Electric makes atomic reactors for the Government at nominal profit. I have referred to America because of the common notion that in the land of private enterprise there are only possessors and pursuers of wealth for private gain. (FICCI 1954: 11)

Opposition to the Industrial Disputes Act reverberated with the class as a whole as it entitled 'any worker' to raise 'any industrial dispute'. Fear was expressed that by the wide definition of industry,

...a university, a hospital, a restaurant, a boarding house, a shop, a circus, a theatre, a zoo, a charitable institution and even an educational institution have come within its scope. If a liberal interpretation is given to the definition, it will be within the law to include a church, a temple and a mosque or other places of worship and a private dwelling house. (FICCI 1954: 9)

It is clear from this view that the adjudication machinery had made a serious effort to cover the entire area of labour exploitation encompassing the informal sector under the Industrial Disputes Act. However, resistance from capital, big and small led to multiple amendments that significantly reduced the scope of adjudication based on a narrowing of the definition of industry and confining it to the formal sector. This went a long way in ensuring the informalisation of chunks of the labour force without any adequate legal option for taking retributive action.

To preserve the hegemony of the state and the ruling classes (which were not always united), the pressures from below generated by the aspirations created by the anti-colonial liberation struggle had to be addressed to preserve the legitimacy of control. The political leadership on the one hand had to assure accumulation and on the other hand had to maintain legitimacy (Nayar 2001). This is a common feature of the capitalist state in all countries. However, the relative autonomy of the state was fragile and collapsed in times of crisis due to pressure and agitation from below. From Independence until the decade of the 1970s, peasant struggles, workers movements and general strikes, the food movement, movements for statehood on the basis of language and finally the JP movement in 1974 undermined this legitimacy again and again. The state in defence of its 'developmental agenda', closed ranks repeatedly against people it perceived as a threat in different ways.

But from the late 1960s, cracks had begun to appear within the capitalist class. Prices of foodstuff grew faster than cash crops. Thus, although ISI made sound economic and political sense in the Post World War II international order, the food crisis undermined the legitimacy of this model of development (Agarwal 1983). The strategy was also limited by its structural inability to generate sufficient savings to maintain high levels of investment, and its inability to discipline capitalists to achieve high levels of productivity growth. Yet the results were not a failure compared to colonial growth rates, and as we have seen, sections of Indian capitalists had burgeoned to the extent that they were confident enough by the 1960s to themselves become exporters of capital and technology to other developing countries. This is where our account significantly differs from Chibber (2003). Mukherjee Reed (2001) has established that it was the profitability question that was most crucial to corporate expansion. She established that there was no chronic crisis of profitability and profit strategies relied heavily on state policies. Our findings about the trajectories of expansion of the capitalist class are closer to Mukherjee Reed's analysis. Unlike Chibber (2003), who stressed the limits of ISI policies as the central explanation of the limits on productivity in this period, our account of the period traces the expansion of the capitalist class in this period to establish the cracks in the relationship

between state and capital by the mid 1960s even as concentration of capital took place in significant ways in this period.

The growth and accumulation of the capitalist class in the era of planning up to the 1960s led to the concentration of oligopolistic structures in the industrial sector. At the same time, the commercial success of rich farmers, traders and financiers was resulting in the emergence of a new class of capitalists in southern and western India and later in northern India as well (Baru 2000; Chandrasekhar and Ghosh 2002). In the three decades from the 1950s to the 1970s, the most important development relevant to our enquiry was the fact that the concentration of capitalist enclaves started breaking down. New capitalists were emerging in diverse sectors of the economy. These new capitalists are often referred to as the 'regional bourgeoisie' in the literature. This term can be misleading since it evokes a binary distinction with the already powerful sections of the capitalist class often referred to as the 'national bourgeoisie' which is historically loaded in terms of debate (see Chapter Two).

The 'new' bourgeoisie started emerging in various parts of the country as capitalist accumulation found localised channels of expansion. This emergence was no historical accident and was an outcome of social changes driven both by the types of intervention and non-intervention of the state. These new capitalists pursued a very different strategy in their relationship with the state. The struggle between the regional and national capitalist class has been explored to a limited extent in the literature (Baru 2000; Chandrasekhar and Ghosh 2002; Desai 2004). The relation between growth and diversification of the capitalist class however warrants more analysis as the central dynamic of Indian political economy in the next three decades since the 1960s. This is the subject of the next two chapters.

## Chapter Five

### Continuity and Change in Capital Accumulation: 1966-1980

This chapter looks at the sectoral nature of accumulation and growth since the balance of payment crisis in 1965-66 till the liberalisation policies of the 1980s. It traces continuities and change in the accumulation process in the period under consideration. In this chapter, we show that a distinct break in the pattern of public expenditure led growth is evident after 1975-76. We find that neither the 'populist' policies since 1972, nor the subsequent reforms led to any major change in the sectoral structure of the economy. The significant question at the core of this part of our thesis is what happened in the period of stagnation that enabled a break from growth funded by public expenditure. We find that new aspirants to the capitalist class saw the abuses of the licensing system by the clique of 'insider' capitalists in the 1970s as a threat. Economic pressure stemmed from the emergence of the new business groups, which saw the regime of internal controls as an impediment to their own ascent to profitability and power. The rise of these 'new' business groups were linked to the different regional characteristics of the economy. With the rise of new capitalists, there were also significant developments in the capital market an increase in 'rentier' finance, which sought to decontrol the market for finance and ensure a 'delocking' from production as it saw profit opportunities in the asset market. In the face of these developments, the *dirigiste* strategy of growth, dependent on expanding public investment, entered a cul-de-sac and lost social support even as metropolitan capital—and, in particular, finance capital—stepped up its offensive against this strategy through the Bretton Woods institutions, and later the WTO, in a world where the crucial support coming from socialist countries had disappeared.

Section 5.1 discusses trends in growth and structural change in India since 1965-66. It summarises the literature on the period and points out the major trends in sectoral shares in the economy over a fifty-year period based on National Accounts Statistics (NAS) time-series data. Section 5.2 expands on this analysis to trace the recovery patterns after the ten-year recession in regulated manufacturing from 1965. The important findings relate to the growth of trade and unregulated manufacturing during this period. Section 5.3 highlights regional difference in patterns of growth in the economy and shows the importance of the relationship between state and capital in determining investment. It demonstrates the effects of abandoning national planning and considerations of the 'national good' in guiding investment patterns in the economy. Section 5.4 argues that a de-linking of finance from production was a feature specific to this period and questions of 'scale' assumed political importance due to the 'restrictions' on

'monopoly'. Section 5.5 highlights the political outcomes of the accumulation processes discussed in the body of the chapter. It discusses the declining legitimacy of the Congress as a party of the 'people' amidst a rise in asset concentration and declining public investment.

### **5.1 Structural Change in India since 1965-66**

The period from 1965 to 1980 has been the subject of an impressive amount of academic literature (Chakravarty 1987, Patnaik 1994, Nayyar 1996). The literature that addresses the period of acknowledged recession in Indian manufacturing from 1965-66 has discussed a wide array of factors. The sources of constraints on the investment ratio, the limits of import substituting industrialisation in the Indian context due to the inability of the state to 'discipline' capitalists, the inability of indicative planning to ensure a balanced distribution of investment and resources and the merits of India's growth performance in a comparative perspective have been analysed in detail. Numerous studies have debated the cause of the recession that set in from the mid-1960s. The short term analyses of the slow-down in growth attribute it to the wars of 1962, 1965 and 1971 which diverted potential public investment into unproductive uses and the successive droughts of 1965-66 to 1966-67, and later 1971-71 to 1972-73 which restricted the supply of raw materials and the demand for industrial goods from the agricultural sector (Government of India 1969). However, longer term analysis with the benefit of hindsight has stressed that these factors could not account for the persistence of stagnation long after the disappearance of the short term problems (Shetty 1994; Nayyar 1996). The literature addressing the long structural retrogression since the mid 1960s in the Indian economy have focussed on the stagnation in the demand for important mass consumer goods, the stagnation in the demand for elementary producer goods leading to a crisis in engineering production, the fall in public investment, the fall in agricultural output and an adverse movement in the terms of trade of industry against agriculture which had impact on profits through enhanced wage costs in the industrial sector (Bagchi 1998).

Sifting through this literature, it becomes apparent that the state in this period was a terrain of contest for the dominant classes and class factions with diverging interests and uneasy relationships. There were significant changes in the realm of state-society relations since 1966. By the early 1960s, the contradictions of the Nehruvian state had weakened it significantly. However it had served its purpose of creating an economy led by capitalist sectors and saw its fruition in the expansion of a capitalist class aspiring for increasing shares in the diversifying economy. However, their aspirations required modifications in the basis of dominant Indian nationalism that had remained essentially unchanged till the mid-1960s.

The state had to provide the social conditions of primary accumulation for the local bourgeoisie and the terrain of contest was multi-layered. Some authors have argued that the relationship between the private and the public sectors of the economy changed from one of complementarity to one of contest as public investment slowed down (Nayar 2001). The

functionaries of the state also kept up their reluctance to any upheaval of social order and radical change in *existing* property relations. This is most clearly illustrated in the reluctance and non-efforts of state functionaries to implement land reforms in agriculture beyond the very minimum abolition of intermediaries except in states like West Bengal and Kerala that had a strong communist base amongst the peasantry that brought to power Communist-led Left coalition governments (Kongar 1978).

Another way of explaining the gradual irrelevance of indicative economic planning in India is to examine the evolution of import substituting industrialisation (ISI). Chibber (2003) argues that institutions of planning were dissolved by the political clout of the capitalist class and he establishes the increasing irrelevance of the institutions of planning. According to Chibber, this was a roll back of the scope of state intervention.

Two elements structured the reform process in the Shastri interregnum: the institutional marginalization of the Planning Commission and the commitment to roll back the scope of state intervention in industry. Both of these were continued resolutely by Indira Gandhi in the initial years of her Prime Ministership. This appears to be at variance with the well-known populism and peculiar brand of "socialism" that Gandhi came to espouse in the 1970's, and in some ways it is; in her early years, however, Gandhi had no intention of lurching in the direction of the populist state capitalism that she eventually chose. Indeed, the turn back to intensified ISI came largely as a response to a failed attempt at greater liberalization in the early years of her rule. The eventual return to ISI, however, was not a return to the regime that her father had constructed. One aspect of the "reform episode" remained in place and untouched: the further parcellization and fragmentation of the state economic apparatus, which Shastri had initiated and Gandhi consolidated. Through all the twists and turns of the later years, the Planning Commission would never again be an important factor in policy formation, and its demise put paid to the idea that industrial policy ought to be directed by a nodal agency (Chibber 2003: 217).

Three causal factors emerge in this literature as significant explanations of the slowdown in manufacturing in India since the mid sixties; first, the slowing down of public investment (Patnaik 1984; Chandrasekhar and Ghosh 2001); second, the inability of the state to discipline the capitalist class resulting in the building up of pre-emptive capacities (Chibber 2003); and third, the demand deficiency in the economy due to the reluctance of the state to break the structural constraints in agriculture (Raj 1994). While Baru (2000) and Chandrasekhar and Ghosh (2002) provide a summary of the modalities of product driven expansion of 'new business', very few studies have actually examined the processes through which capital accumulation continued and expanded in the later part of the slowdown.

The time-series data from 1950-51 to 2000-01 adjusted with 1993-94 as base from the Economic and Political Weekly Research Foundation reveals certain major breaks in the trends described in the literature of this period. In the next section we will analyse these trends based on time series data on growth, sectoral shares and capital formation in the main sectors of the economy as defined in National Accounts Statistics (NAS) classification. It has been observed in the literature that stagnation in regulated manufacturing after 1965 led to a growth process mainly led by public administration and defence expenditures (Roy 1998). Our analysis in Fig

5.1 shows that the share of public expenditure reached a peak of 10% of GDP in 1975 and then showed a falling trend. A distinct break in the pattern of public expenditure led growth is evident after 1975-76. The significant question at the core of this part of our thesis is what happened in the period of stagnation that enabled a break from growth funded by public expenditure.

The chapter traces this break to the social origins of the accumulation process that came into being due to specific interventions by the state, along with clearly demarcated zones of non-intervention. There was an important set of continuities, as well as departures in the structure of the accumulation process in the economy and the nature of state intervention throughout the 1970s compared to the earlier period. Together, these led to the new alignments and realignments of business interests and led to further stratifications within the industrial capitalist class through the institutions of family controlled business groups.

One significant departure from the earlier period was that the state under Indira Gandhi's prime-ministership in the 1970s adopted a mixture of populist policy in expanding the scope of public expenditure in rural areas (Sen and Ghosh 1993) combined with an attempt to gain control over the banking sector through nationalisation. But it also took the first steps at deregulating the capital market in a last ditch attempt to resolve the inability of the state to regulate and allocate capital to various sectors in the economy through planning and regulatory legislation.

In the face of uneven development, regional differences in investment and growth unleashed new political contestation over specific forms of state power and patronage not just at the national level, but also at regional levels – a development that has been discussed in the 'interest group' literature (Kochanek 1983, Rudolph and Rudolph 1987) and in the framework of Marxist political economy (Chandrasekhar and Ghosh 2002).

To substantiate these arguments, we need to analyse the structural change in output and investment in the economy to establish the context of state intervention in the period of industrial stagnation. We follow four lines of enquiry - a detailed sectoral analysis of accumulation processes, an analysis of the regional characteristics of this process, the institutional structure through which this accumulation took place and the role of the state in sustaining this process.

## **5.2 Structural Changes in Output and Investment**

The failure to generate adequate employment and improving aggregate productivity of labour in the Indian economy rather than just in a few chosen sectors like heavy manufacturing in the period of dirigisme and software, food-processing etc in the neoliberal period has been the most obvious symptom of the lacuna of the Indian economic development process. In sectoral terms, in spite of the prioritisation of industrialisation by the state since the Industrial Policy of 1956, the share of the industrial workforce in the total workforce hardly changed between 1951 and 1961. In 1951, the industrial workforce accounted for 6 % of the total workforce (Breman

1999). In 1961, this was 8.45 % and declined to 7.41 % in 1971 (Patnaik 1979). This increased to 10.7% in 1983. About 72% of the workforce was deployed in agriculture in 1951. By 1972-73, this increased to 74%. There was a small decline in the share of agriculture in the labour force since the 1980s, but these trends have been reversed since the late 1990s (Government of India 2001). Thus the distribution of the workforce between agriculture and industry remained largely unchanged till the early 1970s. A trend of tertiarisation of the labour force started in the 1980s and continued through the 1990s (Unni 2002 ). The overwhelming dependence of more than 60% of the labour force on agriculture in face of declining share of output from the sector (23% in 1999-00) points to the failure of the development process in altering the structure of employment and underemployment in the entire post-independence period. However, the process of accumulation and investment leading to growth has undergone systematic and quite dramatic changes in the post-independence period.

The first step in understanding the nature of the dirigisme that emerged out of the state-led capitalist model is to examine the chain of growth and accumulation over time to evaluate the contradictions that became constraints and led to crisis at certain conjunctures. The next step is to examine the linkage between 'public' and 'private' players in the structures of accumulation and expansion of capital to ascertain the extent to which these two sectors were complementary or contesting entities in the economy.

A technical approach to identifying the characteristics of structural change is to use social accounting matrices to identify changes in the linkage between sectors, institutional and functional categories and also within household groups by size (EPWRF 2002b). But the CSO data that we have are not suitable for such an exercise in the period that concerns us due to changes in definitions and coverage of major economic categories. Despite these limitations, the data provide evidence on the sectoral differences in the growth of output and helps to identify some broad patterns of structural change. The dependence of private enterprise not just on public investment but also on the exercise of state power more generally can only be understood in terms of the history of social processes through which accumulation, growth and diversification took place. The time-series data provides the vital evidence corroborating our claim that there were fundamental continuities in the capitalist accumulation process right through the stagnation of the 1960s and 1970s.

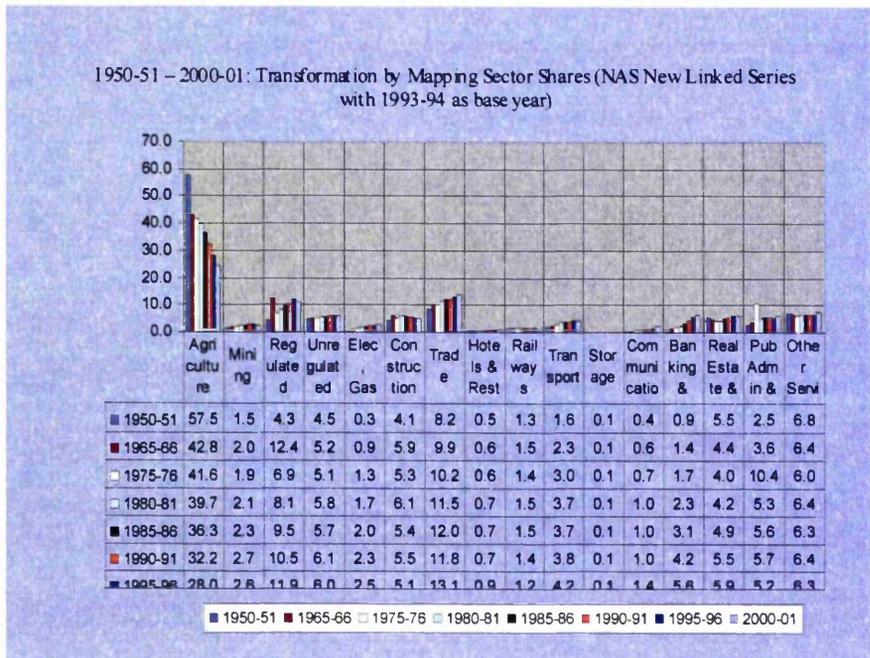
We can put India's growth and structural change in perspective by looking at the rate of growth or decline of major sectoral shares in the economy. We use broad National Accounts Survey classifications together with sectoral growth rates for output from 1950 to 2001 based on the new series that has been compiled by the EPW Research Foundation. Table 5A provides sector wise growth rates for five yearly periods between 1951 and 2000 calculated from the NAS data at 1993-94 prices. This is followed by figure 5.1 illustrating growth or decline in sector shares for the periods 1950/1-1965/6, 1965/6-1980/1 and 1980/1 to 2000/1.

Table 5A: Average Annual Growth rates of GNP at 1993-94 prices

Year	1951-1955	1956-1960	1961-1965	1966-1970	1971-1975	1976-1980	1981-1985	1986-1990	1991-1995	1996-2000
Agriculture	3.21	3.22	-0.49	5.77	2.21	0.89	3.42	3.92	2.58	2.96
Mining	-4.07	3.28	7.62	1.20	5.91	4.88	7.80	12.08	4.62	3.90
Regulated Manufacturing	6.86	9.49	9.98	-5.47	2.49	5.65	10.05	9.98	9.49	4.87
Unregulated Manufacturing	6.25	4.78	4.97	3.30	5.05	4.58	5.35	9.00	5.46	6.52
Electricity, Gas & Water	10.28	15.17	16.52	11.51	7.72	7.92	10.27	11.61	7.38	7.42
Construction	7.31	7.03	7.77	4.70	1.26	5.34	2.60	7.73	3.81	7.61
Trade	5.20	6.30	5.98	4.60	4.44	4.79	6.68	6.57	8.81	7.56
Hotels & Restaurants	5.05	6.64	5.81	4.54	4.48	4.93	6.16	8.60	11.52	10.73
Railways	3.34	7.02	6.12	3.10	3.76	3.25	5.37	4.89	2.75	4.70
Transport	5.48	8.29	7.27	6.04	9.34	7.20	6.03	7.10	9.19	7.26
Storage	1.89	3.62	2.63	3.23	10.89	11.15	5.77	1.61	3.05	0.69
Communication	7.70	6.84	10.76	6.20	6.65	8.05	6.73	6.89	17.61	20.73
Banking & Insurance	10.07	6.34	7.31	7.39	5.49	9.42	13.98	16.68	14.77	11.21
Real Estate & Business	2.33	2.31	2.66	2.78	3.29	3.30	10.06	10.04	7.64	7.25
Pub Admin & Defence	3.69	7.83	10.65	7.82	40.44	-8.82	7.07	7.61	3.77	10.78
Other Services	2.95	3.54	4.61	3.87	3.12	3.15	5.49	7.49	5.57	11.18

Source: Table 3A, EPWRF 2002a and 2002b

Fig 5.1



Source: Table 5B below

Figure 5.1 based on data from Table 5B presents the structure of the Indian economy in terms of sector shares from 1950-51 to 2000-01. There are broadly identifiable patterns in terms of sectoral shares of output between 1950-51 and 1965-66, the period of planning. The share of agriculture in total output declined quite rapidly from 58% to 44% in the fifteen years between 1950-51 and 1965-66. This is the period widely recognised as the most successful period for the state-led strategy of growth. Over the same period, the share of mining improved from 1% to 2%. The share of regulated manufacturing showed a very rapid growth from 5% to 12% in the economy. Unregulated manufacturing also expanded from 4.5 % to 5% in the economy. The share of electricity, gas and water supply remained constant at 1%. Construction expanded from 4% to 6%. The share of trade increased from 9% to 10%. The share of railways, transport, storage and communication was virtually unchanged. Real estate and business services declined from 5% to 4%. The share of public expenditure and defence expenditure went up from 3% to 4%. The share of other services declined from 8% to 6%.

Thus, in the first period, the decline in agriculture was associated with a rapid rise of manufacturing and a gradual secular rise in the share of other sectors dominated by public services. Public expenditure as a percentage of GDP actually declined from 5.5% to 4.4% of GDP. This strategy sought to expand the market through current and capital expenditures. It cushioned the domestic capitalist class by investing in crucial infrastructure and basic industries and directed household savings to finance private investment through the creation of banks and financial institutions for industrial development like the Industrial Finance Corporation of India (IFCI), the Industrial Credit and Investment Corporation of India (ICICI) (set up with World Bank assistance) and the Industrial Development Bank of India (IDBI).

In the next period from 1965-66 to 1975-76, the pattern of sectoral growth changed quite significantly. The share of agriculture registered only a very slight decline from 44% to 42%. The share of regulated manufacturing declined from 12% to 7%. Construction declined by 1%. The share of all other sectors virtually remained the same. The share of public administration and defence increased from 4% to 10%. Thus the period between 1965-66 and 1975-76 saw a process of growth mainly driven by public expenditure and defence. This has been noted in the literature on this period (Roy 1998).

If we survey the main difference between the first period from 1955/6 to 1965/6 and the second period from 1966/7 to 1975/6, it is clear from Table 5A that growth was led by different sectors in the two periods. The first period was primarily led by regulated manufacturing (both private and public), the expansion of public services like electricity, gas and water-supply and the expansion of state-led infrastructure development like railways and other transport, storage and communication. In the period between 1970 and 1975, the crisis in regulated manufacturing

(low growth rates and reduced sectoral share) meant that growth was now more dependent on public spending and defence expenditure despite the slower rate of growth of public investment (Bharadwaj 1994; Chandrasekhar and Ghosh, 2002). There was a secular decline in the share of agriculture from 58% to 40% between 1950-51 and 1980-81. Agriculture presented a persistent trend of stagnation before the 1970s.

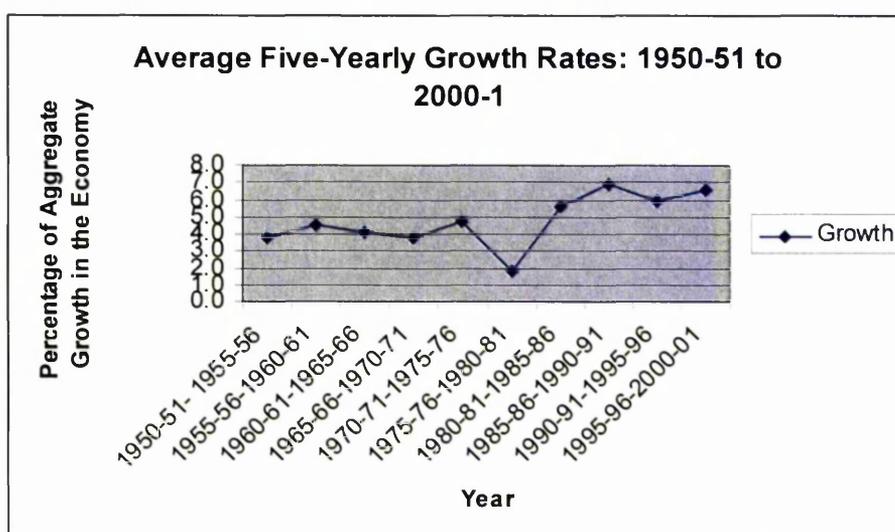
In the period between 1975/6 and 1980/1, two further changes are remarkable. There is a rapid fall in the share of public administration and defence from 10% to 5%. The decline in share of agriculture is 2% in these five years. The share of trade increases by 2% in the same period. There is a secular expansion by 1% in all other sectors. So, there is yet another definitive difference in terms of changes in the structure of GDP comparing the period from 1975/6 to 1980/1 with the previous period up to 1975/6. From this, we can argue that the reading of the economy as that of relative stagnancy accompanied by the end of state expansionism through public expenditure applies only to the first ten years from 1965/6 to 1975/6. From 1975/6 a new trend was setting in with declining rates of public expenditure. This is not reflected in growth rates (Nayar 2006) but does point to a departure in patterns of accumulation and investment in the economy. This co-incides with the two-year period of the Emergency and the subsequent interlude of the Government run by the Janata coalition for three years before the return of the Congress under Indira Gandhi. Thus this trend that started during the Emergency continued during the span of Janata rule. Patnaik (1984) has suggested that it was the failure of the Indian state to garner resources through revenues (especially tax revenues) that led to the subsequent failure to maintain the rate of growth of public expenditure. The overall decline in share of public expenditure in GDP in this period needs problematising that is beyond the scope of this thesis. What is important for our account is to recognise that by 1975, the factors behind the growth performance since 1980 had less to do with public expenditure and were dependent on the changing patterns of accumulation and investment.

These observations help us to make sense of the patterns of accumulation and investment that led to the growth of the 1980s. The patterns of state-involvement in the process of capital accumulation were changing and overall economic stagnation was led by the stagnation in regulated manufacturing. A different pattern is evident in the growth of unregulated manufacturing and trade from the latter part of the 1970s, and this deserves more scrutiny. While growth in regulated manufacturing increased between 1976 and 1980, there was a steady growth in the output share and growth rates of unregulated manufacturing from 1970-1980 (Table 5A and Table 5B). The other major trend was the rise in the share of trade in GDP. These sectors together contribute significantly to the trend line of aggregate growth rates in Fig 5.2.

It is clear from the sector shares shown in figure 5.1 and plots of five yearly moving averages of aggregate growth rates in the economy from 1950/1 to 2000/1 in fig 5.2, that neither the 'populist' policies since 1972, nor the reforms led to any major change in the sectoral

structure of the economy. The highest aggregate growth rates are for the period between 1985-86 and 1990-91, the period preceding the structural adjustment programme (Fig 5.2). This has been observed in many studies on growth (Mahendra Dev 2000; Mahendra Dev 2002; Rodrik and Subramanian 2004). These observations question the myth propagated by neoclassical economists (Ahluwalia 2002) that the policy package of structural adjustment programmes had much to do with the growth-acceleration of the economy. What concerns us more is the nature of the capital accumulation that drove India's growth from 1980-81 and continued through the decade of the 1980s.

Fig 5.2



The changes in sectoral shares in the economy are laid out in Table 5B and Figure 5.1. Apart from regulated manufacturing, trade was the only sector that registered a continuous rise in its sectoral share over the fifty-year period after independence. The only other sector registering a significant increase in its share was public administration and defence in the early part of the 1970s. Other sectors that registered smaller increases were transport, communication, banking and insurance, electricity, gas and water (Table 5B). Clearly the diversification towards a 'service' based economy has been a characteristic feature of the entire post-independence period except for the brief interlude of industry-led growth provided by the Nehru-Mahalanobis strategy for a decade. The diversification away from agriculture into various non-agricultural sectors was a gradual and broad-based diversification, involving different sectors in different periods in these fifty years.

Table 5B Percentage Shares of Sectors in GDP: 1950-51 – 2000-01 (Five-Year Intervals)

Year	1950-51	1955-56	1960-61	1965-66	1970-71	1975-76	1980-81	1985-86	1990-91	1995-96	2000-01
Agr	57.5	56.0	52.9	42.8	46.3	41.6	39.7	36.3	32.2	28.0	24.2
Min	1.5	1.0	1.7	2.0	1.8	1.9	2.1	2.3	2.7	2.6	2.3
Regulated Manufacturing	4.3	4.9	5.9	12.4	7.6	6.9	8.1	9.5	10.5	11.9	11.2
Unregulated Manufacturing	4.5	5.0	5.0	5.2	5.0	5.1	5.8	5.7	6.1	6.0	6.0
Electricity, Gas & Water Supply	0.3	0.4	0.6	0.9	1.2	1.3	1.7	2.0	2.3	2.5	2.5
Construction	4.1	4.6	5.1	5.9	6.1	5.3	6.1	5.4	5.5	5.1	5.3
Trade	8.2	8.6	9.2	9.9	10.3	10.2	11.5	12.0	11.8	13.1	13.6
Hotels & Restaurants	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.9	1.0
Railways	1.3	1.3	1.4	1.5	1.4	1.4	1.5	1.5	1.4	1.2	1.1
Transport	1.6	1.8	2.0	2.3	2.5	3.0	3.7	3.7	3.8	4.2	4.3
Storage	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Communication	0.4	0.5	0.5	0.6	0.7	0.7	1.0	1.0	1.0	1.4	2.2
Banking & Insurance	0.9	1.2	1.3	1.4	1.7	1.7	2.3	3.1	4.2	5.6	6.6
Real Estate & Business Services	5.5	5.2	4.7	4.4	4.2	4.0	4.2	4.9	5.5	5.9	6.0
Pub Admin & Defence	2.5	2.5	2.9	3.6	4.2	10.4	5.3	5.6	5.7	5.2	6.1
Other Services	6.8	6.6	6.3	6.4	6.4	6.0	6.4	6.3	6.4	6.3	7.5

Source: Calculated from EPWRF, 2002b, Table 3A and CSO 2002

In regulated manufacturing, there are a few definitive characteristics (see Fig 5.3 and 5.4) that help to explain these trends. Gross Capital Formation is measured as the gross additions to fixed assets and increases in stocks of commodities during a period of account. Such accumulation is made up of outlays of producing units that do not enter into immediate consumption in the same period. Gross Fixed Capital Formation represents additions to fixed assets comprising fresh construction and acquisition of machinery and equipment (EPW Research Foundation 2002a: 44-45).

The ten-year expansion from 1955-56 to 1965-66 in output (Fig 5.3) can be directly attributed to the accumulation and investment process kick-started by the Nehru-Mahalanobis strategy. All through the period up to 1990-91, the proportion of fixed capital formation in regulated manufacturing was high relative to gross capital formation even during the stagnant years of manufacturing in the 1970s (Fig 5.4). Our aim is to explain the growth in the investment share in regulated manufacturing since 1975-76 which was only partially reversed in 1995-96.

Fig 5.3

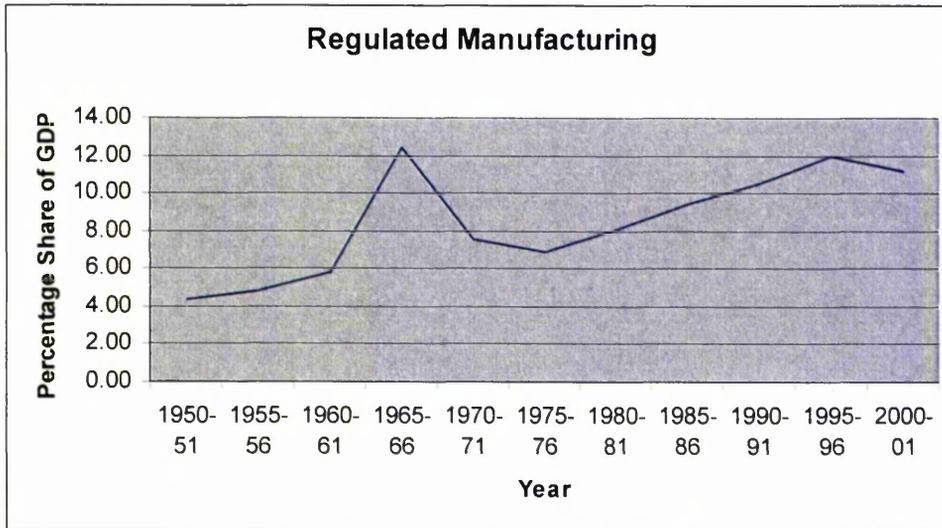
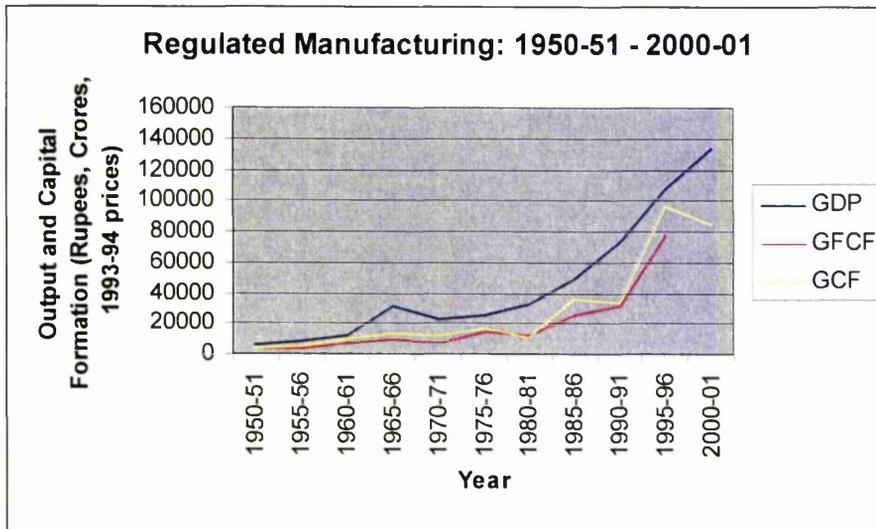


Fig 5.4



Within the significant overall increase in manufacturing output, the structure of manufacturing went through a number of different phases of change. In the early 1950s, consumer goods accounted for 60% of total output; within that, textiles were the largest single manufacturing industry. By the late 1970s, consumer goods accounted for 30-35%, basic and capital goods for 50% and intermediate goods accounted for the rest of the value added (EPWRF 2002b). This structural change has been evaluated in terms of ownership patterns of the public and private sector to often argue that the public sector in basic and capital goods grew

at the cost of the private sector in consumer goods in India leading to the ills of rent-seeking, distortions, disincentives which together led to the prescription for a reduced role for the public sector (Rosen 1987).

However this account fails to explain the secular expansion in private capital formation in manufacturing and trade all through the period after 1975-76 up to 1989-90 (Fig 5.4 and Fig 5.7). Trade, including hotels and restaurants, registered a steady and significant growth in its share right from independence (See figure 5.5 and 5.6 below) with a marked increase since 1980-81. One problem with the trade data from the CSO is that hotels and restaurants were not classified separately from trade up to 1980-81 by the CSO. So the data for net capital formation is not comparable for the two categories for the fifty-year period since 1950. The spurt in growth for hotels and restaurants is very much a 1990s phenomenon as is evident from the GDP data from 1950 plotted in Fig 5.8 below. Unlike trade, hotels and restaurants have not seen a significant increase in sectoral shares. In fifty years, the share of hotels and restaurants in GDP increased from 0.48% to 1.03% (See Table 5C below).

Fig 5.5

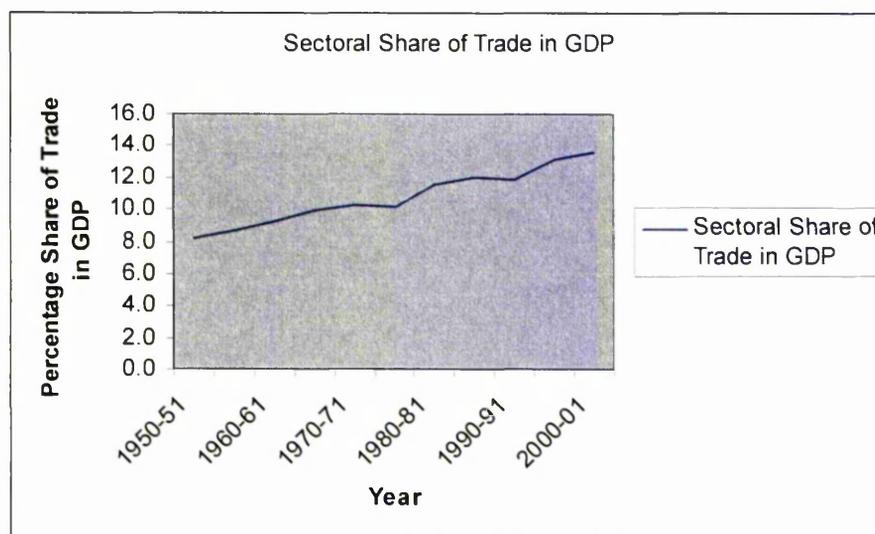


Table 5C: Hotels and Restaurants as a Share of GDP

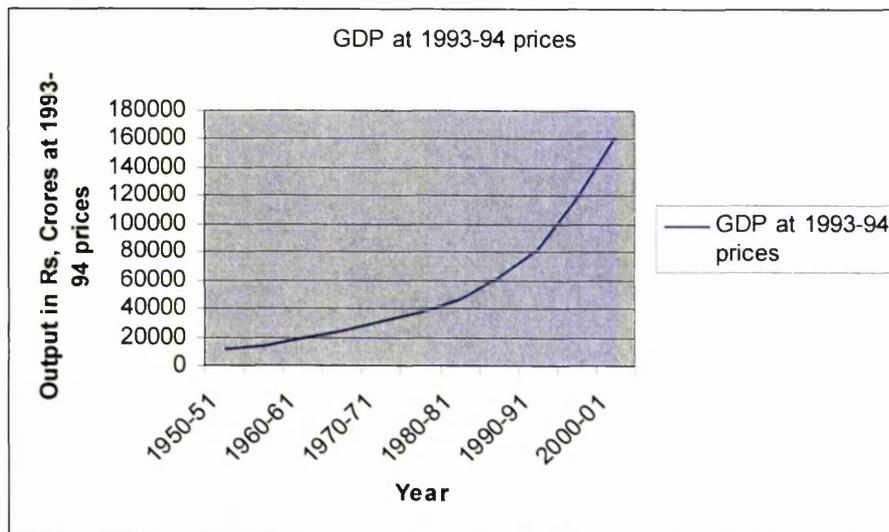
Year	Sector Share of Hotels and Restaurants in GDP
1950-51	0.48
1955-56	0.50
1960-61	0.54
1965-66	0.58
1970-71	0.60
1975-76	0.59
1980-81	0.68
1985-86	0.69
1990-91	0.73

1995-96	0.89
2000-01	1.03

Source: Estimated from Table3A, EPWRF, 2002b and CSO 2002

Trade output demonstrated a relatively steady growth since 1950-51 with a surge from 1980-81 (See figure 5.6 below). What is remarkable about the development of domestic trade is the big spurt in capital accumulation since the mid-1970s (Figure 5.7). Given the different trajectory of investment patterns in hotels and restaurants and its nominal share of GDP, we can argue that the notable rise in capital formation in the trade sector in the 1970s should be treated separately and the dynamics of this accumulation process in trade since the mid 1970s is a phenomenon that requires analysis hitherto missing in the literature.

**Fig 5.6: Trade Output Since 1950-51**



**Fig 5.7**

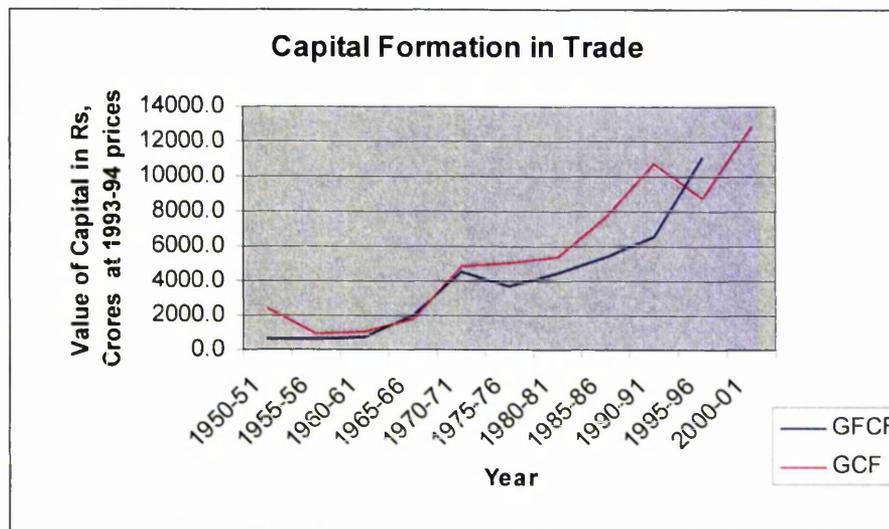
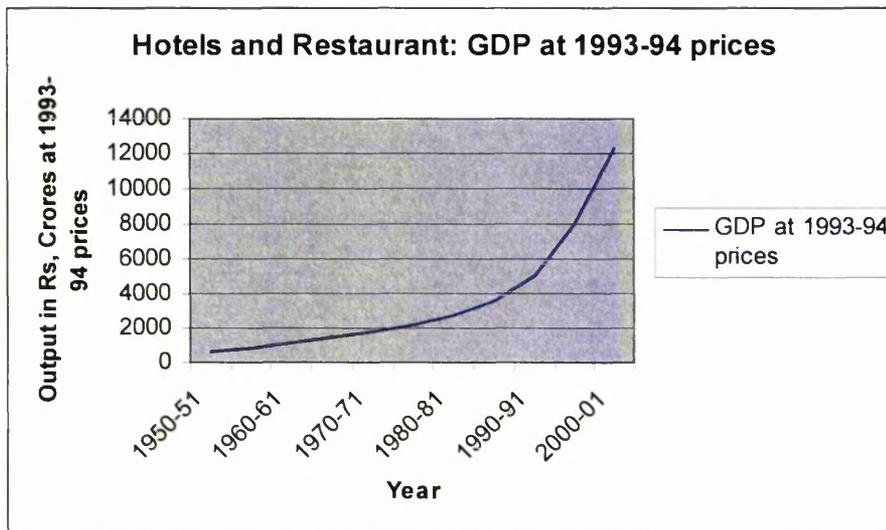


Fig 5.8



Within the services sector, the share of trade, hotels and restaurants increased from 12.5 % in 1990-91 to 15.7 % in 1998-99 compared to an expansion of 10.5 % to 10.8 % from 1965-66 to 1975-76. But the share expanded from 10.8% to 12.5 % in the period 1975-76 to 1990-91. The share of transport, storage and communications has grown from 5.3 % to 7.6 % from 1990-91 to 1998-99, but the share of transport has seen a steady rise of 5% in every 5 year period, the share of storage has remained the same at 1% and the share of communication has registered a rise of more than 2% in the post-1991 period (Table 5B and Fig 5.1). The share of construction has remained nearly the same during the period while that of financing, insurance, real estate and business services has risen from 10.22% to 11.44% in the post-1991 period (Various CSO publications).

In agriculture, the state intervention of the 1970s was confined to the state acting as a direct player in the market through the provision of support prices without any direct intervention in the production process except for the gradual abolition of intermediaries in land revenue collection and some regulation of tenancy (Rao and Storm1998, Patnaik 1999). The chain of retail trade and intermediaries in the agrarian economy developed unimpeded, only limited by the size of the harvest (Harris-White 1986). Between 1950 and 1980, the entire rural economy in agricultural produce had been drawn into the structure of money-commodity relationships and almost 100% of commercial crops and 40 to 60% of the food crops were brought to the market and sold as commodities. According to official statistics, 85 to 93% of rice and 50-60% of wheat grown was brought to regulated markets (Bulletin on Food Statistics 1979, All India Kisan Sabha (AIKS) 1980).

We have also argued in Chapter Four that ISI worked with a narrow aim of diversifying and deepening the industrial base of the economy until 1965-66. By the mid-1960s, the continuation of growth faced a crisis. The ability of the state to continue the stimulus to growth

was undermined by its inability to raise adequate resources to keep up rates of capital accumulation through public investment in the face of inflationary and fiscal pressures. Failure to achieve productivity increases that could sustain the growth process was equally relevant.

This was not a short-term crisis because its root lay in the power of a handful of capitalists to prevent and subvert any attempt at economic discipline, in the general 'reluctance' of the upper classes of India to pay direct taxes and in the lack of political will to carry out a rapid structural transformation in the agricultural sector in the post-independence period. These were the antecedents to growth deceleration leading to the 'secular stagnation' of the 1970s (Chandrasekhar and Ghosh 2002). The long period from 1964-65 to 1978-79 was characterised by a relative stagnation in manufacturing output combined with a decline in the rate of growth of public investments (Bharadwaj 1994).

The correlation between public investment and industrial growth was clear to state functionaries in the Congress. K.V. Ganesh, Minister of State for Finance on March 25 1972 told Parliament

...right from 1962 when public investment decreased, there had been stagnation in industrial growth. Public investment and industrial growth have somehow become correlated as far as economics is concerned (Lok Sabha March 25 1972:12).

This adversely affected a number of industries that catered to mass consumption or those with strong linkages to public investment. In addition, the sluggish rate of public investment contributed to infrastructure constraints affecting private economic activity. It must also be noted that the nature of stepped up public expenditure had not been solely geared towards enhancing growth in the existing industrial structure. According to M S Sanjeevi Rao, a Congress Member of Parliament from Kakinada, the state stepped up investment in nuclear and space research programmes with increased annual lay-outs for accelerated space research projects, procurement of uranium concentrates and increases in operational costs of nuclear projects (Lok Sabha 1972: 16). But it faced severe fiscal constraints caused by the strong resistance of the upper classes in India against direct taxation of any form and their attempts at passing on the fiscal burden to people whose incomes were below the minimum exemption limit for income tax purposes (Bagchi 1998; Roy 1998). The particular problem of the failure of the state to tax agriculture except for income from plantations has been a matter of central significance (Toye 1981) since the 1950s. Mathew (1968) established that the higher income groups within the agricultural sector were largely 'undertaxed' relative both to those of comparable income levels outside agriculture and low income groups within agriculture. In fact, the most successful effort of the rich peasants apart from keeping property rights intact and maintaining agricultural prices (which we discuss later) was ensuring that agriculture remained outside the tax base of the state. It took the intense repression of the period of the Emergency to put down the social conflicts stemming from the inflationary outcomes of the previous decade,

and to harness the opportunities of a good harvest in 1975-76 to step up public investment and the production of capital goods (Bagchi 1998; Chandra 2003).

The literature on this period has focussed on the macroeconomic implications of India's fiscal constraints and the implications for growth. In our next section, we argue that if we look at regional patterns of industrial investment and growth, we see further elements of continuity and change in 'reform' processes since 1965.

### **5.3 Regional Patterns of Industrial Growth**

The general pattern of industrialisation up to the 1970s shows a deepening of manufacturing enclaves India inherited from the colonial period. New upstream and downstream small and medium-scale enterprises were developed, but their fortunes were tied to the large-scale units and thus dependent on central government investment policies within the limits of the state-led process. Although the choice of public sector enterprises that were developed was often quite ad hoc (Bagchi 1982, 1988), there is substantial evidence that public sector enterprises assisted the trade and state-led economic expansion in Southern and Western India. Investments were often in entirely new areas like petrochemicals, software and biotechnology. These investments assisted the diversification and consolidation of the pharmaceutical, cement and chemical industries from the 1980s (Rosen 1988).

West Bengal and Maharashtra, the early seats of colonial and industrial capital, remained more closely tied to the industrial sectors that had already developed. In this respect, they were exceptions in terms of the emerging structure of industry elsewhere in India. The structure of post-independence industrial development was mainly based on medium and small-scale enterprises until the 1970s in Gujarat, Tamil Nadu, Punjab and Uttar Pradesh (Rosen 1988). The evidence from Andhra Pradesh cited later is also one of expansion of medium scale enterprises.

We have argued (see Table 5A above) that growth was sector specific and by the late 1970s, some analysts have argued that growth was mainly based on the expansion of public expenditure and defence (Srinivasan and Narayana 1994; Roy 1998). Our table shows that these sectors grew faster, not that growth as a whole was based on the expansion of these sectors. However, within these broad patterns, there were remarkable disparities in growth between states and in the nature of their economic diversification.

In 1960-61, industrially advanced states such as Maharashtra, West Bengal and Gujarat headed the list of developed states, but by 1970-71, Punjab and Haryana, the two states which underwent rapid agricultural growth, displaced Maharashtra and West Bengal. Maharashtra regained its position through further industrial diversification within the state and a thrust into agricultural production in the dry regions, where cotton and sugarcane had been grown since colonial times. Within the state itself, there were large disparities in growth e.g. Marathwada and Vidharbha lagged behind in Maharashtra (Banerjee and Ghosh 1988). Similarly there were huge disparities in growth and accumulation patterns between North Bihar and South Bihar, which later became Jharkhand (Prasad 1986). West Bengal saw a long process of de-

industrialisation attributable to the decline of colonial capital, the crisis in the 'jute enclave' and the lack of new investment in the post-independence period, except for heavy industry in steel in Durgapur and Burnpur and some light industry development around Siliguri.

The case of Bihar illustrates the contradiction between the nature of private and public investment. Mining and basic industries were important in South East Bihar that is now Jharkhand. A steel plant was set up in 1917 at Kalimati by the Tatas, which later became Jamshedpur. Dhanbad was known for its cement, iron and coal controlled by a local mafia that reached the height of its operations in the 1970s and 1980s even after state take-over of the coal industry. There were 8 cement factories in Dalmianagar and Dehri-on-Sone. Barauni was developed in the post independence period as an industrial centre based around a public sector oil refinery. There were a handful of super rich families like the Birlas, Dalmias, Tatas and the Modis who led investments in steel and cement in Bihar. Tata Iron and Steel Company (TISCO) developed its capacity in the post-independence period as a beneficiary of the licensing Policy. The Tata-owned automobile company TELCO, Modi Steel and Bihar Sponge Iron Limited were also products of the Nehruvian promotion of the private sector in industry. The major beneficiaries were all big capitalists. Apart from mining, the other major industries in South Bihar were iron and steel. Thus, heavy industrial expansion in South Bihar continued in the 1970s. Medium scale firms were mainly in sugar. In 1974-75, sugar co-operatives accounted for over 40% of the total sugar output in Bihar. However, the conclave nature of industrial development meant there was not much 'trickling down' of employment to the vast majority of the local population, though some ancillary units did develop in the Ranchi-Jamshedpur industrial belt.

In the same period, major public sector enterprises were also set up in Bihar. These included units of the Heavy Engineering Corporation in Ranchi, Bokaro Steel Ltd, Bokaro, Indian Aluminium in Muri, Fertilizer Corporation of India in Sindri, Hindusthan Fertiliser Corporation in Begusarai, Indian Drugs and Pharmaceuticals Limited in Muzaffarpur and Bharat Wagon in Muzaffarpur and Mokamah. Apart from this, the state also invested in leather, construction and eighteen agro based industries (Ministry of Industry, Government of Bihar, various years). In Bihar, industry was concentrated in Singhbhum, Dhanbad and Hazaribagh. Dalmianagar developed as a base for sugar, paper and cement factories. Thus, the growth of industry in Bihar was led by a combination of public sector expansion and big private business houses benefiting from industrial licensing. The result was a mixed social structure driven by industrialisation on the one hand and the increasing oppression of unreconstructed agrarian exploitation on the other (Prasad 1986).

In Gujarat between 1951 and 1962, thirty-one major new industrial projects were started in the private sector and thirty-seven industrial enterprises expanded their activities. A hundred units of significant industrial capacity were also established in the small-scale sector. The main industries were textiles, general and electrical engineering, vegetable oils, chemicals, cement

and pharmaceuticals. During the Second Plan, 'Atul Products' near Bulsar, the Cement factories in Sevalia, Dwarka and Jamnagar, soda-ash factories at Porbandar, about six or seven solvent extraction plants, the salt research institute at Bhavnagar, Tata Chemicals at Mithapur and Dharangdhra, chemicals and pharmaceuticals at Baroda were milestones in Gujarat's industrial development.

In Andhra Pradesh, which became a separate state in 1956 as a result of the States Reorganisation Act, the important and oldest organised industry in the state was the cotton textile industry. Out of the twenty one units in 1967, three were composite mills of large size with 936,136 spindles, 716 looms and 200 power looms, eight were large spinning mills, four were medium sized spinning mills (with a varied capacity of 5504 and 18,000 spindles) and the remaining six were weaving mills (14 to 128 looms). The form of organisation varied with five proprietary concerns including partnerships, two co-operatives, two private limited companies, eleven public limited companies and one unlimited liability company – all in the private sector. In addition, there were two hosiery units of medium size. There was one textile unit producing artificial silk yarn taken over by a managing agency in the late 1960s. The former Hyderabad government had invested Rs 9 million accounting for 29.97% of its paid-up capital besides guaranteeing a loan of more than Rs 30 million (NCAER 1962).

In the sugar industry, there were twelve units whose crushing capacity ranged from 300 tonnes to 3750 tonnes per day. The largest was a public sector unit, the biggest cane sugar factory in Asia along with a large-scale farm followed by another private sector unit with 2500 tonnes and the rest varying between 1000 and 300 tonnes. In 1966-67, five fresh licences were issued to set up co-operative sugar factories with capacities from 600 tonnes to 1000 tons and plans for two more as part of the Third Plan. Power alcohol and carbon dioxide gas manufacture developed as subsidiary industries. There were two public sector units manufacturing alcohol, one power alcohol plant in the public sector, and four in the private sector of medium size. The structure of the carbon dioxide gas industry was similar with one public sector unit of large capacity and three private sector medium capacity units.

There were four medium to large jute mills in Andhra Pradesh all controlled by Calcutta-based jute enterprises with registered offices in Calcutta. Two were taken over by Calcutta based members of the Indian Jute Mills Association while British Managing Agents controlled the other two. There were three smaller jute presses also owned by British managing agents, but connected to each other through inter-locking directorships controlled by entrenched interests in Calcutta. The structure of industry was not necessarily linked with 'local capital' in the states that we have surveyed except for Gujarat where a strong mercantile class predisposed towards medium scale investment in consumer goods existed since the pre-independence period.

A techno-economic survey of Andhra Pradesh commissioned by the government of India in 1962 argued that the factors inhibiting development in Andhra Pradesh included the

'lack of venture capital' and the relative absence of an entrepreneurial class (NCAER 1962). In the Andhra region, private investment in industry was largest in sugar, followed by vegetable oil refining, textiles, chemical fertilisers, salt making, jute, mica mining and ceramics. If we consider the data on joint stock companies between the period 1931-32 and 1945-46 for regions that later became Andhra Pradesh, most of the public and private limited companies were trading companies, chit fund companies, hotels, cinemas, road transport companies, oil mills and rice mills whose individual paid up capital rarely exceeded Rs 50, 000.

Table 5D provides a rough idea of installed industrial capacity in Andhra Pradesh for 1979-80 and 1989-90 measured by investment in fixed capital based on a two-digit industrial classification. The main change over this period was the relative decline in investments in basic chemicals and chemical products (the sectoral share of fixed capital in these sectors dropped from 14.14% to 7.27%) and the huge increase in non-metallic and mineral products (whose sectoral share of fixed capital increased from 3.18% to 12.49% between 1979-80 and 1989-90) within the industrial sector.

Table 5D: Andhra Pradesh: Investment in Fixed capital in Industry

NIC Code	Andhra Pradesh: Fixed Capital	Fixed Capital in Rs '00,000		Sector Share (%)	
		1979-80	1989-90	1979-80	1989-90
20-21	Food Products	9241	30078	5.92	3.97
22	Beverages, Tobacco and Tobacco Products	1796	10754	1.15	1.42
23	Cotton Textiles	3302	18949	2.11	2.50
24	Wool, Silk, man-Made Fibre Textiles	261	4889	0.17	0.65
25	Jute and Other Vegetable Fibre Textiles	580	1947	0.37	0.26
26	Textile Products	103	1325	0.07	0.18
27	Wood and Wood products	192	985	0.12	0.13
28	Paper and Paper products	7405	23541	4.74	3.11
29	Leather, Leather and Fur Products	277	1237	0.18	0.16
30	Basic Chemicals and Chemical Products	22081	55055	14.14	7.27
31	Rubber, Plastic, petroleum and Coal products	1973	30104	1.26	3.98
32	Non-Metallic Mineral products	4963	94576	3.18	12.49
33	Basic Metal and Alloy Industries	7290	26272	4.67	3.47
34	Metal products and parts	540	5003	0.35	0.66
35	Machinery, Machine tools and Parts	5284	11631	3.38	1.54
36	Electrical machinery	7413	23916	4.75	3.16
37	Transport Equipment and Parts	3536	16120	2.26	2.13
38	Other Manufacturing Industry	352	7942	0.23	1.05
40	Electricity	78239	390173	50.11	51.53
41	Gas and Steam Generation and Distribution	574	96	0.37	0.01
42	Water works and supply			0.00	0.00
74	Storage and ware housing	746	1066	0.48	0.14
97	Repair services			0.00	0.00
39	Repair of capital goods		1464	0.00	0.19
	Total	156148	757123	100.00	100.00

Source: Technoeconomic Survey Of Andhra Pradesh 1962

But the overall pattern of industry showed no significant structural change although overall growth rates were recovering for industry in a situation where only a small portion of the

workforce found work in the 'formal sector', while the majority of the population were confined to the 'informal sector' of small trade, production and services.

Three observations can be made about the regional nature of capital accumulation in India since the mid 1960s. The first point to be noted is that the neoliberal literature has focussed on estimates of under-utilised capacity during the planning period to bolster their argument that planning caused inefficiencies that resulted in low productivity (Srinivasana and Bhagwati 1999). However, most of these estimates left out small- scale enterprise (Raj 1994) and, in some cases, even medium scale enterprises. The evidence of growth and the constant sectoral share of the 'unregulated' manufacturing sector presented in the earlier section (Table 5A and Table 5B) strengthens our argument that the large share of small and medium scale industry were not taken into account in the neo-liberal studies.

The second point important to our analysis is that industrial investments by big business houses in India were regionally concentrated. The growth of the big business houses in West Bengal and in eastern India as a whole led to attempts at diversification away from the eastern region to Madhya Pradesh, Gujarat, Madras and Uttar Pradesh. This along with a rise of 'new' capitalists in Gujarat, once again, predominantly in medium scale industry led to changes in the regional composition of industry. In Maharashtra, sugar and textiles were the staple medium scale industries in the 1960s (Banerjee and Ghosh, 1988). The textile industry dated back to the pre-independence period, but the rapid growth of the sugar industry was a product of the early ISI period through co-operative holding structures. Investment in eastern India was in jute and cotton textile, tea manufacturing, chemicals and electrical engineering in the 1960s and 1970s predominantly in West Bengal. The large-scale manufacturing sector was dominated by family-owned business houses (Birla, Jalan, Goenka, Bangurs etc) and subsidiaries or branches of foreign companies like Hindustan Lever and Philips India Limited. Birla had the lion's share of investments in West Bengal. Thus industrial growth in West Bengal was related considerably to the investment and accumulation patterns of this particular business house (Banerjee and Ghosh 1988).

Between 1959 and 1966, the Birlas applied for investments in Bihar, Assam, Orissa and West Bengal to the tune of Rs 2414 million whereas the amount applied for in respect of other states was Rs 3315 million (Banerjee and Ghosh 1988:126). Thus there was a concerted move to diversify geographically. Diversification of big capital from the Eastern region and the inability of smaller groups to compete led to a deindustrialisation process accompanied by the proliferation of a trade and service based economy.

There were a few state take-overs of sick business conglomerates through equity transfers, the most notable being the 49% acquisition of Andrew Yule in 1974 with another 2% in 1979. The long de-industrialisation of West Bengal was not just confined to the central government's reluctance to allow investment in West Bengal. Bengal being the heart of colonial capital saw a long period of decline in capital accumulation with the take-over of British capital

by Indian 'business-houses' whose primary seats of operation spread to Western and Northern India in the three decades after independence. Added to this was the feature of big business houses generally applying for more licenses than they had either the intention or the capacity to exploit. Thus the differences in success ratios pointed to the pre-emptive capacities of 'big business' rather than any significant move towards a concerted industrialisation process.

Independence also brought the Freight Equalisation Policy of 1948 in coal and iron-ore. This served the needs of the Western region. The eastern region, in particular, had been a victim of the old policy of freight equalisation, which meant that West Bengal, Bihar, and Orissa were artificially denied the comparative advantage of proximity to mineral resources. Post-1991, freight equalisation has been abolished. Under the freight equalisation policy, while the comparative advantage of the location of raw materials like coal and iron-ore in the Eastern region was effectively nullified, there was no freight equalisation for the raw materials needed in the Eastern region. Thus since independence, upto 1991, the natural advantage of the Eastern region as a whole was nullified. This was one major cause of de-industrialisation in the region with shifts of capital to Western India.

De-industrialisation in Bengal, the failure of the central government not just to bolster export performance, but also to counter concentration in industry (Banerjee and Ghosh 1988) led eventually to emphasis on a different process of industrialisation. This was based on small-scale development as a model of 'growth' promoted by the Left Front government that came to power in 1977. This came into effect from the mid 1980s after the implementation of land-reforms through Operation Barga (Roy Chaudhury 2005). A substantial growth of small-scale unorganised sector manufacturing has been noted in West Bengal since the early 1980s. Share of unregistered manufacturing in the manufacturing SDP of the state doubled from an average of 30 percent in the early 1980s to 60 percent in the late 1990s (Banerjee 2002). However this small-scale industry was dependent on the agrarian economy for the realisation of value (Kongar 1978) and catered to the 'local market' under the regulatory framework of the state government's industrial policy (Banerjee 2002).

In contrast, in Tamil Nadu, Kurien argued that there was a very weak linkage between small-scale industry and agriculture. The new small-scale manufacturing firms neither produced inputs for use by the agricultural sector, the most important activity in the state, nor processed the outputs of that sector (Kurien 1981). Similarly, in Karnataka, at independence, the private sector industrial base was mostly in small and medium scale textiles. From the 1960s, the state set up industries like Hindustan Antibiotics Limited and later Hindustan Machine Tools, which were the key industrial enterprises that sustained the urban economy around Bangalore (Heitzmann 2004). The growth of the small firms in and around Bangalore was directly linked to large-scale manufacturing units that provided inputs and markets for their products (Ibid). Whether such linkages were more general phenomenon could be worth exploring for the states that we have surveyed so far, but tracing these linkages are impossible because the data is not

uniform in terms of time period and more importantly incomplete in terms of an input-output mapping to establish the linkages.

The third important factor was the question of the 'technology gap' that remained, in spite of the attempts at self-sufficiency through large-scale investment in research within the ambit of the Nehru-Mahalanobis period. The state functionaries by the early 1970s had admitted defeat in the project of 'catching up' with nations of the First World. This was evident in Indira Gandhi's address to FICCI on March 31, 1973 when she conceded:

No matter how much we run, we find that science and technology give such an advantage to the already advanced nations that with all our running we are unable to close the gap. (Government of India 1984: Vo II)

This marked the formal end of the particular 'developmental' dream of climbing up the technology ladder using interventionist policy.

However, neither Indian industry nor the state ever put in any serious strategy to do this. Even in the 1950s the turnkey nature of contracts never had any clause for technology transfer because the only consideration sought from foreign suppliers was credit. In steel, fertiliser, machine tools and pharmaceuticals, the process of technology absorption, adaptation and upgrading remained dependent on the state's dependence on foreign loans and grants (Bagchi 1998).

By the 1970s, the failure of the Nehruvian strategy to become self-sustaining created a new dynamic whose significance has not been properly assessed and recognised in the literature. Instead of a sharp break in the 1990s marked by a transition to liberalisation, the more relevant break is a much more gradual one that began in the 1970s where instead of trying to catch up with advanced countries using the licensing system and the Nehru-Mahalanobis industrial policy, the effective strategy of the state became to respond to new demands from an emerging new capitalist class using lower grade technologies in the domestic market that were not directly dependent on the licensing system. This strategy depended on the existing distribution of capitalist capacities across India's regions, but by responding to these existing capacities, regional differentiation was exacerbated. The paradox of the emerging new capitalists lay in the fact that although they were not directly the beneficiaries of licensing, they were often indirectly the product of the licensing system and often closely related to investment in big firms in the public and private sectors which created markets for small firms and in some cases provided their inputs. While big capitalists like the second generation of Birlas dominated diversification strategies in the licensed sectors, the 'new' sectors became the domain of aspiring proto-capitalist groups emerging from below.

The state's policy of keeping its role confined to the formal sector created a space for new capitalists to grow and proliferate in a space that existed outside the interventions of the 'license/control' regime that was based on informal and unorganised labour. Chandrasekhar and Ghosh (2002) have noted the emergence of new 'factions' within the capitalist class in this

period. The diversification through trade saw the emergence of a new set of capitalists who were 'new' in the sense that their accumulation was outside the immediate strictures of 'license-control' but linked to the industrial expansion led by the public sector. These new sections were often concentrated in a particular region, and slowly local power centres with local political agendas gained ground seriously undermining the earlier nationalist basis of the ruling state ideology.

Indira Gandhi's period of prime-ministership between 1972 and 1977 was fraught with rhetoric about the 'national good'. A 'Plan week' was celebrated in 1973 after the demise of detailed planning from the period of the Third Plan. To celebrate the occasion of Plan week, on 14<sup>th</sup> November, 1973 – Indira Gandhi's message was:

The present situation is an exceedingly complex one. It is easy to lose one's bearings and to resort to impatient action for sectional good. However, if the nation as a whole suffers because of strikes and other forms of work stoppages, no section can genuinely benefit, even in the short run. Therefore, just as it is wrong for the Government to look for an easy way out of the present difficulties, it is equally wrong for other organisations to seek short cuts to what are in reality the fundamental problems of growth. I appeal to the good sense and patriotism of our workers, farmers, Government employees, businessmen and others to consider the issues affecting them in the wider national perspective...This is a time when each one of us has to make a sacrifice for the sake of a better future. (Government of India Vol III 1984)

However, the rhetorical appeal to the 'national good' which had legitimacy in the Nehru period no longer proved to be effective. The tensions created by the contradictions of development in previous decades led to the increased participation of agrarian and industrial proto-capitalists in the political process and had an impact on state policy in the context of fragmentation of social, political and economic interests that took regional dimensions.

#### **5.4 Delocking of Finance From Production and Questions Around Scale**

We will identify some of the processes of accumulation through which these new groups of proto-capitalists emerged through the mid 1960s and the 1970s in the next chapter, but it is important to note here that the pressure to turn away from the old style of dirigisme in India came from a number of different, but related, directions. One was from new aspirants to the capitalist class, who saw the abuses of the licensing system by the clique of 'insider' capitalists in the 1970s as a threat. Congress appeared not to be able to guarantee that the licensing system would assist the primary accumulation of new aspirants as it had assisted the first generation of capitalists. Asset concentration in the hands of the latter group appeared to have established a class of big capitalist 'insiders' who could manipulate the licensing system to the disadvantage of newcomers. The tensions between insiders and outsiders within the capitalist class have not been adequately recognised in the analysis of the social pressures towards liberalisation in India. A second and related source of pressure was economic in nature, stemming from the emergence of the new business groups, which saw the regime of internal

controls as an impediment to their own ascent to profitability and power. Newcomers who had accumulated outside the licensing system did not benefit from it and indeed found many restrictions that created rents for some capitalists as impediments to their own profitability. The third was related to the developments in the capital market with an increase in 'rentier' finance which sought to decontrol the market for finance as it saw profit opportunities in the asset market. As these forces consolidated, the growth of the 'new' business groups was further accelerated by the state's over-all preservation of an import substitution policy, while emerging pressures forced the state to moderate resource transfers to the 'monopolists' who had already been identified in the Monopoly and Restrictive Trade Practices (MRTP) Act (Goyal 1979). A separate but related phenomenon was the emergence of small-scale enterprise as a viable model of employment-generating growth based on informal labour. The growth of small manufacturing enterprises in India was noted as a 'recent development' in 1963 by the International Perspective Planning Team of the Ministry of Industry sponsored by the Ford Foundation. 'Engineers, merchants, metal workers and former agriculturists were the prominent founders of new firms many of which were profitable and growing based on the skills of a machinist and the savings of a local trader' (Government of India, 1963).

The rapid growth of the small-scale sector within regulated manufacturing was a direct outcome of the state policy of reservation of 870 products and the directed credit through the nationalised banks. Thus the phenomenal rise of small-scale industries is also a very important feature of the decade of the 1970s. Price controls in steel and cement made these sectors unattractive to the established corporates and reservation meant that buying components and intermediaries from the small sector could not threaten competition from 'big business' based on backward integration (Patnaik and Chandrasekhar 1995). However, the expansion of small and medium capital was very contingent on periodic booms from the 1980s. The 1980s marked the turning point when diversification reached a stage where new sectors of capitalists were strong enough to begin to intervene in the polity and change the course of the accumulation process. These interventions pushed the zones of intervention and non-intervention much beyond the paradigms envisaged by any of the contenders in the 1970s.

In the span of three decades, however, there have been several changes in definitions of what constitutes small-scale. In 1963, small-scale was defined to be a manufacturing establishment having fixed capital under Rs 500, 000/- with some exceptions. What must be noted is that a 'factory' at this point was based on the definition of the Factories Act, as a unit which at some time during the year employed 10 or more persons if using power and 20 or more persons without using power. In 1960, 36, 400 such registered factories with fixed capital of less than Rs 500, 000/- accounted for 92% of all registered factories. These factories employed 13, 30,000 workers and accounted for 38% of total registered factory employment. These units accounted for 33% of total output, 25% of value added and 17% of the total fixed capital in the registered factory sector (Annual Survey of Industry, 1960).

Agro-based manufacturing of food products, grain milling, ginning and pressing of fibres and textile weaving and finishing, account for the biggest output, investment and employment in the registered small sector, followed by metal works and machinery. A third set of industry groups based on direct conversion of primary resources and centred on construction goods accounted for a large part of SSI in 1960. (See Table 5E) From this growth process emerged the phenomenon of medium scale industrial 'clusters', e.g. bicycles in Punjab. This was identifiable in the expansion of Hero cycles, a brand that monopolised the expanding market for bicycles since the 1980s.

Table 5E: Small Registered Factories: Employment, Output and Investment

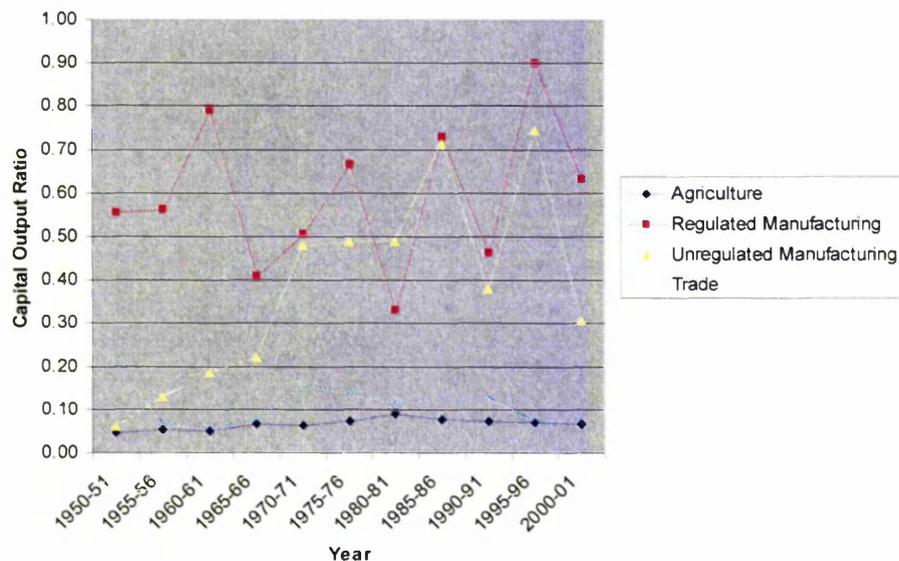
Code	Description	Number of factories with fixed capital less than Rs 5000000-	Persons Employed	Fixed Capital	Gross Output	Percentage to all Registered Factories	Percentage Employment to all Registered Persons Employed	Percentage of All Registered Factory Fixed Capital	Percentage of All Registered Factory Gross Output
		% of							
209	Miscellaneous Food Preparations	10.2	10.3	17.4	20.1	87.2	49.6	47	51.2 **
205	Grain Mill Products	11.7	6.9	8.0	14.8	95.6	86.1	84.1	78.8 *
231	Textile Spinning, Weaving and Finishing	8.4	11.0	5.7	8.8	83.3	12.7	5.4	13.3
350	Metal products except Machinery and Transport Equipment	5.7	4.6	5.0	5.1	97	66.2	41.5	60 **
10	Ginning and Pressing	7.7	7.8	7.0	4.9	95.7	91.9	93.6	88.1 *
360	Machinery except Electrical Machinery	7.1	5.9	7.4	4.5	95	51.8	35.1	46.4 ***
220	Tobacco Products	7.0	10.2	1.3	4.1	95.3	74.8	34.3	43 ***
319	Miscellaneous Chemical Products	2.7	3.2	3.4	3.9	89.6	47.1	19.9	28.6
341	Basic Iron and Steel	1.9	3.3	2.5	3.5	84.9	31.3	2.7	16.2
291	Tanneries and Leather	1.1	1.2	0.7	3.2	97.4	77	63.7	88.8 *
280	Printing Publishing and Allied Industry	6.8	5.1	6.7	3.1	96.3	60.5	47.4	50.2 **
399	Unclassified	2.8	2.3	3.2	2.2	96.8	83.5	76.9	82.5 *
342	Non-Ferrous metal	0.7	0.6	1.1	2.0	91.7	36.6	13.9	41.2
250	Wood and Cork except	4.3	3.0	2.2	2.0	97.8	81.9	68.7	82.2 *
370	Electrical Machinery	1.3	1.9	4.2	1.9	83.2	28.8	25.1	21.1
339	Non-metallic mineral	2.0	2.5	1.6	1.7	95.7	76.2	52	63.2 **
384	Motor Vehicle Repair	3.2	2.9	3.1	1.6	94.7	72.5	55.3	73.4 *
300	Rubber Products	0.7	1.1	3.3	1.5	92.1	38.2	41.5	23.9
239	Textiles	2.1	2.0	0.9	1.5	96.5	86.7	62	77.6 *
311	Basic Industrial	0.6	0.7	1.3	1.4	76.9	18.2	3.4	17.9
331	Structural Clay	1.7	3.2	5.0	0.8	94.5	70.4	53.2	50 **
332	Glass and glass	0.6	1.9	0.7	0.7	88.6	67.1	24.8	49.9 ***
	other	9.5	8.4	8.0	6.8				
	Total	100	100	100	100	92.1	37.9	17.5	32.9

Source: Annual Survey of Industry, 1960, 1966, Government of India

The economic role and interests of factory enterprises and small-scale enterprises were not necessarily identical or even similar. Small-scale enterprises were left out in the USAID estimate of 1965, mainly on the grounds that they did not consume much foreign exchange, but this meant that the possibility of their facing fatal competition as a result of the additional imports to be made available to the factory sector through foreign aid, did not receive the attention it deserved (Raj 1994).

The argument for deregulation involves an assumption on the part of neoliberal economists that India's comparative advantage lies in its indisputably low cost of labour. The literature based on this view (Debroy and Bhandari 2005) has made the oft-repeated argument that state regulation had 'distorted' this natural advantage of the market. This take on the economy has been based on the false dichotomy of the state and market. So once again, state regulation is supposed to have 'distorted' this natural advantage of the market and often it is argued that India's medium and small-scale industry was disadvantaged despite being more labour intensive. However, a very preliminary survey of the capital-output ratios, based on time-series data from the National Accounts statistics, shows that capital intensity of regulated and unregulated sectors did not show a huge difference after the mid 1960s. This is apparent from the graph below.

**Fig 5.9 Sectorwise Capital Output Ratios**



Scale in the Indian context was determined by 'asset structure' and not technology intensity. Yet the assumption that the large-scale sector was capital intensive and the small-scale sector was labour-intensive informs much of the neoclassical literature (See Debroy and Bhandari 2005). In fact the Ford Foundation sponsored Government of India report argued the reverse in 1963 and so did several other studies of that period (Dhar and Lydall, 1961). By studying capital output ratios, they argued that small-scale industry was in no way capital saving and there was no evidence to suggest that small-scale industry in India could be characterised as either labour or capital intensive compared to the large scale sector.

Earlier in 1956, many of the captains of industry had asserted that productivity is linked with capital accumulation, population growth, technical invention, social innovation, attitude of mind etc (FICCI 1956). In 1959, they resisted the focus on labour-intensive industry as they

argued that labour intensive industrial processes in the long run call for larger capital than originally envisaged. They suggested a *planned* programme of decentralisation of industry led by the state to ensure 'development' (FICCI 1959). Small and medium scale industry came to be associated with employment generation based on labour intensive technology as a result of recent neoclassical interventions.

The capital intensive and labour intensive industries were connected in a complementary linkage mainly through the reservation of products and targeted financing through banks and industrial financing organs of the state. The financing capacity of the state for this twin exercise was through the control of the banking system through nationalisation after 1971 and the use of fiscal resources to the point of debt driven inflation.

The same institutional modes that were used to subsidise rural development based on financing of loans for agrarian development were also applied to this aspect of the state's populist policy. In this sense, the shift of emphasis to small and medium scale units through the selective de-reservation of products by both Indira Gandhi's government and the Janata led Government in 1977 was considered a 'reform' in the literature of the period. As industries were de-reserved, medium scale entrepreneurs found new avenues of expansion that were not in the ambit of the 'license-control' nexus.

The source of state-led primary accumulation depended on two kinds of 'entitlements' by the state – land and bank finance and often the two were connected. According to a Congress (I) MP, K Suryanarayana,

Financing by the nationalised banks, particularly the State Bank of India, to the farmers has failed... A man has secured 500 acres of land in the name of one dharmasangstha. He is a MLA and now minister in Andhra Pradesh. He belongs to my party. Taking advantage of personal and party affiliations, he has secured 500 acres of Government land and he has taken a crop loan also to the tune of nearly Rs 5 lakhs without any property security. The Government on being asked said that according to the State Bank Act, the details cannot be revealed. (Lok Sabha, March 14, 1972:276)

This was in Tadepalligudam, a part of Suryanarayana's own constituency, which was a big commercial hub. The land did not even cost Rs 500,000. Further, it was an undeveloped submerged land and was actually government land taken on lease in the name of a religious organisation. Nevertheless, a loan was given for raising crops. When Suryanarayana himself asked the bank for loan, however, they were not ready to give him a loan for growing tobacco. From his account, he did receive a loan from one bank, but another bank did not give him even Rs 10, 000 as crop loan to raise tobacco as tobacco prices had gone down (Lok Sabha, March 14, 1972: 279-280). The account is interesting in two respects – it provides credible evidence of the political tussle around bank loans. It also suggests that the expansion of nationalised banks activities in rural areas in a context of agricultural stagnation meant that land was sometimes used as a means of primary accumulation not for gaining access to a means of production, but rather to gain entitlements to bank finance. This example illustrates how bank loans could be

captured by politically connected rent seekers without engaging in any productivity-enhancing investment.

Table 5F: Sector wise Direct Project Assistance by IDBI between June 1964 to June 1975

Sector	Number of projects	Amount of Project Assistance* (Crores of Rupees)	Percentage to Total
Private	220	223.3	51.4
Public	13	37.5	8.6
Joint	44	156.8	36.1
Co-operative	11	17.1	3.9
Total	288	434.7	

Source: Table 4.IV, p19, IDBI, Annual Report 1974-75

Note: Project assistance in the table comprises loans, underwriting, direct subscription and guarantee.

Even if bank finance was not purely used for rent seeking, from Table 5F above, it is clear that the major share of assistance from IDBI went to the private sector between 1964 and 1975. Of the 66 projects sanctioned for assistance in 1974-75, six were sponsored by technician-entrepreneurs. These were Modern Proteins Ltd, Uniloids Ltd, Brindavan Steel Ltd, Coastal papers Ltd, Drillco Metal Carbides (P) Ltd and Nagarjuna Steel Ltd. The main industries that were prioritised during this period were sugar, paper, cement, fertilisers and textiles. Thus development banking was geared towards direct finance and risk bearing for the private arena in the economy with chosen 'lead' sectors (IBDI Annual Report 1974-75: 6-17).

Thus many features of the 1980s can be traced to the 'reforms' carried out by the Congress and then the Janata led government beginning in the 1970s. The growing rural-urban gap and the phenomenon of 'uneven development' which emerged as a result of abandoning guided development strategies, can be traced to the developments that began during this period.

The contention that the first IMF loan marked a fundamental break in the relationship between state and capital is questionable from this perspective. One could attribute all the developments since the 1980s to changes in the international economic and political pressures. However, two things would still remain unexplained – the turn-around from stagnation to growth between 1965 and 1980 and the growth and proliferation of the capitalist class through the emergence of 'new' family owned business houses. The fiscal crisis of the state that emerged fully in the late 1980s was certainly more visible (Patnaik 1984) but the rapid and prior expansion of new sectors of capital accumulation was even more important in driving the adoption of a superficially 'neoliberal' vision of 'development'.

### Traders and Industrialists

It was in April 1974, recognising the crucial question of access to technology and keeping in view the common interests of the Engineering industry in the country, the two associations – the Indian Engineering Association and the Engineering Association of India – merged to form the Association of Indian Engineering Industry (AIEI). This was the section of industry that was struggling to recover from the stagnation of the mid-1960s. They saw a direct clash of interest with the traders and speculators and considered it a hindrance to the process of industrial growth (AIEI 1968). The roots of this conflict can be traced back to different strategies of anti-colonial struggle. Tariff protection was not enough after the 1930s as industrialisation depended on technological and financial access, in which the colonial state had an overtly discriminating policy towards ‘natives’. The two decades after independence was a period of increased financial access through financial institutions of the state but banking finance was still mired in crisis in the private sector and technology dependency continued through the two decades after independence.

This was overturned completely in the so-called decade of disappointment of the 1970s. New forms of intervention were evident in the introduction of national patent laws, the tightening of licensing policy through the Monopoly and Restrictive Trade Practices act, widespread nationalisation of banks, insurance and coal mines, the selective intervention in agriculture, and the non-intervention or ‘withdrawal’ from trade and finance combined with the gradual dismantling of ‘planning’ and preservation of ‘Hindu Undivided Family’ through non-intervention in personal laws.

### **5.5 Political Outcomes of Changing Role of the State**

It is clear from our analysis so far that the state in the period was the concentrated repository of power in terms of transfers to the capitalist class but it was also the repository of critical powers to negotiate, control and limit the organised power of industrial labour (See Chapter Four). By 1967, the one-party rule of the Congress was breaking down under its own contradictions and challenges. Contradictions of planning, the very slow reduction of poverty, the failure of the Congress to accommodate the intermediate classes and factions in the development process and the hegemony of the landlord and rich peasants within the Congress led to emerging alliances of factions within Congress and with splinter oppositional parties which kept realigning all through the 1970s. For example, the first non-Congress coalition government in Bihar came into being in 1967-68. The anti-Congress coalition that came to power in 1967 had no cohesion. Similar trends were observable in other parts of the country where non-Congress governments came to power. The coalitions were unstable and alignments and realignments were the order of the day, based on shifting calculations of factions fighting to be in power. This made it impossible for any political coalition to manage the primary accumulation of capital in any orderly way.

By 1974, however, there was the Nav Nirman uprising in Gujarat, which inspired the 1974 JP movement in Bihar. It took a militant turn by March 1975. The state came down heavily on this movement (Chandra 2003, Frankel 2005), but it was clear that in the ten years from 1964 it was the plank of 'social justice' on which repeated anti-Congress alignments bid for power at the level of state governments. The polity became contested on the basis of regional agendas often linked to caste in Bihar and Uttar Pradesh, ethnolinguistic and 'son of the soil' revivalism in Maharashtra, the Dravida movement in Tamil Nadu. Underlying all these movements was an intense dissatisfaction of the unevenness of the growth process up to 1975.

The absence of thoroughgoing land reforms, a result of the bourgeoisie's compromise with landlordism, kept productive forces in agriculture arrested. The market for mass consumption goods remained restricted and grew slowly for this reason. Moreover, the ability of the state sector to keep expanding, and thereby to keep enlarging the market for the private capitalist sector, was progressively undermined. Low agricultural growth put a ceiling on the rate at which public investment could grow without squeezing the living standard of the masses to an extent intolerable in a democracy. In addition, the ruling classes enriched themselves at the expense of the public exchequer, a form of "primitive accumulation of capital", which further curtailed the growth of public investment. The *dirigiste* strategy of capitalist development, dependent on expanding public investment, entered a cul-de-sac and lost social support even as metropolitan capital—and, in particular, finance capital—stepped up its offensive against this strategy through the Bretton Woods institutions, and later the WTO, in a world where the crucial support coming from socialist countries had disappeared (Patnaik 1999a).

The role of state intervention in facilitating the accumulation process that came into being with the rise of 'new' capitalists in various parts of India changed in unprecedented ways since the 1970s. The period from 1965 to the 1980s for the capitalist class in India was one of negotiating its complementary relationship with the state in the face of its own growth and diversification. The next chapter presents a detailed analysis of these changes.

## Chapter Six

### Sources of Accumulation: State Intervention and Non-intervention

This chapter is a survey of the role of state intervention in facilitating the accumulation process that came into being with the rise of 'new' capitalists in various parts of India. We argue that the period from 1965 to the 1980s for the capitalist class in India was one of negotiating its complementary relationship with the state in the face of its own growth and diversification. This was separate from the other principal constituents of society, which were also rising in discontent against the state in the mass strikes of 1974, the petty-bourgeois discontent in Bihar and Gujarat and the movement for land reform in Bengal. Ironically, this discontent, often directed against inequities in terms of asset concentration in the hands of 'big' capitalists unintentionally, mapped a process of expansion by the capitalist class as 'new' capitalists set up business groups in various parts of India. The process of this expansion is the subject of this chapter.

We establish in this chapter that economic policy was a mix of increasing controls on one hand and deregulation on the other. Later this was combined with populist policies. So what constituted state autonomy is difficult to isolate at this level by use of a false dichotomy between the public and private sectors, as is often presented in neoclassical analysis of this period for example in the writings of Bhagwati (1998). To understand the political dynamics of this period of increasing or decreasing relative autonomy, one has to take into account three broad factors – first, the social processes of accumulation both in the industrial and other sectors of the economy, second, the changes if any to the structure of the economy, not just in terms of output but also in terms of the social structures of employment and labour organisation and third, the domains of state intervention. We have already discussed the importance of the state in imposing bridles on labour organisation in Chapter Four. This chapter analyses the first and third significant factors – the social process of accumulation in the industrial and other sectors of the economy and the role of the state in this process in terms of changes in the nature of intervention. Most importantly, based on several case studies, this chapter establishes the processes of rise of new entrants into the sphere of capital accumulation and traces the different sources of primary accumulation.

Section 6.1 is a discussion on the rise of capitalist lobbies in the political process and the resultant policies of the state raising the question as to what really changed in the relationship between state and capital. Section 6.2 presents an analysis of the zones of intervention and non-intervention in the state's relationship with capital. Section 6.3 examines the role of agrarian accumulation in the making and consequences of the Green Revolution and pricing policy. Section 6.4 assesses the nature of asset concentration in the economy and its relationship with industrial policy. Section 6.5 analyses the rise of new entrants into the sphere of capital accumulation and traces the different sources of primary accumulation based on case

studies. Section 6.6 analyses the domains and processes of negotiation between institutions of the state and the representatives of capital in determining the extent of intervention. Section 6.7 examines the consequences of the steady expansion of capital since the 1970s.

### **6.1 Capitalist Lobbies and State Intervention**

The period under scrutiny from 1965 to 1980 was characterised by sporadic economic 'reforms' within a broad context of political turbulence and challenges to the state. This was reflected in various 'social movements' and political struggles resulting in the formation of regional parties.

A schism developed within the ranks of the Indian capitalist class between different sections of industrialists who had developed during the peak years of import-substituting growth and later entrants (Baru 2000; Chandrasekhar and Ghosh 2002). By 1965, the capitalist class was deeply divided. According to the key spokesperson of the 'laissez faire' approach A.D. Shroff (1966), apart from planning, the other state-created barrier to capitalist development lay in the Land Ceiling Act which imposed limits on holding size in urban and rural areas.

Pioneering entrepreneurs established the sugar factories, and the farms that were built around them (fully owned or some part being leased) have provided sugarcane with four times the national average in sugar yield. The state government decided to take over these sugar factory farms for being converted into cooperative farms or state farms. A reasoned case by the Deccan Sugar Factories Association against such takeover made no impact on the Government. But the government took it over up on the excuse of mopping up 'adventitious profits (Shroff 1966: 43).

The rise of this powerful sugar lobby whose cause Shroff was advocating became visible in electoral politics in Uttar Pradesh and Maharashtra, becoming important both within the Congress and its adversaries in the 'Grand Alliance'.

In Western India as opposed to the East, politics was contested on a different basis, given the gradual prosperity of their growing capitalist enclaves. In contrast, in Northern and Eastern India, mass discontent was the norm. The 1967 political turmoil in Bihar and West Bengal was the watershed, but it was the difference in political agency that marked the difference in terms of the aims of the cross-class mobilisations that ensued in the period up to 1977. Unlike Bihar where the JP movement was dominated by the urban petty-bourgeoisie, in West Bengal, the Left in rural areas led a mass upsurge around land reform that was organized on much clearer class lines. In Gujarat, urban petty-bourgeois discontent in the form of the 'Nav-Nirman' movement was relatively easy to subjugate given the deepening of emerging capital in industry, even though it led to the fall of the Congress government in the state.

At the national level, a section of the capitalist class backed the direct participation of business in the 1967 general elections going outside the compromises necessary within the Congress Party (Nayar 2001: 106). Pilo Mody, the Swatantra MP from Godhra was one such person. In 1971, the grand alliance of the liberal-oriented Swatantra party, the Hindu nationalist

Jana Sangh and the old guard of the Congress fought elections with abundant support from an alienated business class (Frankel 2005). By 1975, the Congress under Indira Gandhi had lost its unconditional backing from the industrial capitalists. Indira Gandhi told Parliament on May 9, 1975:

We have been accused of serving the interests of foreign monopolists or the Indian monopolists. There are some advocates of Indian capitalists and monopolists in this very House and most of them are in opposition. They always try to run down our public sector and praise the efficiency of the capitalist system. We want to run the economy in such a way that the interests of the masses are safeguarded and the power of the monopoly is curtailed whenever it grows (Lok Sabha 1975: 35).

Thus the period from 1966 to 1980 saw the emergence of capitalist lobbies based on political differences over the process of planning, barriers to the development of unfettered markets and the wider debate about the curtailment of private monopolies. These debates got a new lease of life in the 1980s with the neoliberal turns of state policy, but it is important to recognise that these debates formed the basis of political alliances of leading sections of capital since 1966. In the literature on planning, it is acknowledged that the role of planning as a tool of state policy for allocation had been significantly undermined since the period of the Third plan (Frankel 2005). Thus the key tool of control over the command economy had been quite significantly eroded. But this still begs the question as to why the state in this period combined reforms that constituted periodic expansion of the dirigiste role of the state in some directions and contractions in others. As mentioned in Chapter Five, this was evident in the introduction of national patent laws, the tightening of licensing policy through the Monopoly and Restrictive Trade Practices act, widespread nationalisation of banks, insurance and coal mines, selective intervention in agriculture, and non-intervention or 'withdrawal' from trade and finance combined with the gradual dismantling of 'planning' and the preservation of the entity of 'Hindu Undivided Family' through a clear policy of non-intervention in personal laws.

## **6.2 State Intervention and Non-Intervention**

From Nehrus' death to the assumption of power by Indira Gandhi in 1966 when LB Shastri died in Tashkent, the economy was affected severely by poor harvests, food shortages and a balance of payment crisis. This led to a growing imbalance in state expenditure and revenues culminating in a fiscal and balance of payments crisis (Nayar 2001). This was the economic context in which the Government of India devalued the rupee by 3% in 1966 and received food and monetary aid under the IMF-World Bank programme for the first time. This came with pressures on the state to 'liberalise' certain sectors in the economy.

However, the main difference in the role of the state in the period before 1965 and after was a widening in the nature of interventions from manufacturing to bank-finance and agriculture. The first twenty years of state policy had been geared towards propping up an import substitution policy for industrialisation with incentives in the form of state subsidies,

protective tariffs and import quotas. The banking system remained in private hands up to 1967 with no big institutional change except the regulatory role of the Reserve Bank of India in the management of money in circulation.

The state's initial reluctance or inability to intervene in agriculture was due to the power structures of the Congress and the state institutions, which were overwhelmingly controlled by 'landlords' in rural areas. Three main interventions emerged out of the political conflicts of this period. First, a set of new interventions emerged in agriculture through a package of technical policy measures commonly referred to as the 'Green Revolution'. These policy measures were adopted in the face of an acute food shortage and dependence on US aid for food that was petering out. It was also fortuitous that a set of technologies became available in this period that allowed improvements in agricultural output without directly attacking the interests of powerful groups in agriculture. Second, the state was forced to intervene in a growing range of areas to limit deteriorating capital-labour relations. Third, interventions emerged to tackle a number of problems emanating from the structure of the capital market and the avenues of primary accumulation. On each of these issues, the representatives of capital had very clear positions.

The interventions in agriculture came as a package of policy measures supported by monetary aid from the US that were based on public investment and pricing policy to further the Green Revolution in agriculture. The fourth five-year plan placed greater priority on agriculture. Before its adoption, India had resorted to Annual Plans for a few years, which had already reduced the importance of planning as a tool of allocation. Thus the emphasis on agriculture came as a result of the understanding that agrarian 'problems' were acting as a barrier to industrialisation. But the spread of the Green Revolution had very little to do with traditional institutions involved in planning in India. The impact of the Green Revolution in particular in expanding the avenues of accumulation in the economy is analysed in the next section (6.3).

The mainstream public wisdom emanating from big capital was summarised by G M Modi, in his annual address to FICCI on 23<sup>rd</sup> April 1965 where he argued:

In a changing and dynamic context, those in industry must take a keen and active interest in the problems of agriculture and contribute to their solution. Questions relating to agricultural production and productivity are far more complex than those connected with industry. We may have to depend on imports from other countries, every effort must be made to increase domestic supplies. The need for building up of buffer stocks to meet emergency situations as well as to provide a salutary influence on prices cannot be overemphasized. Irrigation has improved but not effective drainage. This must receive the immediate attention of our planners (FICCI 1965).

Thus the interventions to increase agricultural productivity had clear support from those representatives of industry and commerce who had in mind the reduction of dependence on the international grain market and work towards self-sufficiency. Paradoxically, the representatives of industry no longer hankered after self-sufficiency as a goal of industrialisation anymore.

On the question of a 'social contract with labour', the organised sections of the capitalist class used the employment structure of the economy to argue against any progressive

wage policy measures undertaken by the state in the face of growing militancy from the organised working class.

On the one hand, population is growing at a phenomenal rate necessitating a progressive creation of additional employment opportunities. On the other hand, the effort to maintain our competitiveness in world markets, to establishing capital goods producing industries, to take advantage of the advancement in technology have all made it imperative to choose and adopt methods of production which require greater capital per man employed. The emphasis has to be on accelerating the progress of growth itself and providing the highest stimulus for further investment. Our wage policies, much as they have to be motivated by social needs, cannot be separated from these larger national objectives (FICCI 1965).

For FICCI, the main political argument was against the concept of 'social justice', which it argued had created a privileged class of workers. Thus this was an argument made by the biggest chamber of commerce in India, which later became a common refrain in neoclassical analyses of the period. Employers wanted to argue that the improvements in living standards of workers did not depend on increased earnings alone.

Considerable sums are spent on things and pastimes which cannot be desirable. Workers should utilise this increase in wages to raise their economic and social position (FICCI 1965).

Employers further complained that absenteeism had increased. 'Political strikes' like the Bombay Bandh led by Communists had resulted in the loss of 7,300,000 man-days. This strike had been triggered by depressed wages along side huge price rises. Thus the thesis of a 'privileged class of workers' was totally contradictory to the actual political events of the period. On the question of the abolition of contract labour - a long-standing demand of all the big trade unions, the reluctance was also clear:

What we have to think of is not abolition of contract system as such but how to extend to contract labour the facilities which are enjoyed by regular workmen...(FICCI 1965).

On the restrictions on the capital market, FICCI had a clear position and argued for 'liberalising' the domestic market in capital.

Even industrial houses of great reputation are finding it difficult to get their shares subscribed because the middle class which is the major investor does not have the money to invest. Banks do not freely advance money against equity shares. This has given a setback to the rate of investment thereby affecting the employment potential of the industry (FICCI 1965).

The crux of the argument was that the license control regime was becoming a handicap for innovation and entrepreneurial initiative. The demand inside FICCI upto 1965 was mainly for internal liberalisation. Industrialists in FICCI proposed a sharp cut in public expenditure from Rs 160,000 millions to Rs 105,000 millions as the maximum feasible expenditure (FICCI 1965). They advised the government to concentrate on the development of agriculture and social overhead projects and to leave industrial development to private enterprise in cooperation with

foreign private capital through further relaxation of controls, reductions in taxation and protective tariff for new industries (Frankel 2005: 304).

This was a complete turn-around from the position adopted by FICCI in 1949-50 expounding the negative role of foreign capital. But the idea of competing in global markets and the relaxation of trade barriers always remained a contested terrain. But decontrol of the domestic market to allow investment by foreign capital now seemed to be the consensus among big capitalists. Apart from these sections of industrialists, there had been major voices within the state calling for devaluation as well as for the relaxation of controls on investment, production, imports and prices. The report of the Swaminathan Committee on Industries Development Procedures published on 10<sup>th</sup> June 1964 argued for delicensing a number of industries mainly involved in the import of capital goods and raw materials on the grounds of reducing delays (Government of India 1964). In 1966, some of these industries were delicensed under a 'reform' of the licensing policy. The Hazari Report published in 1967 argued that the existing licensing system was not serving the stated aim of channelling investment into desired directions, and needed to be revised (Hazari 1967). A range of interventions in trade and in capital markets were necessitated by some of the adverse social effects of robust primitive accumulation and the disparities that resulted from 'normal' capitalist accumulation. A significant share of capital in India's 'mixed economy' operated in trade and finance. Commodities trade and especially trade in food grains were particularly important. However, the problem here was the 'market failure' that allowed hoarding and racketeering and in turn led to artificial shortages. The structural constraint of low yields added to the shortages, necessitating bulk imports.

The crisis in the economy manifest in food shortage, concentration of monopolies and deteriorating capital-labour relations led to waves of political unrest that could only be put down after the imposition of the Emergency. By 1967, food shortages became the biggest source of political discontent. The Left had led the Food Movement in West Bengal since the 1950s (Das and Bandopadhyay 2004) and in other parts of the country, food riots became a regular occurrence in the mid-1960s. Trader resistance to regulation was very strong and was reflected in swift changes in political alliances away from the Congress towards Swatantra and Jan Sangh in North India. This was the background to the implementation of price controls and the takeover of the wholesale trade in wheat in 1973. This was the first major direct intervention in trade, but the Congress had to overturn this policy just a year later, capitulating to intense pressure from rich farmers (Lok Sabha 1973, 1974). But price control measures had a populist appeal and were enacted. This did not lead to any major change in racketeering and hoarding, but the Public Distribution System was sporadically used as a safety valve to diffuse political discontent by a system of cross subsidies to producers and consumers (Swaminathan 2000).

The rapid accumulation of economic power in the hands of finance capital began to ring alarm bells in some sections of the Congress as early as the late 1960s. Interventions in capital

markets began in 1969, with the nationalisations of 14 banks. In 1971, another six banks were nationalised. This brought the major institutions of finance capital under the control of the state. In 1970, the Monopolies and Restrictive Trade Practices (MRTP) Act regulating the activities of business houses came into effect. The next year, 1971 was dominated by elections and the Bangladesh war. Nationalisation of all insurance companies took place in 1972. In the same year, deregulation began through the modification of the Industrial Policy Resolution of 1956. The list of industries under state control was redrawn. The only sectors that remained in the hands of the state were power, transport and communications, and banking and insurance (basic and strategic industries). A wide range of intermediate industries was handed over to the private sector (Lok Sabha 1972).

By 1972, the rapid enrichment of the already rich became socially visible – a pattern, very similar to the period between the two World Wars. This was noted in debates in Parliament. Nathuram Mirdha, the Congress MP from Nagaur observed:

People who have become 'lakhpatīs' and 'karorpatīs' in the last five or ten years must be asked where there wealth is coming from and whether they can account for it. (Lok Sabha 1972:316)

According to the Wanchoo Committee report, tax evasion for the financial year 1968-69 amounted to Rs 1400 crores. The estimate of black money in the economy was in the region of Rs 7000 crores. Unpaid income tax alone amounted to Rs 550 crores. GDP at factor cost in 1968-69 was Rs 36092 crores. Thus the estimates of black money and tax evasion accounted for 23% of GDP (Government of India 1971).

In 1973, the Foreign Exchange Regulation Act controlling the extent of profit-repatriation by foreign investment came into effect. There were major Trade Union strikes in the 1970s and the state responded with severe labour repression. In 1973, another spate of liberalisations was undertaken. There was a further easing of controls and restrictions and a tougher attitude towards performance of the public sector and resistance to taking over sick firms in the private sector (Nayar 2001:118).

While there was recognition for the first time in 1975 of issues around gender inequality, little was done about it. 'This is the International Women's year. We have many laws and regulations regarding the conditions of service and facilities to be provided for women workers in industry' (Indira Gandhi 1975). But there was no actual initiative on the part of the state to intervene in any way to enforce these legislations in any sector of the economy and address the gender disparity in the 'formal' private sector.

From 1969 to 1974, three types of measures stand out, which imposed restrictions on big business becoming bigger, with the government trying to balance them by encouraging the accelerated growth of new capitalists on their periphery. This strategy was to have important repercussions for the pattern of capitalist growth in India. Restrictions on big business in defining limits to their diversification and the abolition of the 'privy purses' of erstwhile

princes, constraints on foreign business in expanding operations, and the nationalisation of some intermediate industries (Nayar 2001:109-110) and of financial services were all examples of interventions that sought to limit the power of the already established capitalists and some remnants of the old social order. These measures were accompanied by deregulation and decontrol to widen the net of beneficiaries of surplus accumulation.

The year of the railway strike, 1974, was a watershed in the history of the resistance of the politically organised working class in India. The 1974 rail workers' strike was a unique event for several reasons. It occurred at a time when labour militancy was at its highest in independent India: the number of workdays lost owing to all industrial disputes in India touched 40 million in 1974, more than double that recorded in any single year during the preceding decade. The strike and the manner in which it was put down marks a turning point in labour's leverage with the Indian state (Sherlock 2001). The Emergency was imposed in 1975. This led to the weakening of class organisation due to widespread imprisonment of functionaries and activists. Indira Gandhi's broadcast to the nation on July 1, 1975, before the announcement of the 20-point programme was steeped in the logic of military discipline and entrepreneurial ethics –

There is only one magic, which can remove poverty – hard work, sustained by clear vision, iron will and the strictest discipline.

At another level, after 1974 with the rising militancy of different sections of workers culminating in the railway strike and petty-bourgeois discontent leading to the Navnirman in Gujarat and the JP movement in Bihar and Eastern UP, and continuing agrarian upsurge in West Bengal, state functionaries had an autonomous agenda based on keeping wider political stability in the face of rising political discontent and organised opposition. Since the first half of the 1970s, the state imposed restrictions on big business while opening up opportunities for new capitalists. This reflected the emerging power balance between the 'old' and 'new' business houses. The purpose of this discussion is not present a detailed account of the political unrest leading to the Emergency, but to highlight through the sequence of events that the state was both responding to and driving change.

A systematic study of the economics of the Emergency would be beyond the scope of this thesis as it would be a full research project in its own right. However, we can trace a few important factors that were crucial turning points in the relationship between state and capital in the period starting from 1975. First, we have shown in Chapter Five that from 1975-76 to 1980-81, the sector share of public expenditure in GDP declined quite dramatically from 10% to 5% (Table 5A). Second, we have also demonstrated in Chapter Five a secular expansion in private capital formation in manufacturing that started in 1975-76 and was sustained upto 2000-01 (Fig 5.4). Third, we have also noted the dramatic rise in capital formation in trade since 1975-76 (Fig 5.7). These three observations together point to a significant departure in the pattern of investment and accumulation that is directly traceable to the period of the Emergency. These were not short-term aberrations that reversed direction with the end of the Emergency, but

displayed long term trends spanning the Janata, Congress, National Front and beyond. This brings us to posit that the changing structure of accumulation which defined the relation between state and capital is directly linked to the long term changes that the Emergency entailed for Indian political economy. We discuss these changes in the next three sections.

1977 marked the end of Emergency and the coming to power of the Janata alliance. The Janata government suspended the Fifth Plan and the process of annual planning was again instituted. Thus, state policies lurched between supporting liberalisation in some areas and increasing control in others, revising zones and modes of intervention and non-intervention in keeping with the changing structure of accumulation and to maintain overall political stability. All through this period, there was a struggle over the process of accumulation and growth represented in the tussle between the state and capitalist organisations and a simultaneous struggle over the distribution and redistribution process between the state and the organisations of heterogeneous peasants, workers and intermediate classes. The two processes were linked closely. The process of accumulation was heavily dependent on state transfers in the sphere of intervention. These transfers faced two kinds of problems: one was the mobilisation of resources by the state to fuel the accumulation process. But the other was the selection of beneficiaries to whom transfers could be made, and this was closely tied to the strength and issues of political mobilisation of different groups.

### **6.3 Agrarian Accumulation, Green Revolution and Pricing Policy**

Food shortage was a continuous feature after independence. In 1959, it led to huge demonstrations and the food movement in West Bengal, which was a significant factor in the mass acceptance and expansion of the support base for the Communist Party in urban areas (Das and Bandopadhyay 2004). Between 1971 and 1973, food shortages and rampant inflation led to great urban discontent with food riots and mobilisation in Nagpur, Bombay and Mysore (Chandra 2003). The 'shortage economy' of the 1960s and 1970s had a very important role in defining the 'role of the state' and the nature of 'reforms' in the subsequent period.

Devaluation in 1966 was a watershed event unleashing powerful reactions. Popular mobilisations against the government became the order of the day. Demands rose from significant sections of the opposition parties for the resignation of the government with the Communists leading a massive march on Parliament. With the slogans of Bombay Bandh and Bharat Bandh, the communists also organised several successful general strikes (Nayar 2001). As prices rose sharply in the wake of devaluation, and in the face of popular mobilisations from below, criticism also mounted within the Congress Party and among the intelligentsia.

The problem of 'planning' was erected as the straw man to explain the shortages. Big capitalists like Birla were still with the Congress but now arguing for an end to 'bad' economic and fiscal policies and 'stupid' planning. JRD Tata similarly argued against planning holding it responsible for inflation and shortages (Sen 1975).

The food shortage had specific ramifications for the role of the state as a site of primary accumulation. When the comparatively easy solution of importing foodgrains, especially wheat,

under PL480 ran out by the mid sixties (See Chapter Five), the role of the state in managing the distribution of food had to be redefined from the earlier paradigm of relative non-intervention with basic regulations that had ruled since independence. The 'free market' in food had resulted in the 'shortages' with hoarding, pilfering and the development of a black-market. This was linked to the annual fluctuations of output and slow growth of agricultural output. The first major policy shift in 1966 as a result of the pressures of PL480 imports and the foreign exchange crisis was an 'import substituting' one. The concerns were not 'efficiency' or integration into the world market for food, but domestic self-sufficiency in foodgrain production (Ghosh 1998). The self-sufficiency policy was more out of compulsion than choice in the face of social and political mobilisation and unrest and the drying up of assistance under PL 480 after the refusal by the US to honour the agreement of payment in rupees.

The interventions came as a technical policy package to increase yields through the adoption of high yielding varieties of seeds, fertilisers and related inputs commonly dubbed as the Green Revolution. The success of the strategy depended on private investment by farmers with planned public investment in irrigation and infrastructure (Ghosh 1998: 313-315; Rao and Storm 1998). This saw a regional disparity as public investment was geared towards the wheat-growing regions of Punjab and Haryana. While landowners had to respond and adjust to various forms of regulatory legislation for minimum tenurial reform, their scope for manoeuvring around or evading these laws was essentially determined by the local power structures based on class, caste, gender and religion. The Green Revolution helped lessen the wage goods constraint by imparting a greater degree of stability to the supply of foodgrains and by helping concentrate assets and incomes in the hand of the more affluent sections of the peasantry (Bagchi 1998).

Within its limited paradigm of increasing yields without adversely affecting established power structures or the extensive networks for marketing the surplus, it triggered off a phenomenon of rapid enrichment initially in Punjab and Haryana amongst the upper strata of land-owners and protocapitalist wheat farmers and then showed a lagged and weaker effect in Tamil Nadu through the Intensive Area Development programmes, where the technical package was implemented in selected areas, one by one. The surplus from Punjab and Haryana made its way into investment in the commodity trading hubs in and around Delhi.

This enrichment of the upper strata of the peasantry and big landlords came at the cost of an abdication by the state from extensive populist programmes of community development and the co-operative movement in farming. The choice of an intensive intervention through a technology-led model to increase productivity actually entailed an active policy of non-intervention by the state, by not only keeping intact the property rights of rich farmers and landowners, but reneging on its promised support of extending property rights to co-operative holdings benefiting the bottom layers of the peasantry, and on measures to curb the asset concentration among the nouveau-rich proto-capitalist farmers. This contributed to the rise of powerful agrarian 'lobbies' in Indian politics in sugar and wheat. The demand for 'marketing

price guarantees' was raised by these lobbies and articulated in parliamentary debates (Lok Sabha 1972) and in representations to the Agricultural Prices Commission.

The literature on food shortages has often highlighted the contradictions in the policies of food pricing since the mid-1960s (Swaminathan 2000). The state had intervened in the food market by means of its procurement operations, import policy, public distribution through fair price shops, public stock operations and 'food for work' programmes. But the main role of the state through the public distribution system was increasingly to play a role in the market as a guarantor of increased procurement prices' to 'producers' by intentionally 'getting prices wrong' and playing the role of 'end-buyer' and, reducing the distortions of the earlier 'free market' in food. These policies reflected the rise in the political power of agrarian interests all through the 1970s and the increasing demands of rich farmers (Swaminathan 2000: 53), shopkeepers and traders managing to form factional interests and achieving a political voice in the parliamentary process. By 1972, the demand for marketing price guarantee was strong within the Congress itself as well as the regional political forces emerging in Punjab and Haryana. These demands were placed in the March session of Parliament by B.R. Kavade and Mohan Swarup of the Congress and Birender Singh Rao of the Vishal Haryana Party (Lok Sabha 1972: 20-23, 24-25, 34-36). Both cited the well-being of 'farmers', 'shopkeepers' and 'traders' in their demand for marketing price guarantee.

The political pressure to maintain profitability in the face of rising capital output ratios (Rao and Storm 1998) in the relatively advanced regions was a critical factor inhibiting a more consistent agriculture pricing policy. The concentration of marketed surplus in Punjab, Haryana and UP and subsidy diversion to ensure that this food was marketed determined the forms of the emergent pricing policy and tipped the balance of accumulation in favour of these 'pockets of prosperous farmers' in the three affluent states of Northern India (Rao and Storm 1998: 153).

The impact of agrarian contests on the political economy during the period of the Green Revolution and the accumulation process triggered by it merits more analysis based on the huge literature on the 'Green Revolution' (Patnaik 1972; Sen 1974; Hanumantha Rao 1975; Bhalla 1976). One strand of literature like Sen (1974), even while acknowledging the limits of the new high yielding varieties of seeds and the importance of irrigation systems in the outcomes of the Green Revolution strategy nevertheless advocated for it based on evidences of aggregate increase in productivity and overlooked the role of rural power relations in the making of the Green Revolution. However Hanumantha Rao (1975) argued that technological changes had contributed to widening the disparities in income between different regions, between small and large farms and between landowners on the one hand and landless labourers and tenants on the other. Patnaik (1972) established that the introduction of new technology was both land-augmenting and permitted multi-cropping. This along with the effects of the agrarian reform provided an impetus towards capitalist production for profit. But in some areas it perpetuated non-capitalist forms of bonded and attached labour and in other areas reinforced falling real

wages for labourers in spite of shift to cash wage instead of payment in kind. Patnaik's (1972) observations based on field studies in Tamil Nadu, Karnataka, Andhra Pradesh, Orissa and Gujarat were corroborated by Bhalla's (1976) findings for Haryana. For the purpose of this research it is sufficient to note that the strategy of the Green Revolution generated not only a new mode of enrichment but also entry into the terrain of state intervention for new political actors and it forged new alignments involving these actors. These changes were evident in the rising clout of 'regional' parties sometimes claiming to represent particular communities like Jats in Punjab and Haryana and both Jats and Yadavs in Western Uttar Pradesh, but which were actually embedded in powerful sections of the upper layers of the differentiated peasantry especially the politically emergent cultivating castes (Brass 1981). The power of these sectional interests determined the extent of 'intervention' in pricing of agricultural commodities through their political representation in the Bhartiya Lok Dal in Uttar Pradesh since 1959 (Brass 1981; Sau 1994).

Pricing policy and the pressure on the state to 'get prices wrong' was not just the preserve of the 'new' protocapitalist farming in wheat in Northern India. Sau (1994: 43) provides evidence that rising food prices ate into the mass market for industrial goods based on National Sample Survey data. Thus food pricing was important for both agrarian and industrial capitalists in terms of the balance between maintaining the agrarian profitability and ensuring a wider domestic market for industrial goods. This balancing act was continued in the agricultural price support policies of the state.

#### **6.4 Asset Concentration and Industrial Policy**

In industry, by the mid 1960s, the license-control system in production had exhausted itself because of the state's inability to discipline the beneficiaries of its own patronage, coupled with unutilised capacity and a crisis in finance as discussed in Chapter Four and Five.

The large integrated steel plants and heavy engineering complexes initially generated a considerable amount of employment especially in the resource rich but industrially underdeveloped eastern and central regions of the country (Bagchi 1998). In 1972, public sector investment amounted to Rs. 5400 crores (Lok Sabha 1972: 160). The politics of power, patronage and accommodation determined policies of 'location' and often created contradictions. For example, a steel plant as a downstream industry for the alloy steel plant in Durgapur had been proposed in West Bengal but was ultimately allocated to Salem, Tamil Nadu, the parliamentary constituency of the then Central Minister for Steel, Mohan Kumaramangalam. The setting up of a petroleum processing plant at Mathura which was initially promised to Bihar created discontent among functionaries of the Congress in Bihar (Lok Sabha 1973: 104). Thus the location of public sector units was itself a source of political competition within the factions and groups inside the Congress.

According to an estimate given by the then Finance minister to the Lok Sabha in March 1972, there were 97 public undertakings with 14 projects in progress and at various stages of implementation marked by delays and disruptions. The important ones were the Bengal-Assam Refinery and Petrochemical complex and another aromatic and petrochemical complex in Koyali, Haldia Refinery (West Bengal), the fertilizer project in Korba (Madhya Pradesh) and Talcher (Orissa), an aluminium Project in Ramgundam (Andhra Pradesh), three steel plants in Salem, Visakhapatnam and Vijaynagram, a scooter project in Lucknow (Uttar Pradesh), an expansion of the alloy steel plant and other steel plants in Bokaro (Bihar) and Durgapur (West Bengal), a copper project at Khetri, and a pump and Compressor plant at Allahabad (Lok Sabha 1972: 10). Public sector steel plants in Vishakhapatnam, Hospet and Salem were approved in the 1970s. The Salem Steel Plant was commissioned in 1981. The Visakhapatnam Steel plant, under Rashtriya Ispat Nigam Limited was the country's first shore-based and its sixth public sector Integrated Steel Plant.

An examination of these ongoing projects suggests that state intervention was still aimed at expanding the production of basic, capital and intermediate goods through the development of the public sector through the period of the 1970s. In this sense, there was continuity in state policy from the Nehru-Mahalanobis period. What was different however was the selective but simultaneous opening up of these sectors to private initiative.

The crisis in the earlier regulatory framework resulted in a stand off between sections of the top business and industrial houses in India. The ability of big business and corporations to benefit financially from the reservation policies, licensing and subsidies was an established fact by the mid 1960s. A public debate on the concentration of wealth came to light with the findings of the Hazari Report in 1967 and the Dutt Committee Report. The pre-empted unutilised capacities of the ten top business houses and the resulting asset concentration opened up a Pandora's box of capitalist 'evils' aided by the state. The Hazari Report, in particular, revealed the nature of pre-emptive capacities built up by the Birlas (Hazari 1967). The legislation on monopoly restriction was a result of political mobilisation that reflected debates in Parliament especially in the Rajya Sabha (Nayar 2001) about the implications of this concentration of wealth and licenses not just on economic growth but also on poverty.

The majority consensus in Parliament was to implement tighter controls on large firms (Rosen 1988: 62). The Monopolies and Restrictive Trade Practices Act (MRTP) of 1971 was introduced as a result of this debate. The MRTP was a complex piece of legislation that established a limit on expansion of large private undertakings where the undertaking was defibed as itself and products, supplies and distributions that it controlled. An additional definition classified all undertakings that rendered one-fourth of any services rendered in India. All such undertakings came under the purview of the act. Large businesses were thus defined on the basis of asset size and extent of market control. The Act imposed restrictions on licenses for diversification by 'monopoly houses'. It also placed restrictions on mergers, amalgamations and

take-over. It also created mandatory systems of inspection and disclosure of information. This opened up the possibility of 'late entry' to medium scale family run trading houses, for example the Ambani, Jindal and Bajaj groups, into industry. The representative association of big business houses, like FICCI, did not welcome these moves and openly called for the 'relaxation' of regulations on quantities of production and how production is organised and 'scrapping' of the Industries Development and Regulation Act and the Monopolies and Restrictive Trades Practices Act (FICCI 1972).

Table 6A: Concentration of Assets and Capital Formation by Major Business Houses (Rs Crores)

Business House	Assets 1951	Assets 1965	Assets 1975	Assets 1980	Assets 1989-90
Tata	151.60	417.72	924.41	1538.97	8530.93
Birla	65.25	292.72	905.03	1431.99	8473.35
Reliance	-	-	-	166.33	3600.27
Thapar	8.63	71.90	197.90	348.06	2177.15
Singhania	10.14	59.20	209.56	412.72	2139.00
Larsen & Toubro	-	-	137.69	216.03	1681.52
Modi	-	11.28	114.50	198.82	1399.37
Bajaj	-	21.14	103.63	179.26	1391.06
Mafatlal	-	45.91	244.23	427.54	1343.55
Chidambaram	16.77		28.05	43.81	1273.35
Total for Top 22 houses	312.63	1326.15	4234.61	7155.90	34538.14
Total assets in the hand of top twenty business houses as a % of Gross Capital Formation in the Economy	29.9%	32.5%	29.8%	26.6%	30%

Source: Yechury Table 1, 1992: 43; EPWRF: Table 8B, 2002a: 72

From Table 6A, we note that the total asset concentration as a percentage of gross capital formation in the economy hovered between 26.6% and 32.5% from 1951 to 1989-90 for

the top twenty business houses. The change came with the rise of Bajaj in the late 1960s, and Reliance and Chidambaram groups in the 1980s. Out of these assets, less than 0.2% was accounted for by the actual investment of the family group in the assets of the group in the case of the five top houses of business – Tata, Birla, Mafatlal, J.K. Singhanian and Sriram (Yechury Table 3: 1992: 44). Thus assets remained highly concentrated even after two decades of restrictions under MRTP.

That big and medium trading cum industrial houses in India were not interested in an export led growth model has been established in the last chapter. For a class whose initial source of income came from commodities trade, there was a growing problem. Importing manufactured goods like textiles and exporting primary commodities like, tea, spices and rubber proved unsustainable in terms of costs due to higher import duties as part of the import substitution policy regime. This was the economic basis for the phenomenon of 'traders turning into manufacturers' and thus high import duties could be argued to be the 'compulsion' imposed by the state to turn traders into manufacturers. Import substituting production, if subsidies and incentives from the state were available, was a logical resolution of this problem as late as the 1970s even when the licence-control process had run into major contradictions in terms of pre-empted unutilised capacities.

The literature on intervention has been confined to a critique of the pre-emptive capacity of groups like the Birlas and Tatas, especially after the publication of the Hazari report. The Tatas and Birlas remained at the top of the ranking of business houses since 1951 to 1976 and asset concentration remained a key feature of capitalist accumulation. But what went unnoticed, was a phenomenon of existing medium scale trading businesses in durable consumer goods expanding and diversifying into production through the policy of import substitution and the central licensing and subsidy scheme to cater to new markets based on the gradual increase in middle class purchasing power.

An important initiative by the state in the post-independence period was to perpetuate the 'Hindu Undivided Family' (HUF) as an entity recognised by Section 2 of the Income Tax Act 1961. This preserved the patriarchal rules of limiting inheritance rights of women to property and assigned the 'Karta' as the patriarch of the family with legal powers to represent and structure the holding of property (Sachdeva 1987). The Hindu Succession Act makes provision for a Hindu Undivided Family to ensure that property remains with the male line of descent. A son gets a share equal to that of his father; a daughter gets only a share in her father's share. She cannot reside in the family home unless she is single or divorced, and cannot claim her share of property as long as the men of the family continue to live in it. A woman's right to agricultural property is also similarly restricted to "prevent fragmentation of landholdings." And a Hindu woman has no right to her matrimonial home, unless she can prove that it was purchased with her earnings.

It must be noted that a Hindu male can be a 'karta' for more than one HUF accounts. Despite scores of judicial decisions, the circumstances in which a HUF comes into existence has been the subject of debate and controversy. Under the Income Tax Act, 1961, a HUF is assessed for income tax as a distinct unit of assessment. IN case law, a HUF consists of all persons lineally descended from a common ancestor and includes their wives and unmarried daughters; while a Hindu coparcenary is a much narrower body including only those persons who acquire by birth an interest in the joint or coparcenary property. A member of a HUF is not taxable at all in respect of any sum which he receives as such member out of the income of the family, even though the family may not have paid the tax on its income. Thus the general principle of tax law that income from an individual members' property thrown into the family coiffeur is taxable, as the income of the joint family, does not hold for a HUF. All definitions and interpretations of HUF are based on Hindu personal laws. A Hindu Undivided family (HUF) cannot enter into a partnership with other persons, as it is not a legal person, but the karta of a HUF can (Sachdeva 1987).

No one can make a profit out of oneself. This is axiomatic in tax law. The concept of the Hindu Undivided Family (HUF) is an exception to this principle. The same person can act as the *karta* of the HUF and also make profits in his individual name. An HUF member cannot be taxed in respect of any sum which he receives as such member out of the income of the family, even though the family may not have paid the tax on its income (Ramanujam 2006). According to Ramanujam (2006: 6), a former Chief Commissioner of Income Tax:

The HUF is an entity peculiar to the Indian tax law. The law recognises it and there is nothing sham about it. Surprisingly, the Government carries out any amount of amendment to the Hindu law without looking into the revenue loss caused by the recognition of the HUF as a separate taxable entity. The HUF may be a boon to the taxpaying Hindu. But it is definitely a bane to government revenues.

Both 'old' and 'new' capitalist business houses of Hindu origin used the provision of HUF to consolidate family holdings and ensured the concentration of capital within the family through transactions between the HUF and individuals within the HUF who held key positions in the share-holding and managerial patterns of the companies within the fold of the business house. No such provision was available to business houses held by Muslims or other religious minorities.

### **6.5 'New Entrants' and Modes of Primary Accumulation**

One of the most important aspects of the accumulation process between 1967 and 1977 was the social impact of the institutional changes in the form of bank nationalisation, the development of the stock market and other institutional attempts to ease financial constraints.

The MRTP Act provided an incentive for the transformation of asset structures for business houses, which were large, but not large enough in terms of declared assets to come

under the restrictions imposed by the Act. The process of import substitution to deepen and diversify the productive capacity of the private sector in the Indian economy continued throughout the 1970s. Thus the MRTP Act actually made import substituting capitalist ventures a viable strategy for 'new' entrants to industry, thus resolving one of the contradictions of the Nehru-Mahalanobis model.

The evidence for this phenomenon of diversification from trade into industry throughout this period can be analysed through case studies of several business houses. Jammalal Bajaj, the leading Congress leader and adherent of Gandhi started business life in the import trade. In 1945, Ms Bacharaj Trading Corporation Limited was registered under the Companies Act and it started sales in India in 1948 of imported two and three wheelers. In 1959, it registered as Bajaj Auto and obtained a license to set up a manufacturing plant at Akurdi, which went into production in 1960. Ten years later, by 1971, it introduced the three-wheeler goods carrier and in 1972 the Bajaj Chetak scooter. In 1975, it went into a joint venture with Maharashtra Scooters limited, a state owned enterprise. By 1984, it was in a position to set up joint ventures with Kawasaki of Japan at a new plant in Aurangabad to diversify into motorcycles and mopeds from scooters. Bajaj scooters were a phenomenal success in all major cities, towns and suburbs by the mid 1980s. By the 1990s, the Bajaj Group valued at US\$ 3 billion had evolved into a family run business house with 27 companies specialising in cotton processing, two and three wheelers, electrical goods, steel products, ferro-alloys, financial services, travel, investment and insurance. In June 2006, Rahul Bajaj, the head of the family run business group, was elected to the Rajya Sabha from Maharashtra with support from the BJP, the Shiv Sena and the Nationalist Congress Party (NCP).

Similarly, the TVS group, founded by T V Sundaram Iyengar in 1911 based in Tamil Nadu rode the expansion of private transport with the introduction of the moped in 1980 when TVS 50, the first Indian two-seater moped rolled out of the factory at Hosur in Tamil Nadu. . It has 29 companies in its fold and is valued at US\$ 450 millions.

The most obvious example of a 'late entrant' into this pattern is that of the Ambanis who started in the synthetic fibre trade and manufacture and then successfully diversified into petrochemicals. But the story goes back a few decades. According to one account, Dhirubhai Ambani spent a decade in Aden where he was first employed as an attendant in a petrol station owned by Shell and later employed as a clerk in an affiliate of Burmah Shell from 1949 to 1958. However, the less discussed feature in this business lore is his source of primary accumulation in this period. This came from two kinds of 'entrepreneurial' activity. According to a report in the *The Hindu* (July 15 2002) this was smelting silver and mediating disputed insurance settlements. In Aden, the silver in coins was worth more than the coins themselves. Ambani bought up the coins, melted them and sold the silver. He also mediated insurance payments on behalf of Indian traders with shipping companies for a previously agreed 'cut'. After nine years in Aden, Ambani returned to India in 1958. He started his first company, Reliance Commercial

Corporation, a commodity trading and export house with Aden as a primary destination for Indian spices and importing textiles. So, the early history of Reliance is very much in keeping with the 'trading house' pattern of the 1940s and 1950s based on forms of primary accumulation outside the direct ambit of state regulations.

In the first step of Reliance's highly successful strategy of diversification from trade to industry through import substitution, Dhirubhai Ambani started a textile mill in Naroda, Ahmedabad, in 1966 taking advantage of the subsidies offered for setting up industry in backward areas. In 1975, a technical team from the World Bank certified that the Reliance textile plant was 'excellent by developed country standards'.

The company went public in 1977, another unusual move, raising money through equity rather than the usual model of bank led debt finance. Reliance Industries sold shares on the Bombay Stock Exchange. Most other Indian companies till then had floated only small amounts of stock on the exchange. Reliance had 58,000 investors buy its shares when it went public, making it one of the most widely held stocks at the time. This move helped the Ambanis to be less dependent on a state-financed debt structure and the new found financial muscle helped when Ambani broke into the burgeoning petrochemicals sector.

The third departure was the building of Ambani's own branded retail chain through developing franchises in a move to counter the barriers erected by old 'textile' entrepreneurs, who retained their grip over wholesalers and retailers. By the early 1980s, such franchisee shops under the brand name 'Vimal' became a feature in all cities in India, big or small.

Between 1973 and 1978, the Ambanis, who were associated with retail trade in textile, diversified into synthetic textile manufacturing. The foray into synthetic textiles required petrochemicals as raw materials. So in another move of backward integration, Ambani entered the petrochemicals business. According to one account based on an interview of an elected office-holder in FICCI who preferred to remain anonymous, the license for entry into the petrochemical sector came as the reward for supporting and propping up the Emergency regime. Building on his previous successes in building direct social channels with the Congress faction in power, he was able to secure one of the new licenses for this business. This diversification by a 'late-comer' was possible because of the MRTP Act which prevented top houses like the Goenkas, who also had a base in textiles, from diversifying into synthetic fibre and petrochemicals. The rivalry over petro-chemical based fibres between these two houses led to a media battle in the financial press in the early 1980s.

In Andhra Pradesh and Tamil Nadu, the rise of diversified groups from the 1970s can be traced to primary accumulation in agriculture (Baru 2000). The rise of Nagarjuna founded in 1973 in Kakinada is one of a transition from agrarian accumulation to industry. KVK Raju, a first generation technopreneur came from a wealthy agrarian background. On graduating from Banaras Hindu University and the Madras Institute of Technology he went on to complete his Master's in Mechanical and Industrial Engineering from Michigan State University and the

University of Minnesota, USA. After a short stint in the American Industry he returned to India and worked for short periods at Caltex Oil Refinery, Orient General Industries and Associated Electrical Industries. Finally, he joined Union Carbide of India and stayed there for 15 years. In 1973, he founded the Nagarjuna Group with an investment of US\$ 23 million. The Group has since then come a long way to become a diversified conglomerate with an asset base of US\$ 2.5 billion. The same is true of new corporate players in steel like the Jindal group, operating in the power sector and cement.

Apart from the old business houses that formed the top of the industrial oligarchy, most of the contemporary oligopolistic corporate houses in India either entered into manufacturing in the 1960s or 1970s; or underwent a series of diversifications in this period. Each of these success stories follows from the shortage economy of the 1970s followed by a booming black market and very high margins from trade (Patnaik and Chandrasekhar 1995). These diversifications are similar to those of the 1930s in India (Bagchi 1972, Chandravarkar 1992) in terms of a spurt in investment through wealth accumulated in periods of economic crisis, except in one respect - the role of the state. The state remained a cheap source of subsidies through land provision in designated areas and bank loans in this investment melee of the late 1970s. The agency of the state provided not just protection, but an active guarantee against failure and sickness along with the willingness to turn a blind eye to the 'private' rent-seeking networks through the channels of 'contracting' and 'sub-contracting'. This 'contractor capitalism' embraces small and large businesses and is a characteristic of both private and public enterprise. At the same time, the regulatory apparatus of the state was not extended through any firm strategy to control the developments of the market in finance that started growing from the late 1970s.

By the early 1970s, another kind of expansion process was evident in the transport sector, with the growth of public investment in roads that created accumulation opportunities through the creation of private wholesale and retail chains. As road transport networks started building up through state investments, a long network of dealerships of sales of two-wheelers, trucks and jeeps and also in the finance needed for their purchase started growing. The Shriram groups origins in 1974 can be traced back to two businesses: one in chit funds, a form of small-scale private lottery scheme that ensured everybody won in a single cycle of the fund and the other in the financing of truck purchases subject to minimal regulation by the state.

These informal markets in finance were the basis of private non-banking finance that started developing from the late 1970s though they had existed since the colonial period and even before. But Ponzi type schemes characterised the growth of such finance from the late 1970s which came into public light when one such scheme, Sanchaita, was taken to task by the state for paying interest that was much higher than that prevailing in the market. A survey of 50 medium-sized family-run business houses in Kolkata revealed that most business houses ran

private deposit schemes amongst trusted clients even though accounts books do not reveal their existence.

The 1970s were specifically crucial in terms of the setting up of new enterprises that then became the stuff of 'rags to riches' business lore in the 1980s and 1990s. The Sahara India group's story began in 1978. Starting on a modest scale with a capital of only Rs. 2000, the company has traversed a long way to become a frontrunner among Indian conglomerates. Today, Sahara India is a major entity on the corporate scene having an asset base of over Rs. 50,000 crores (10.87 billion US \$) and diversified business interests that include: public deposit mobilisation, infrastructure & housing, media & entertainment, aviation, consumer products, information technology, Sundarbans project, Sahara hospitals, Araria jute project, life insurance, mutual funds, housing finance, power project, computer manufacturing, hotels and the NRI caring scheme. Sahara India's rise is linked to the shift towards patron-client relationships between sections of aspiring capitalists and ruling parties that became one of the characteristic feature of mainstream Indian politics from Indira Gandhi's period. In this particular case, the rise of the company was dependent first on the Janata Dal and then on the Samajwadi Party led by Mulayam Singh Yadav in Uttar Pradesh.

This was accompanied by another phenomenon: public sector managers and technocrats, beneficiaries of the highly subsidised post-independence higher education system, turning into 'entrepreneurs', linked to the early 'Non Resident Indian' phenomenon whereby of a new generation equipped with US degrees came to take over the mantle if the 'family business' took off or set up pioneering 'family groups' in business in the 'new' and upcoming sectors in the economy.

Lower down the hierarchy, traders in suburbs became local wholesalers and then diversified into retail trade integrating into the structure of the Indian industrial and commercial hierarchy. But a handful of monopoly houses in collaboration with the branches and Indian subsidiaries of powerful multinational concerns, dominated the market structure for industrial goods.

The state food corporations and Food Corporation of India held control over the public distribution of foodgrains (Swaminathan 2000). The strengthening of mercantile capital through the institutional structures of the market and the state in food and cotton in Tamil Nadu is well documented (Harriss-White 1985: 44 -51). Not only the marketing of agricultural produce, but also the supply and distribution of essential consumer goods, agricultural inputs and even a large part of food stuffs, were controlled by the same commercial monopolies. This allowed surplus extraction through unequal terms of trade between agriculture and industry (AIKS 1979). However, in the 1970s the terms of trade turned against industry. The Green revolution led to accumulation in agriculture and the 'shortage' economy of hoarding, black marketing and racketeering also helped agricultural prices. The first had a narrow impact mostly in Punjab, Haryana and Western UP but the latter was more or less a countrywide phenomenon.

At the very bottom of the economic hierarchy of rural power, the state suddenly became a source of enrichment through fertiliser subsidies, development loans and bank finance apart from 'contracts' for public works programmes. In some cases merchants were landowners and owners of small and medium scale industry – so there were twin processes of finance available: through loans geared towards land promotion and small-scale industry and factoring services by nationalised banks. In other cases, the asset structure was geared towards agrarian trade, infrastructural work and non-agrarian diversification into small trade and services.

There were two kinds of capital formation processes in evidence: one that can be traced to the organised sector, which has been described above. The other major area was the unorganised sector in trades, hotels, real estate and business services (EPWRF 2002b). Both these processes were reliant on the state-led process and linked to one another. This was because the formal and informal sectors merged into one another in the hierarchy of the market and with the informalisation within the formal sector. The growth of the new business houses followed the old practice of maintaining a range of holding companies under the structure of 'family run business groups' to ensure minimum levels of trade unionisation and maximisation of tax evasion.

The decade of the 1970s represented a period of balancing acts in terms of economic policy. The expansion of the public sector in terms of completion of existing or approved projects continued, though marked by significant delays. The state, in a move to resolve the contradictions of diversified accumulation and an underdeveloped capital market, went into an expansion drive in the banking sector. It imposed significant strictures on profit repatriation by foreign capital through the enactment of the Foreign Exchange Regulation Act in 1973 (FERA) and set limits on the acquisition of further assets by big business houses through the MRTP Act. This addressed the barriers in the interlocking of finance and industry on one hand and erected limits on the modes of profit-repatriation by 'foreign companies' without taking away their right to 'equal status' with Indian companies that had been ensured through the Companies Act in 1956 under the Nehru-Mahalanobis strategy.

FERA required that all firms dilute their foreign equity holdings to 40% if they wanted to be treated as Indian companies. Exceptions were made for technology-intensive, export-intensive and core sector firms in which upto 74% foreign equity holding was allowed. For most companies, the 40% limit was enough to retain managerial control. Foreign parent corporations retained hold by issuing fresh equity ensuring domestic shareholding was fragmented. Except for some high profile cases like IBM and Coca Cola, most foreign companies remained in India (Athreye and Kapur 1999).

According to statistics given by Pranab Mukherjee, Minister of Commerce, Civil Supplies, Steel and Mines, to the Lok Sabha on 14<sup>th</sup> March 1980, 473 branches of foreign companies existed in India as on 31<sup>st</sup> March 1978, out of which only 75 were engaged in processing and manufacturing. There were 146 Indian subsidiaries of foreign companies out of which 103 were

engaged in processing and manufacturing activities (Lok Sabha 1980: pp197-198). Thus in spite of FERA, number of foreign companies in India had increased from 300 in 1966 to 473 in 1980.

The direction of diversification in industry was more or less contingent on three factors or three different sources of state patronage within the limits set by the MRTP Act - access to bank finance, infrastructural facilities and tax concessions.

State patronage of the urban and rural middle and lower-middle classes was also a phenomenon traceable to this period. Much of it was rhetoric, but a few significant measures stand out. An increase in public sector managerial employment and the fillip to 'small accumulation' were twin prongs of the same fork of patronage.

The market in primary equities was being promoted in the 'zone of non-intervention' by the state along with the development of 'deposit' mobilisation tapping into middle class small investors. The nationalisation of banks in 1969 set limits on the accumulating possibilities for big players in the finance sector. But with the dilution of equity by FERA companies by the late 1970s, the stock market came into its own followed by the first speculative boom of the early 1980s (Patnaik and Chandrasekhar 1995). FERA company shares provided an investment outlet for the accumulated money capital of Indian business (Patnaik 1979).

We have already seen in the history of the Ambanis how the opening up of the financial market assisted new players to enter the accumulation process. The early history of the Sahara group founded as a loose trading cum financial house in 1978 and growing through deposit mobilisation, followed this trajectory. The Sanchaita scandal reminiscent of a Ponzi-type strategy suggests that not all of the activity in these loosely regulated financial markets was productive. . The crisis of 'finance' that capitalists were complaining about (See Chapter Five) was thus resolved to a certain extent through a 'laissez faire' approach to the development of the capital market in the late 1970s. The agricultural surplus from the rich peasants also found a convenient channel in this relatively free market in capital in the early development of the stock market.

It must be noted at this point that the emergence of 'new' business groups was not a smooth and seamless transition. Three kinds of barriers to transition from trade to manufacturing have been discussed in this chapter. The first was the barriers created due to the propensity of the licensing system to erect barriers of entry for new aspirants. The second was the definition of scale by the state which decided the nature of incentives available to aspiring businesses. The third was the question of access to technology and finance. Only, those groups, which could find ways to cross these barriers, emerged as players in the field. As we have argued in Chapter Five and in the present chapter, the question of licensing, scale and finance was slowly resolved by changes in state policy in the 1970s as a response to the rising power of 'new' capitalists. The question of technology access however remained unresolved and as we shall see in Chapter Seven, how the question of technology access drove the overseas expansion of capital in the pharmaceutical sector.

### 6.6 State and Capital: Negotiations on Intervention

A schism developed between employers of industrial origin and those from the trading classes about the modalities of resolution of disputes. Industrial employers had earlier accepted the processes of negotiations with trade unions mediated by the state through the Industrial Disputes Act in spite of dissatisfaction with many provisions of the Act and working of wage boards and the Bonus Commission (See Section 4.6 for details). However, traders lobbied very strongly against such facilitation of organised negotiations for wage standardisation and social benefits for labour by arguing against the right of 'any worker' to raise a dispute (FICCI 1954: 9). Thus industrial employers believed in organised negotiation, trading classes did not. This was perhaps because the structure of commercial enterprise ensured internal control of labour. But there was recognition by the state that the contradictions between workers and employers were intensifying and the social antagonism towards 'business' was increasing with food shortages, hoarding and racketeering (Ghosh 1998; Nayar 2001; Das and Bandopadhyay 2004). The intense social antagonism was manifest in the burning and looting of business establishments in the food riots in Nagpur, Bombay and Mysore (Nayar 2001:104; Chandra 2003). Industrial capitalists made an effort to bridge this schism by trying to build a common coalition with traders on the issue of labour laws. This was reflected in the change of name of the All India Organisation of Industrial Employers to the All India Organisation of Employers.

Babubhai M Chinai in 1967 announced as President of the AIOIE that the

...name and the style of the Organisation just half an hour ago at a Special Meeting has been changed to All India Organisation of Employers. The word 'industrial' has been deleted, because labour legislation is increasingly being extended not only to different forms of manufacturing but to other establishments in trade and commerce as well. (AIOIE, 1967)

FICCI noted that the broadening of markets for labour, capital and products, instead of supporting political cohesion as the Nehruvian model would have assumed, generated local hostility and strengthened the position of antagonistic local groups. This was the basis of centre-state struggles, which was clear in the different mobilisations of the period in different parts of India (Baru 2000). For FICCI members, this implied two things: First, acceptance by all political parties that worthwhile achievements were possible only if there were a recognisable system of order and control. Second, the importance of cooperation between employers was just as great as the need to compete. FICCI cited inter and intra-trade union rivalries as the key problem and were keen to see the political structure of the trade union movement dismantled in favour of an economic union movement. FICCI members further claimed that non-recognised and minority trade unions had no right either to raise disputes or represent the case of any workman. Thus sections of industrial entrepreneurs were still concerned with what they wanted the role of the state to be in industrial relations. But they were also developing new alliances to combat the labour militancy.

Using the under-utilisation of capacity in the industrial sector as symptomatic evidence of excessive labour regulation, FICCI representatives, like Harish Mahindra by 1975 were advocating 'regime change': opening the doors to foreign investment (FICCI 1975) and advocating a policy that came from the 'Forum for Free Enterprise' a decade earlier.

The rise in the merchant-capital base brought about by agrarian prosperity and the expansion of the small and medium enterprise base through the 1970s exacerbated part of the schism within the capitalist class. Another section of manufacturers was organising to bridle the rising power of traders. The rise of the Confederation of Indian Industries from the early 1980s as a competing body to the might of FICCI has to be seen in this context. Schisms within the capitalist class were also evident in terms of realignments in political alliances during this period. This was a period that witnessed the rise of right wing parties with a mass base concomitant with the political fragmentation of the Left. The conflict in industry was resolved with a practice that started from the 1970s. This was done by revising the legal definitions of large, medium and small-scale industry in terms of assets in an upward direction. The Janata government of 1977 adhered to this policy.

Changes in such definitions in Industrial policy also entailed an element of appeasement of the top business groups as the definition of 'large enterprise' kept expanding. The Janata government of 1977 rode the crest of this conflict, due to the schism within the capitalist class between the new entrants and the old business houses and followed further deregulation by changing the focus of state assistance from large to small-scale enterprise and revising the definition of scale in an upward direction in terms of asset size. This brought an increasing number of capitalists within the fold of state patronage. This was followed up and broadened in the 1980s after the coming to power of the reconsolidated Congress (I) under Indira Gandhi followed by Rajiv Gandhi. Deregulation was pursued through delicensing and a change in the list of items reserved for the private sector defined by scale and allowing the entry of the private sector into areas earlier designated for public sector. In most cases, private investment in both intermediate and final goods followed immediately for example in steel and petrochemicals. Sponge iron and pig iron were delicensed in the mid-80s to meet the shortage of this vital product for the foundry and the mini-blast furnace units. The Jindal group had already established their first plant at Hissar and was developing the second one at Vizag.

According to Chibber (2003), the forces gathering to dismantle the regulatory apparatus of the state were generated endogenously deriving from the political strength of the capitalist class. In India, the demands came from the emergence of new groups, who gathered strength as industrialisation progressed in an uneven manner, and came to see the system of internal controls and artificial monopolies as an obstacle to their own expansion. The pressure which these sections exerted to dismantle the *dirigiste* regime was given added force by the rapid decay of the planning apparatus itself, during the Indira-Sanjay years (Chibber 2003). The degeneration of the economic state apparatus, its transformation into a tool for consolidating the

power of the Gandhi family (the obvious manifestation of which was the coterie around Sanjay Gandhi that controlled licenses, permits and contracts) culminating in the emergency (Chandra 2003; Frankel 2005), eased the task of legitimising a shift away from the era of industrial planning (Chibber 2003).

The relations between the state and the capitalist class were not always supportive, as the developmental-state literature suggests they may have been. But neither was it completely antagonistic, as suggested by Herring, who argues that the bureaucrats were an elite corps of self-confident generalists who had no expertise to substitute for capitalists and little understanding of the enterprises they regulated (Herring 1999: 324). Yet Herring acknowledges that individual capitalists could get support on a selective basis based on family connections, geographical origins, school ties, marriage alliances, side payments and so on. For Herring, it was a Polanyi-type embeddedness of the state that worked against the sort of capital-state relationship that can empower a state to act against some in the interests of all. Herring argues that particularistic embeddedness derived from such selective social ties created in practice a porous state; regulations deterred some, delayed everyone, but in Herring's final analysis only intermittently approached stated goals. But there was an active promotion of a technocracy, which made up the core of skilled professionals in state run enterprises and nationalised banks. The ties between public and private sector managerial technocrats had a common basis in class and social background, which were not necessarily particularistic – and it was this corp that would join the next generation of technopreneurs and argue for disinvestments by the state in less than a decade.

Nayar's explanation echoing that of Bhagwati is that the state in India had less policy flexibility than authoritarian regimes in East Asia. In this view, democracy did not altogether preclude reform, but often required a crisis to push it through (Nayar 2001, Bhagwati 1993). They both cite the food crisis of the 1960s and the foreign exchange crises of 1966 and 1991 and the reforms that followed in the form of limited liberalisation in 1966 and the more substantive reforms of 1991 as evidence. However a more historicized account of crises since the 1970s does not provide credible evidence to support this view. The brutal repression of trade unionists before and after the railway strike (Ranadive 1990), the use of the state apparatus to completely smash and prevent manifestations of public discontent during the Emergency regime and the increased centralisation of power (Chandra 2003) all took place through formally democratic mechanisms. In this sense, democracy did not preclude repression and centralisation. In the face of crisis in 1966, the state did not manage to push through any decisive 'reform', but combined a series of regulatory policies with deregulation to accommodate changes in the process of accumulation. The terrain of 'intervention' kept changing repeatedly. For example, the reform in response to the food crisis was an import substituting one with 'self-sufficiency' in food production as the stated aim (Ghosh 1998). However, the devaluation of the rupee in 1966 was a liberalising imperative which by Nayar's own argument came at the behest of the World

Bank (Nayar 2001: 100). However, the 1970s saw a series of interventionist moves described below, liberalising moves by changing the definition of scale described above and active non-intervention in the development of the stock market. In fact, it has been argued that some specific protective interventions like Foreign Exchange Regulation Act (FERA) led to the development of stock market and financialisation of the economy in the 1970s (Patnaik 1979). . Thus the neat classification of reforms only as a response to crisis does not hold good.

The most significant contribution of Hazari was the identification of the 'business group' as the representative unit of Indian capital. The group in this view consisted of a number of related and unrelated activities controlled by a single central decision-making authority and thereby functioning as a co-ordinated organisation (Hazari 1967). This meant that besides a high degree of product concentration, monopoly in India consisted of the predominance of a few representative units of capital in most areas of industry. The key houses of business, both old and new, found ways to keep their toehold in the economy through the structure of family run business houses.

Critical structural change comprised the rapid growth of industries like chemicals, petrochemicals, garments, gem cutting and electronics (Chandrasekhar 1994). This led to the entry of new business houses with large and medium scale enterprises. A shift in the leadership of the class was imminent with these 'new' actors finding a platform in FICCI as well as the Confederation of Indian Industries (CII) since the early 1980s. While the state, independent of the interests it was trying to balance, had a certain degree of autonomy vis a vis the private corporate sector, its ability to ensure investment of a kind that went beyond short-run profit maximisation was limited by the political strength of the corporate sector itself. This strength was visible in the alignment of the new capitalists with the regional political parties that were emerging since the 1960s and gained ground during the 1980s. The Ambani group and Sahara India became closely linked to the Samajwadi Party in Uttar Pradesh.

Besides carrying the burden of supplying infrastructural inputs, the supportive role of the state can be seen in its revised policy vis a vis the investments of financial institutions. By virtue of holding (through the financial institutions) more than 25% of the paid-up capital of private joint-stock companies, the state was in a position to wield considerable influence over the private sector. But unlike South Korea, the control over financial resources had never been utilised to influence investment decisions in the private corporate sector. The reason for this is clear, the Indian capitalist class could create significant political space for itself in the political process in the ways described above.

As state financing of industrialisation could not be combined with effective compulsions of productivity growth, the strategy of the state changed subtly to one of enabling the corporate sector to raise its own finances on favourable terms.

The fact is ignored that bank credit to industry also causes damage unless it is based on the mobilisation of real resources by the banking system. This is the crux of our credit policy. Tight money policy may have resulted in

denying credit to some priority sectors or project. If so, the needs of such priority sectors should be reviewed, and credit on a selective basis should be provided to them. There can be no general liberalisation. I wonder if industrialists, even those who command the confidence of the investing public, have done all that they can to tap private savings. (Indira Gandhi, Address to FICCI, April 25, 1975)

Whether Mr Ambani took this advice or whether Mrs Gandhi was influenced by his ideas is difficult to assess, but we can see that the views of a leader of emerging capitalists and the prime minister had converged.

From the mid-1970s onwards, the state gave up the remnants of the Mahalonobis paradigm and shifted to popular appeasement through the 20-point programme and slogans of 'garibi hatao'. State expenditures also became increasingly oriented towards subsidies to favoured groups and to providing large middle class employment in the government and public sector. The Integrated Community Development Scheme was expanded in 1975 under Indira Gandhi. The demand for 'social justice' was its main plank. The Samajwadis changed this to caste –equality. The Congress lost out in this power struggle at the grass root level in Northern and Western India. Its monopoly over power in South India had already been significantly eroded because of the autonomy movements that had gained political space in the previous decades.

The proclivity to private enrichment at social expense permeated the ranks of bureaucratic functionaries and made corruption an endemic feature of this period. This has been noted by Hazari (1967) in the discussion on the process of issuing licenses that became a preserve of power and pelf. We have also noted the nexus between land ownership and bank finance in Section 5.4. Ghosh (1998) has shown that even the conservative estimates of the black economy in India ranged from 1/3<sup>rd</sup> to 1/5<sup>th</sup> of the national product. In the process state functionaries alienated capitalists in FICCI as well though the black economy spanned the public and the private sector (Kumar 1999). Within the left intellectual framework, the conclusion was that the corporate private sector, constituted by 'monopolies' needed stricter control and regulation because both functionaries of the state and the owners of monopolies were implicated in corrupt practices. Government policy took an alternative route by changing course through a new set of selective interventions that sought to release the capital constraints in new ways and accommodate and encourage new 'monopolies'.

The nationalisation of banks in the 1970s and the creation of financial institutions earlier were meant to serve the needs of the capital accumulation process in keeping with the state-led paradigm. Table 6B shows that assistance to the private sector from financial institutions rose in absolute value throughout the 1980s.

Table 6B: Sectorwise Sanctions from All India Financial Institutions

Sector	1980-81 Sanctions in Rs Crores	1988-89 Sanctions in Rs Crores	Total Sanctions in Rs Crores from 1980-81 to 1988- 89	1980-81 Percentage share of Total	1988-89 Percentage Share of Total	Percentage Share between 1980-81 and 1988- 89
Private	1675.39	8816.94	41443.55	81.36	67.88	73
Public	236.29	2712.92	9512.88	11.47	20.89	16.75
Joint	102.69	1185.15	4107.92	4.99	9.12	7.23
Cooperative	45.15	27.35	1715.11	2.19	2.11	3.02

Source: Yechury Table 2, 1992: 43; IDBI, Table 2A, 1989-90

The decades of the 1980s demonstrate a policy of financing by national financial institutions of private and joint sector enterprises at the cost of the public sectors and co-operatives as is clear from Table 6B.

Since the structure was that of a mixed economy, with private sector investment and production decisions determined by the unequal distribution of purchasing power, government allocations were often out of line with flows generated by private agents. Planning became difficult to implement and also irrelevant as private sector allocations determined the course of the economy. Among other things, the incapacity of the government to tax the rich led to the black economy that was estimated to be 1/3<sup>rd</sup> to 1/5<sup>th</sup> of the recorded national product estimate (Ghosh 1998). Kumar (1999) has estimated it to be considerably larger – about half the size of the official economy.

From the 1980s, members of a new entrepreneurial class in finance and industry emerged even from the ranks of executives and managers of state-owned banks and enterprises themselves (Patnaik 1999) disproving theories about the bureaucracy being a separate class (Herring 1999, Bardhan 1990). None of these initiatives were a planned or consistent set of policies, they were ad hoc measures as the state entered a phase where state-society relationships had suddenly taken a turn towards discontent and violence.

The effect of these policies on patterns of regional accumulation became visible and differentiated across states. With the old seats of industrial capital being caught in stagnation, Gujarat and Maharashtra saw a proliferation of trade, agro-based market expansion and finance. Punjab saw a pattern of small and medium scale based expansion in industry following the Green Revolution that had a direct impact on the economy of New Delhi. The eastern part of India, especially West Bengal saw a long deindustrialisation due to the weakening of colonial

capital and the reluctance of capitalists to invest in big ventures under a Left government. The regional distribution of aid from the Centre was also politically biased against states that were ruled by parties opposed to the Congress in the 1970s and 1980s based on relative lobbying power (Biswas and Marjit 2000).

Table 6C clearly points to a regional imbalance in assistance to industrial development from the lead industrial development bank in India over a period of 24 years. The Western states followed by the Southern ones saw the bulk of state assistance coming their way. The support to Maharashtra and Gujarat far outweighs the assistance to other states. We can safely assert that this allocation indicates the political clout of capitalists in these states and point to a systemic underinvestment in other states.

Table 6C: State wise Assistance Sanctioned and Disbursed by IDBI

(In Rs Millions)

Region	State	Amount Sanctioned from July 1964 to June 1988	Amount Disbursed from July 1964 to June 1988	Sum disbursed regionally
South	Andhra Pradesh	26851	16602	60629
	Karnataka	19740	15555	
	Tamil Nadu	28791	21738	
	Kerala	8266	6734	
West	Gujarat	35480	26294	66965
	Maharashtra	39526	29403	
	Goa	3179	2403	
	Rajasthan	12044	8865	
North	Punjab	9535	6812	47375
	Haryana	8221	6016	
	Uttar Pradesh	31427	22246	
	Himachal Pradesh	3648	2492	
	Madhya Pradesh	14647	9809	
East	West Bengal	15430	10095	24947
	Bihar	7901	4565	
	Assam	2375	1963	
	Arunachal Pradesh	120	86	
	Manipur	212	141	
	Meghalaya	474	391	
	Mizoram	199	160	
	Nagaland	188	172	
	Orissa	9657	7102	
	Sikkim	147	129	
Tripura	160	143		
	Union Territories	5825	4644	

Source: Table 2.4, p33, IDBI Annual Report 1987-88

### 6.7 Consequences of Expansion of Capital

The process of uneven development was embryonic in the contradictions of the Nehru-Mahalanobis strategy, not because regulatory strategies are fundamentally polarising as is sometimes argued by mainstream neoclassical economists like Forbes (2002) and Debroy and Bhandari (2005). The problems rather were the narrow ambit of the state's regulatory reach and the inability to sustain the regulatory mechanism because of the political power of the expanding capitalist class. These problems heralded a brief period of despotic populism in the 1970s combined with an increased centralisation of state power during the Emergency regime. But this brief period was followed by a re-negotiation of the extent and nature of state intervention.

This account downplays the merits of the argument that the decline in public expenditure meant, as discussed earlier, that in promoting growth, the state could not adequately fulfil its other Keynesian role of expanding the domestic market. More significantly, the changes in the nature of intervention by the state marked the birth of a process that created entire sectors of accumulation in the economy that had very little to do with a planned industrial transformation, the hallmark of the Nehruvian vision. The nationalisation of banks created an economic paradigm that on the one hand extended into rural areas and led to a transformation of the political landscape there. On the other hand, it facilitated a new pattern of accumulation with a new nexus between trade and finance that was vital to the economic diversification of the 1980s.

The process of diversification had several distinct features. The first phase of diversification began with the food crisis. The beneficiaries were often the 'rich peasants' and wholesale and retail traders whose accumulation was sustained by the state's role as 'risk absorber' through support prices, and subsidised loans to build storage and transport facilities. This was partly the result of the transformation of production for the beneficiaries of the two phases of the 'Green Revolution' – first in wheat in Punjab and Haryana and the second in rice in parts of Tamil Nadu and Andhra Pradesh.

This was accompanied by another trend, as public sector managers and technocrats, beneficiaries of the highly subsidised post-independence higher education system became 'entrepreneurs', linked to the early 'NRI' phenomenon of a next generation equipped with US degrees to take over the mantle if the 'family business' took off or the setting up of new family businesses after a period of employment in the corporate sector in the US and in India. Bank credit and social networks were key facilitators in this direction. The growth of a new set of capitalists in new sectors was greatly facilitated by a number of further factors:

- Prosperity of a set of rich and middle farmers in certain parts of North and later South India due to the 'Green Revolution' in wheat and rice.
- The growth of retail and wholesale trade beneficiaries who gained a lot of political leverage out of the food crisis through the 'support price system'.

- The emergence of a new set of 'entrepreneurs' starting with relatively modest means in medium scale industry through the gradual liberalisation of import content and no longer bound to the public sector for basic and intermediate goods.

The 1980s saw state policy changing towards the promotion of joint sector development and the selective opening up to FDI and diversification of the economy through state promotion of the telecom, petrochemical and IT sectors with a move towards export promotion. As the small and medium scale industries grew in asset formation, the upper limits for investment that defined these sectors kept changing to keep them still within the network of privileged patronage. Even in 1981, the FICCI president was arguing that 'public sector versus private sector, domestic market versus export market, and small industry versus large industry are 'dead' issues' (FICCI 1981). According to the analysis put forward by FICCI, the distinctive lines between the private and the public sector were blurred and one merged into the other through the share holding patterns and market based linkages to bring about coordination and interdependence.

Development of the private sector is greatly influenced by the growth of the public sector. The export market can be better served if industry has access to the domestic market. Small units develop faster when they are complementary to the growth of large industry. (FICCI 1981: 8)

The expansion of the capitalist class over two decades since the 1970s led to a change in its relationship with the state. The 1990s were characterised by a restructuring of the relationship with metropolitan capital, asset stripping of the state through policies of 'disinvestments' (privatisation) and more recently the intensified expansion of the top rungs of Indian capital into other countries. By then, almost all the demands of various sections of the capitalist class since the 1960s seem to have been met. However the complete deregulation of labour laws and the depoliticisation of the trade union movement is the singular demand that still remains to be satisfied. The main contradiction is the employment neutrality of the emerging accumulation strategy and the widening scope of upward mobility only amongst the top two deciles of the population that has resulted in this period of state-led accumulation. Thus neither 'trickle down' nor 'pulling up' has led to upward mobility through employment beyond the top twenty percent of income groups.

But the most significant development was in the sphere of technology provision, where the nature of intellectual property rights was redefined through the promulgation of the National Patents Act of 1970, replacing the colonial Patents and Designs Act of 1911. This requires a more specific elaboration and forms the basis of the divide between 'old' and 'new' capital in the pharmaceutical sector, the subject of our enquiry in the next chapter.

## **Chapter Seven**

### **New Enclaves: 'Old Oligopolies and New Entrants' in the Pharmaceutical Sector**

This chapter will further develop three interdependent arguments that have already been made: first, capital expansion after the third plan period was dependent on the entry of 'new' capitalists into industry some of whom had already been in business for many years in trading or other capacities. Thus diversification was into new and not necessarily related areas of business by old players. Second, the 1980s saw a change in the relationship between state and capital in the modalities of transfers, incentives and protection but not a fundamental rupture. The redefinitions of zones of state control and command discussed in Chapter Six assisted the growth and diversification of 'new' business houses. Third, these changes led to a further divergence of interests between big business houses and the smaller ones. There was already a latent and developing conflict based on the deepening relationships of dependency in the 'linkages' that grew between the two during the period of controlled development.

In Chapter Six, we argued that the expansion of the capitalist class in India benefited from changes in the zones of intervention and non-intervention. Ironically, these changes were often driven by political pressures of mass movements and trade union activity that did not appear to be in the interest of the big bourgeoisie (Section 6.1 and 6.2); cleavages within the Congress with the desertion of key leaders that led to the emergence of oppositional politics of the 'right' manifest in the emergence of the Jan Sangh as a leading political player from within the twists and turns of the JP movement (Chandra 2003); and changes in the international environment. In other words, most of these changes were not driven by any overt change in the political strategies of capital till the 1980s. However after the clear shift to neoliberalism, partly driven by pressures emanating from changes in the world economic structure and the contradictions of dirigiste populism in the 1970s, we do see some evidence of a change in capitalist strategies towards short-termism and production according to conventional comparative advantage. This does amount to a reversal of the strategy of developing capabilities that had developed under the aegis of state protection in the period from 1966 to 1980.

In this chapter, we present a study of the pharmaceutical sector in the Indian economy to explore the changing relationship between state and capital since the 1970s. Our findings establish that capital-state relations have changed in the zones of intervention by the state in favour of the political power of capital rather than by the state becoming minimalist in the Hayekian sense in the period of neoliberalism. Reverse engineering has been reversed into higher levels of technology dependence and the growth of joint ventures with technology leaders. The 'trickle-down' employment generation of the 1970s and 1980s has been reversed into a double-digit growth process contingent on job reduction, casualisation and rising prices in the pharmaceutical sector.

Section 7.1 presents a summary of the changing processes of state intervention and the effects on the pharmaceutical sector. Section 7.2 is a review of the growth and development of the pharmaceutical sector in the Indian economy. Section 7.3 analyses the changing priorities of the pharmaceutical industry in the period of the shift to neoliberalism. Section 7.4 outlines the growth and accumulation patterns of capital in the pharmaceutical sector. Section 7.5 discusses the limits on the scope of state intervention in the period of neoliberal growth. Section 7.6 summarises the implications of the changing relation between state and capital for the Indian economy.

### **7.1 State Intervention and the Pharmaceutical Sector**

In the 1930s, cotton textiles, jute, sugar, cement, shipping, engineering, and tea formed the core of capitalist enclaves in the economy (Bagchi 1972; Ray 1979). By the 1960s, the economic horizons had expanded through the import substituting incentives of the 1956 Industrial Policy, and big business families diversified into paper, cotton textiles, construction, pharmaceuticals and chemicals (Ghoshal, Piramal and Bartlett 2000). The 1970s and 1980s saw the rise of 'new' business houses following on from the second round of diversification into 'new' sectors. In the 1990s further new sectors developed in information technology, petrochemicals, pharmaceuticals, two wheelers, jeeps and tractors, biscuits, cement, and electronic media and entertainment (Ghoshal et al 2000).

It has been observed in the literature that the abolition of the product patent regime in 1972 saw a remarkable growth of the pharmaceutical industry. India and Japan are the only two countries where Western MNCs do not dominate the market. India is actually a net exporter and self-sufficient in drugs with prices amongst the lowest in the world. Thus it has attained the distinction of being a source of good quality cheap drugs for the rest of the world (Chaudhuri 2004). This has to be seen in the context of the structure of the healthcare market in India. The proportion of public expenditure on health to GDP in India is only 0.9% while the average public spending of Less Developed Countries is 2.8% of GDP. Only 17% of all health expenditure in India is borne by the government, the rest being borne privately by the people, making it one of the most privatised healthcare systems of the world (Mukherjee 2004).

Many people die of communicable diseases in India and the resurgence of some diseases like Malaria, Dengue and Tuberculosis have also been observed in the recent past. However, the allocations in the Health Budget for combating major communicable diseases have gone down steadily since the mid 1980s and the decline was exacerbated during the period of the BJP led National Democratic Alliance (NDA) rule, spending on AIDS being the only exception. Among the major communicable diseases, allocation for the control of Malaria as a proportion of total expenditure on combating communicable diseases has gone down from 16.34% in 1998-99 to 7.22% in 2003-04; in case of TB it has fallen from 7% to 4.37% in the same period. This has to be seen in the light of the state's change in health policy during the period of liberalisation.

While the government has been keen to advertise its pious intention of creating various 'centres of excellence' across the country that can be traced back to the text of the 'new economic policy' of Rajiv Gandhi's prime-ministership (Government of India 1985), expenditure budgets show that capital expenditure in the health budgets of the Central government actually declined from Rs. 45.09 crores in 1996-97 to Rs. 7.3 crores in 2001-02 (Mukherjee 2004).

In previous chapters we have seen that a significant expansion of capitalist manufacturing sectors can be traced to the period between 1965 and 1980 – a period otherwise recognised as one of acknowledged recession in Indian industry. This period has historical similarities with earlier periods of shortage and inflation. Traders gain in periods of industrial recession. The business house structures meant that the trader-cum-industrialist just shifted the focus of profit, while their control over the capital commanded by these business houses remained intact. A second strand in our argument was to explore the implications of changes in the relationship between the state and capitalist enterprises in the 1970s expressed in changes in the legal framework. The main changes have already been discussed, the passing of the Monopoly and Restrictive Trade Practices Act 1970 (MRTP) and the Foreign Exchange Regulation Act 1973 (FERA). The first led to the growth of 'new' business houses sometimes displacing the old ones in terms of assets and control over markets; the second restricted the nature of profit repatriation by MNCs and thus partially discriminated against them reversing the 'level playing field' of the Nehru years to the advantage of the indigenous big business houses of India. Another important legal change that will be discussed in this chapter was the Indian Patent Act of 1970 that was implemented in 1972 and which replaced the colonial Designs and Patent Act of 1911. This changed the definitions of intellectual property rights opening up the possibility of a climb up the technology ladder for those businesses which were in a position to attempt it. The third and final strand of our argument has been to explore the expansion of primary accumulation into the market for finance allowed by critical state non-interventions in financial markets and the continuing provision of the Hindu Undivided Family in personal laws that ensured assets remained concentrated.

In all these ways, the state that emerged in the 1980s as a 'facilitator for capital' combining both policies of ISI and 'new' policies that legitimised a market-led growth process was a product of the turmoil of the 1970s. The joint-venture structure from the early 1980s ended the learning phase based on state protection and moved towards conventional comparative advantage since the 1980s. This static view of comparative advantage derived from 'perfect market' assumptions which emphasised development of trade and production based on low opportunity costs derived its logic from neo-Ricardian models (for examples of such analysis, see Marjit and Acharyya 2003; Batra and Khan 2005). The prospect of abandonment of the 1970 patent law under TRIPS by 2005 through changes in the Indian Patent Act in order to comply with the WTO compatible liberalised regime actually forced many Indian pharmaceutical companies to access new markets or old markets more aggressively by focusing

on their bulk production technologies and putting new development of patents on a back burner. From our account in this chapter, it can be argued that even for big Indian pharmaceutical companies, there have been scant moves to explore the options of developing new formulations in the product patent era under TRIPS. Being unable to invest the kind of funds needed for 'discovery research' big pharmaceutical companies are finding in contract manufacturing an alternative means to maintaining high growth rates. In their own vision of the future, they want to use their strength to grow bigger by transforming their relationship from one of vendors to global producers to that of strategic partners in the next millennium (Indian Drug Manufacturers Association 2005). Thus Indian companies have been competing for US FDA approval. India has the highest number of US FDA approvals outside the USA followed by Italy. The restructuring of intellectual property rights as a result of changes in the international patent regimes under TRIPS and the consequent amendments to the Indian Patent Act, led to a structural change in the nature of technology access that was a reversal of the 1970s pattern. The spate of mergers and acquisitions in the sector in the 1990s and beyond were geared towards overseas expansion of top Indian companies and the consolidation of Western multinational interests in India. This was a multi-pronged approach of restructuring technology, production, finance, and labour deployment in production, sales and marketing structures.

The restructuring of sources of finance can be traced back to the 1970s in the emergence of the market in financial instruments as a supplement to developmental banking. This is another area where public investment was critical at the early stages and was then increasingly supplemented by the private sector. Institutional investment from both the public and the private sectors contributed to the growth of the share-holding patterns of private companies. Resource mobilisation was a highly political process where the distinction between public and private structures became blurred with the increased activity of both sectors in the stock market. As early as 1973, the stock market emerged as an option for the private sector as is evident from the Ranbaxy case study discussed in this chapter and the Ambani case study presented in the previous chapter. Between 1973 and 1978, several upcoming big business houses benefited from this as we have demonstrated in the previous chapter.

A comparative study of holding structures show that for all pharmaceutical companies that were listed on the stock market, the holding structures comprises of family owned stocks, followed by stocks held under Hindu Undivided Family accounts except for the two big Muslim houses, and a number of 'group' companies. There are also substantial holdings of shares by public banks like the Industrial Development Bank of India and other nationalised banks. In some cases, new IPOs were issued, but in most cases, it was periodic divestment of institutional shares which contributed to the growth of the financial market. This is clear from SEBI Issues and Listing reports 1994, and various Underwriter and Debenture Reports, Registrar of Companies, 1975-2003.

We will argue that all of these phenomena are connected very explicitly with the changing nature of state intervention and goes beyond the simplistic dichotomy between state and market led processes. Our case study in this chapter will be the drugs and pharmaceutical sector, one of the burgeoning sectors in the period of neoliberalism that emerged out of the changes in the zones of intervention and non-intervention in the 1970s. This chapter concentrates on the study of the pharmaceutical sector as the initial rise of this sector can be traced to the period between 1965 and 1980 and the subsequent expansion from the 1980s coincides with the growth of neoliberal policies. The sector reflects all of the factors discussed earlier. The most notable development was the achievement of 'competitive' advantage in bulk manufacturing at the expense of research and development supporting new formulations in the era of neoliberalism, in spite of the initial commitment of the state to move up the technology ladder. The evidence on this is complex and we will put forward our argument in the form of an analytical narrative.

### **7.2 Growth and Development of the Drugs and Pharmaceuticals Industry**

According to the estimates of the Indian Drug Manufacturers Association (IDMA) the aggregate production of bulk drugs and pharmaceuticals was valued at around Rs.320, 000 millions in 2005 with 40% of production geared towards exports (IDMA 2005: 2). From data available up to 1999-2000, the Indian pharmaceutical sector was made up of 20, 053 registered units with a steady expansion in the last three decades. The size of India's pharmaceutical market was \$ 4.9 billion in 2003. This constitutes about 1% of global pharmaceutical sales and about 10% of the total generic market in the world. In value terms, India is the 14<sup>th</sup> largest market in the world. In volume terms, India's share is around 8% and is the 4<sup>th</sup> largest after the USA, Japan and China. India is among the top five bulk drugs manufacturers of the world. India has the largest number of US FDA approved manufacturing facilities outside the USA. India exported drugs worth \$ 3.2 billion in 2005 to more than 65 countries. This made India the 14<sup>th</sup> largest exporter of drugs in the world (Chaudhuri 2005a).

From Table 7A, we can see that the first major expansion in the sector took place in the 1970s with a doubling of the number of production units between 1969-70 and 1979-80. This was followed by a phenomenal trebling of the number of production units from 1979-80 to 1989-90. That the growth rate of these units from 1989-90 to 1999-2000 has declined remarkably in the decade of experiments with neoliberalism is also clear from Table 7A. .

Table 7A: Drugs and Pharmaceutical Production Units

Year	Number of Units
1969-70	2257
1979-80	5156
1989-90	16000
1999-2000	20053

Source: IDMA Bulletin, Various Issues

The pharmaceutical industry in India caters to a huge domestic market producing 70% of the country's demand for bulk drugs, drug intermediates, pharmaceutical formulations, chemicals, tablets, capsules, orals and injectibles (IDMA Annual Publication, 2005: 3). Although the Indian market accounts for just 8 percent of the world drug production volume and 1.5 percent by value, it is ranked fourth in the world in terms of market capitalisation (IDMA 2005). Thus more than production or sales volume, it is the share values of the leading pharmaceutical houses that made the Indian pharmaceutical sector stand out in the neoliberal era.

Of the total of 20053 units, 250 are large units, about 15000 small-scale units, the rest being medium scale, which form the core of the pharmaceutical industry in India. Five are Central Public Sector units. These 20,053 units produce the complete range of pharmaceutical formulations, namely, final products ready for consumption by patients and about 350 bulk drugs, i.e., chemicals having therapeutic value and used for the production of pharmaceutical formulations. Nearly 20% of manufacturing units are involved in manufacturing of bulk drugs (IDMA 2005: 3).

The average growth of the drug industry has been around 10% per annum during the last decade. The market for pharmaceuticals is highly oligopolistic. According to one estimate, the top 250 pharmaceutical companies control 70% of the market with one market leader holding nearly 7% of market share (IDMA 2005). Thus, industry concentration was sustained through the period of neoliberalism although new business houses ousted older ones in the rankings. The domestic pharmaceuticals industry output was around Rs 260 billion in the financial year 2002, which accounted for 1.3% of the global pharmaceutical sector. Of this, bulk drugs accounted for Rs 54 billion (21%) and formulations the remaining Rs 210 billion (79%) (IDMA Bulletin 2003). In the financial year 2001, imports were Rs 20 billion while exports were Rs 87 billion (IDMA Bulletin 2002). Small-scale units are mainly involved in the production of bulk drugs and thus form the production base of the industry. These are also a major source of one or two complete pharmaceutical formulations like paracetamol and niacinamide. Progressive liberalisation since the 1980s of the products reserved for the small-scale sector has led to a significant depletion in its production base (Chaudhuri 2004). Eight bulk drugs and two complete formulations listed in Table 7B below are still reserved for the small-scale sector according to the notification issued by the regulatory body of the state in

2003. This was after the progressive liberalisation of items reserved for the small-scale sector since the mid 1980s.

Table 7B List of reserved Drug and Pharmaceutical Products for Small-scale Production, 2003

Product Code	Description of Product
31060101	Para amino phenol – Indl. Grade
310628	Pyrazolones
310650	Benzyl benzoate
310658	Niacinamide
313125	Paracetamol
31315801	Methyl parabens and sodium salt starting from para hydroxy benzoic acid.
31315901	Ethyl parabens and sodium salt starting from para hydroxy benzoic acid
31319501	Propyle paranens and sodium salt starting hydroxy benzoic acid
3131960	Calcium gluconate
310126	Aluminium hydroxide gel

Source: Notification No. S.O.655 (E) dated 5.6.2003, Government of India

To trace the development of the pharmaceutical sector in its present form, we need to jump back a few decades to survey the developments since independence. At independence, twenty-eight multinationals accounted for a quarter of total investment (Chaudhuri 2005a) and 38% of sales (IDMA 2002). These corporations operated under the colonial Patent and Designs Act, 1911 and were engaged mainly in the import of drugs from their country of origin. The Patents and Designs Act guaranteed recognition of ‘product’ patents. It must be noted, that till the Indian Patent Act was introduced in 1970, intellectual property defined by patent-holdings on products were still based on the colonial Act of 1911 and all intellectual property rights were defined by this Act. Thus the argument that reverse engineering was legally allowed through the use of process patents as part of the ISI policies of the post-independence period is entirely false. In fact, product patents led to the domination of Indian subsidiaries of multinational pharmaceutical companies through the decades of the Nehru-Mahalanobis period (Organisation of Pharmaceutical Producers in India 1971).

During and after World War II, foreign companies like Squibb, Glaxo, and Pfizer continued their presence in India within the framework of the Companies Act of 1956 through holding companies and subsidiary undertakings. In the first decade after independence, government policies for the pharmaceutical sector further encouraged multinational companies to establish manufacturing bases in India. Multinationals were invited by the Congress

government at the Centre to invest and assured them of fair treatment. This happened as early as 1949. This is recorded in the official collection of Nehru's speeches published by the Government of India (1995). These companies quickly gained a dominant position in the Indian pharmaceutical market. In spite of the parallel growth of Indian pharmaceutical production, multinationals enjoyed a market share of over 80% till the 1970s (FICCI 1990).

In 1901, a nationalist scientist, P.C. Ray, set up the Bengal Chemicals and Pharmaceutical Works Limited (BCPL) in Calcutta. This was the first Indian pharmaceutical company and the first Indian venture that specialised in the manufacture of quality chemicals, drugs, pharmaceuticals and home utility products, employing indigenous technology, skills and raw materials. According to details from the company records, lending support and contributing to its efforts were the pillars of anti-colonial and anti-imperialist nationalism - Gandhi, Nehru, Subhash Chandra Bose, Dr. Nilratan Sarkar, Dr. B C Ray, Dr. R G Kar and Rajsekhar Basu, the leading Bengali linguist and litterateur who was an employee in BCPL (Annual Reports, BCPL, Various Years). BCPL was taken over by the Central government after it became sick through running chronic losses and management failure over a significant period. The aim of the state takeover was to turn around the situation and in the 1970s it became a public sector enterprise.

This example of a scientist-entrepreneur driving the move towards building a progressive national bourgeoisie can be observed in the trajectories of Visveswaraiya, the Dewan of Mysore and Hameid, the pioneer of CIPLA, a top private sector pharmaceutical enterprise today. The growth and performance of such enterprises were different from the merchant turned industrialist in other business houses. They were not dependent either on Hindu Undivided Family (HUF) status or on a large number of holding companies that shaped the development of most business houses.

By the Second Plan period, some Indian pharmaceutical houses like East India Pharmaceuticals, Dey's Medical, and Calcutta Chemicals (all based in Kolkata) and Alembic (Gujarat) were established through import substituting industrial policies using licenses, subsidies in land for setting up manufacturing industries and tax incentives. For example, Sarabhai in Gujarat started as distributors for Squibb but then received licenses for import substitution and soon became one of the earliest production houses to establish its reach in the national market. However, throughout the 1960s, India's pharmaceutical market remained dominated by foreign drug makers. The domestic pharmaceutical manufacturing industry was limited in large part to dosage- preparation, packaging, and the distribution of existing formulations. In the Third Plan period, public sector investment in pharmaceuticals started. This state-led investment process led to several new enterprises foraying into pharmaceuticals all through the 1960s and 1970s.

The conflict of interest between multinational companies and Indian companies was reflected in the formation of separate manufacturers' association. The Indian Drug Manufacturers Association was formally constituted in 1961 though there had been an informal

network of Indian enterprises in the pharmaceutical sector since 1945. The Organisation of Pharmaceutical Producers in India (OPPI), established in 1965, consisted mainly of multinational companies operating in India. OPPI had opposed the introduction of process patents arguing that it would lead to 'copying' that amounted to 'stealing' intellectual property. The IDMA played a critical role in pushing politically for an Act legalising process patents and from its annual documents, it is clear that the Indian Patent Act of 1970, which came into effect from 1972, was considered a major victory by IDMA members.

With the introduction of the Indian Patents Act that replaced the colonial Patent and Design Act, 1911 and the Drug Price Control Order in 1970, Indian players discovered new avenues of growth, and consequently, the share of the multinationals declined. The Indian Patents Act, 1970, provided opportunity to Indian players by allowing reverse process engineering of known molecules both under and off patent. Thus the Indian Patents Act (IPA) 1970, was largely responsible for the change in structure of the market. The IPA recognised "process patents" as against "product patents", which were prevalent in the metropolitan countries and in India through the colonial Patents and Design Act of 1911. As a result, for the first time, Indian manufacturers could produce internationally patented drugs within the country. This was possible by developing an alternative process for the drug, after reverse engineering, using the relatively cheap and large manpower base of qualified pharmacists and scientists available in the country. Thus, the multinationals felt discouraged from introducing their latest products, on which they had patents internationally, in the Indian market even as the Indian companies increasingly took up the manufacturing of formulations (Chaudhuri 2005b).

The monumental change for pharmaceutical companies in the 1970s came with the Indian Patent Act of 1970. It provided the incentive for Indian capitalists to enter into the Indian drug industry. According to estimates by the IDMA, the 1970 legislation spawned 20,000 new drug makers and 60,000 new brands in India. Anji Reddy, who founded Uniloid, which developed into Dr Reddy's in 1984, with \$40,000 cash and a bank loan of \$120,000, sums this up.

We (Dr Reddy's Laboratory) are products of that (1970 law). But for that, we wouldn't be here. It was good for the people of India, and it was good for this company (Dutta 2003: 105).

The Reddy family's 26 percent stake in Dr Reddy's Laboratories was valued at \$400 million in 2005 (Ibid).

That the regulations under the Monopoly and Restrictive Trade Practices Act (MRTP) of 1971 strengthened the growth of medium scale factories through the decade of the 1970s is argued in Chapter Six. Two other major interventions by the state were characteristic of this period – the first aimed at altering the structure of property rights in technology by introducing a national legislation on patents and the second was geared towards a system of price controls on drugs.

Through the new patent law, the government gave most drug makers the license to reverse-engineer drugs developed in the advanced capitalist countries. These were then passed on as sub-licenses to various small and medium scale units specialising in bulk drugs. Very soon, the price of drugs in India crashed, and with it the share of foreign drug makers in the Indian market (Chaudhuri 2005b). In 1970, 75 percent of the drug market in India was held by multinational corporations, in 1990 their share stood at 30 percent (IDMA 2005). According to the IDMA annual report for 2005, drugs sell at 3 to 15 percent of their Western prices in India. GlaxoSmithKline, the national market leader in India, estimates that the country accounts for 35 percent to 40 percent of the drug giant's global sales by volume, but only 1 percent by value (IDMA 2005: 3-5). Cipla, whose revenues were estimated at \$226 million in 2001 makes and sells more than 400 of the world's top 500 branded drugs (IDMA 2005).

### **7.3 The Changing Structure of the Pharmaceutical Industry**

Public sector enterprises played a critical role in the early development of the Indian pharmaceutical industry. In 1954, the first public sector drug company Hindustan Antibiotic Ltd. (HAL) was established with technical assistance from the World Health Organisation (WHO) and UNICEF (Lok Sabha 1954: 121). The Indian Drugs and Pharmaceutical Limited (IDPL) was established in 1961 with technical assistance from the Soviet Union (IDPL Annual Report 1965). Three other public sector companies were acquired by the state after they became 'sick' under private ownership. These were Bengal Chemicals and Pharmaceuticals Ltd. (BCPL), Bengal Immunity (BI) and Smith Stanistreet Pharmaceuticals Ltd. (SSPL), all located in or around Calcutta. Drug prices in India were amongst the highest in the world at the time of independence (Chaudhuri 2004). All the five public sector drug companies mentioned above played an important role in the production of essential drugs at affordable prices in the 1960s and 1970s.

Though public sector enterprises account for just 10% of output currently (FICCI 2005), historically they have been a training ground for technical staff and entrepreneurs who then entered the private sector. A random survey of 1000 senior technical personnel between the ages of 40 to 60 in the pharmaceutical sector revealed that 71% had initially worked in either public sector companies or research laboratories under the Central government. Thus the public sector helped develop technological capability by extensive training of professionals, and building technology centres and companies. While public research institutions built up research and development capabilities, state enterprises accumulated production knowledge and experience. A World Bank sponsored study in 1997 argued that intellectual property laws of 1970 gave a certain degree of protection for patents and trademarks which, along with price controls, encouraged Indian entrepreneurs and scientists to keep medicine costs down (Felker et al 1997).

The biggest impetus to the industry from the public sector came in the field of research and development with the expansion of 80 government laboratories dedicated to chemical and pharmaceutical research. According to a statement by the Council for Scientific and Industrial Research in 2002, even today, most pharmaceutical research originates in government-owned laboratories (CSIR 2005). According to an estimate by IDMA (2004), a chemist with a PhD could be hired in that year for a salary of \$15,000 a year against maybe \$100,000 in the USA.. The immense skilled labour created through a highly subsidised higher education provided by the state could also be harnessed for making drugs, where the cost of development of drugs is 60 percent below that of average international costs (Chaudhuri 2005b).

The reversal of the role of the public sector in India in pharmaceuticals started from the late 1990s. Under the privatisation process, the role of the public sector has been marginalised and all the units have become sick through underinvestment. Attempts have been made to either privatise or close them. Hindustan Antibiotic Ltd. (HAL)'s penicillin plant, the biggest in the country, has been handed over to the private sector. Its streptomycin plant has also been leased to a private company for manufacture of other drugs. IDPL, which had the biggest pharmaceutical plant in Asia, closed from 1996 for want of proper financial assistance from the government. The public sector drug companies used to supply raw materials to small-scale sector. Now, these small companies are facing difficulties in procuring raw materials. The fate of Bengal Chemicals and Pharmaceuticals Ltd. (BCPL), Bengal Immunity (BI) and Smith Stanistreet Pharmaceuticals Ltd. (SSPL) is similar. The move from tragedy to farce lies in the history of 'sickness' in the case of these three units. They became public sector enterprises because the government took them over after the private owners made them sick. Now they are up for closure or privatisation as they have been rendered 'sick' again as state run enterprises.

The capability of the Indian drug industry which was made possible by the Indian Patents Act of 1970, has been under sustained attack ever since the World Trade Organisation's Trade-related Intellectual Property Rights (TRIPS) agreement was reached in 1995 in Marrakesh, Morocco. India, along with many other countries, agreed to grant 20-year product patents on pharmaceutical products from January 1, 2005. The question that has often baffled economists is why Indian companies did not resist this except by making some reluctant noises. According to a survey by the editors of Economic and Political Weekly, 1,500 listed firms in the pharmaceutical sector registered 59 per cent growth in operating profit in a single year in 2001-2002. But the top line companies such as Ranbaxy, Dr Reddy, Wockhardt and Cipla contributed to much of the growth. These companies were making substantial quick profits by capturing the generics market in the US. Just one compound, Fluoxetine, yielded more than 50 per cent of Dr Reddy's operating profits in the US in a single year. These companies were also investing in research and development. But most often this was still directed at reverse engineering which would be of little use with the new product patent regime under the WTO (EPW, Editorial, October 19, 2002). In other words, the editors were pointing out the short-term aims of the

industry in the face of the change in patent laws by arguing that 'analysts point out that the Indian drug industry is not looking beyond its nose'.

#### Scale and Concentration of Industry

The pharmaceutical industry, though it started in Bengal is today concentrated in Gujarat and Maharashtra. The history of the pharmaceutical industry in Gujarat dates back to 1907 with the setting up of a small pharmaceutical unit by the Alembic group at Vadodara (Baroda). Today the organised sector units like Sarabhai Chemicals, Cadilla Groups, Torrent Group, Synbiotics, Cynamide India, Hoechst, Abbott Lab (I) Ltd, Atul, Rallis and others have established large production facilities in or around Baroda. By 1962 there were 288 factories employing 27510 workers. Till the early 1960s Baroda was considered to be a cultural and educational centre. In 1962, Baroda witnessed a sudden spurt in industrial activity with the establishment of Gujarat Refinery. At that time, the dominant industrial groups were chemicals and pharmaceuticals, cotton textiles and machine tools. Several factors have been cited in the literature, such as raw material availability, product demand, skillful mobilisation of human, financial and material resources by the government and private entrepreneurs, as having contributed to Baroda becoming one of India's foremost industrial centres (Chaudhuri, 2005b; Felker et al, 1997)

At present, Gujarat accounts for about 3267 registered pharmaceutical industrial units involving capital investment of Rs. 75 billion mainly in the small and medium scale sector but also including 50 multinational companies (Annual Survey of Industries, 2005; FICCI, 2005). For example, Sri Krishna Keshav Laboratory was a small and relatively young unit in the sector. In 1970, this firm formed a joint venture with a US based Company, McGaw Private Limited. The new company was named McGaw Ravindra Laboratories India Ltd. This firm was involved in the production of medical disposables and intravenous fluids, and led to the emergence of many entrepreneurs in the field, including the founder of Core Parenterals, one of the largest firms in the sector today.

While Gujarat is currently one of the major hubs of the pharmaceutical industry in India, it is pressured with the possibility of losing out on the premier position to the industrially upcoming states like Karnataka and Andhra Pradesh. With more than 7,000 licensed drug manufacturing units and close to 50 per cent of the country's total pharmaceutical production, the state holds a prominent place in the country's pharmaceutical map. However, no considerable foreign direct investment has found its way to this state in the field of pharmaceuticals in the recent period of neoliberal growth. Though Gujarat is saturated with pharmaceutical and allied sector industries today, according to small-scale industrial owners, the growth perspective is very bleak as there is little opportunity for further investments either by local companies or from outside (CSIR 2005).

The other important concentration has been in Maharashtra for the past 46 years. Over 50% of manufactured drugs in India are currently produced in Maharashtra. The Maharashtra

government's industrial policy therefore plays a large role in determining national policy on the import and local manufacture of pharmaceuticals in India. With a collective strength of around 35,000 retailers, Maharashtra State Chemists and Druggists Association (MSCDA), is the fourth largest pharmacists' organisation in India (MSCDA 2005).

In both states, quality norms and modern requirements due to competition have increased the financial burden on existing small units to even survive. However, the local industry seems to have felt the heat and has already begun to plead with the state government to come forward with some sort of encouraging measures. The Confederation of Indian Pharmaceutical Industries' representing the small-scale industry assert that it is almost certain that at least 3500 units would have to close down in the near future, and that already about 1000 units have downed their shutters in different parts of the country (Deccan Chronicle, June 23 2005). The only ray of hope is to wait for the sympathetic attitude of state drug controllers in various states, thus constituting a renewed dependence on the state to provide assistance in the face of the structural changes in the market under the new liberal regime. Lack of adequate staff in various drug control administrations could delay the inspection process but a liberal attitude on the part of the Drug Control Administration could help the units survive for some more time.

But small-scale pharmaceuticals are bearing the heat of the changes in licensing policy since the 1990s and the new patent deals since 2000. The loan licensing policy has also had a significant impact on the small-scale sector. All manufacturing of drugs in India requires a license. Manufacturing is defined by the Drug Control Authority as including any process or part of a process for making, altering, ornamenting, finishing, packing, labelling, breaking up or otherwise treating or adopting any drug with a view to its sale or distribution. It does not include dispensing or packing at the retail sale level. A license is required for each such location at which drugs are to be manufactured, and also for each drug to be manufactured. The license has to be renewed periodically. It is also possible to obtain a license to manufacture a product in the factory premises owned by another party, a practice called "loan licensing." About 30 per cent of large-scale pharmaceutical production was accounted for by loan licensing arrangements in 1992. This covered 8000 units which were entirely loan license manufacturers and accounted for 60 per cent of installed capacity in the rest of the small-scale sector (EPW Editorial January 18, 1992). Big industry that had developed an antagonistic attitude to the small-scale sector became vocal on behalf of the small-scale sector in changing the position of the state from a position of abandonment to loan licensing operations with modifications in loan licensing arrangements. This came at the cost of narrowing the ambit of price controls in the sector from 143 to 63 drugs in 1992. Today only 20 or so drugs are in the ambit of price regulation by the state.

#### Development of Linkages in Pharmaceuticals

During the 1960s and 1970s the pharmaceutical industry mostly imported machines from Europe for their processing and packaging needs. The chief suppliers were big

multinationals like Aeromatic, Glatt, Fete, Manesty, Kilian, Hofliger & Karg, Hassia, Sparkler, Stunk and Zanasi. In the mid 1970s the country went through a severe shortage of foreign exchange and as a result the Indian government introduced very high import duties and restrictive import licensing policies on machinery. This forced all the pharmaceutical companies to develop links with Indian engineering enterprises to manufacture machines locally. This was perhaps the only route for the pharmaceutical industry to enhance production and cater to the growing demands of the domestic market.

This created a niche for small-scale engineering companies to provide machineries to the pharmaceutical industry. Hundreds of machinery manufacturers mushroomed to cater to the needs of thousands of pharmaceutical companies over a period of time. The Indian Pharma Machinery Manufacturers Association (IPMMA) was founded on December 23 2001 in New Delhi and was registered as a trade association to specifically represent the Indian pharmaceutical machinery manufacturers. The estimated business revenue from this sector which includes processing, packaging, utility equipments and other ancillary products is around Rs.15000 millions out of which Rs.2000 millions accounted for exports in 2005 (IPMMA 2005). A survey of 26 out of 150 members shows that this sector is clustered around Mumbai, Thane, Ahmedabad and Hyderabad.

Packaging accounts for 5-6% of the cost of the final product. The pharmaceutical packaging industry is highly concentrated. The largest Indian pharmaceutical packaging company Bilcare is classified as medium scale industry with market worth estimated at Rs 1600 million. Its production facilities are based in Pune, but in 2005 it set up another plant in Singapore. The total industry is estimated to be worth Rs 250, 000 million and growing at a rate of 12-14 percent annually. Ess Dee Aluminium under the Datta Group of Companies saw a meteoric rise since 1994 with a fifth of the market share (IDMA 2005).

The last important linkage was through the expansion of the chain of sales and marketing intermediaries and this expands not just into all the states and union territories but also into Nepal and Bhutan in a private sector network of regional distributors, stockists and sub-stockists, wholesalers and retailers.

#### **7.4 Patterns of Accumulation and Growth in the Pharmaceutical Sector**

In 1964, the only Indian business group with a large pharmaceutical company in the top list was Sarabhai. In 1990, Sarabhai was still among the top league, but it had slid down in market capitalisation. By 1994, 7 companies were in the list of top rankers -Ranbaxy, Wockhardt, Cipla, Dr Reddy's, Ajay Piramal, Sun Pharma and Torrent. We will establish through case studies that it was both the Patent Act and the politics of MRTP that combined to create the space for these new capitalist expansions.

The development of Ranbaxy is similar to that of Reliance recounted in Chapter Six. Ranbaxy was incorporated in 1961 and went public in 1973. For the twelve months ending December 31, 2005, the company's global sales were US \$1178 Millions. Overseas markets

accounted for 75% of global sales. The company's largest market was the USA with sales of US \$ 328 Millions, accounting for 28% of total sales in 2005, while Europe accounted for 17%. Brazil, Russia, India and China contributed 29% to global sales. Ranbaxy has also joined hands with GlaxoSmithKline Plc for a global alliance in the area of drug discovery and development. Presently two research programs, one in the area of anti-infectives and another in the asthma segment have been identified and are in progress (Annual Report 2004).

Ranbaxy was originally an Amritsar based company floated by two cousins—Ranjit Singh and Gurbax Singh—to distribute medicines supplied by A Shionogi, a Japanese pharmaceutical company manufacturing vitamins and anti-tuberculosis drugs. Ranbaxy's name was a fusion of the two earlier promoters. It ran a small store in Delhi's Cannaught Place area. When Ranbaxy defaulted on a loan owed to Bhai Mohan Singh, Bhai Mohan Singh bought up the company for Rs 2.5 lakh. He soon became a distributor for Pfizer, a leading multinational in India (Bhandari 2005). Thus the initial history of the company was that of a trader and stockist for a foreign multinational.

Under Bhai Mohan Singh, Ranbaxy initially maintained its course, preparing and packing existing branded pharmaceutical products for the Indian market. Like many Indian drug companies of this period, Ranbaxy obtained a license and invested in an antibiotics plant in Okhla in 1960 as an equal joint venture partner with Lapetit Spa (Milan) of Italy and began production in 1962. Within five years the joint venture collapsed over a dispute over technology transfer and Mohan Singh bought out Lapetit's share. The company's early rise was based on the launch of Calmpose, a generic formulation of the hugely popular Roche patent of Valium. Released in 1969, Calmpose immediately placed Ranbaxy on India's pharmaceutical map. Thus process engineering was key to the company's early rise. By this time, the eldest son Parvinder Singh had joined the family firm in 1967 after receiving a PhD from Michigan (Bhandari 2005). Ranbaxy Laboratories went public in 1973 at the height of the early stock market boom, and the company acquired 25,000 shareholders. Thus raising capital through the stock market rather than established channels of debt finance is also in keeping with the trajectories of the development of new capitalists traced in Chapter Six. The same year Ranbaxy set up a multipurpose chemical plant for the manufacture of several bulk drugs at Mohali in Haryana with technology supplied from Hungary (Annual Report, 1974).

The political alliances that Bhai Mohan Singh made in this period have been outlined vividly in popular accounts (Bhandhari 2005). Ranbaxy's annual report of the early 1970s would have Bhai Mohan Singh's picture with Indira Gandhi on the front page (Annual Report 1973). President V V Giri flew specially to Mohali in Punjab, to inaugurate Ranbaxy's factory in the early-1970s, though the investment was only a paltry Rs 10 million. Based on interviews with three Ranbaxy employees in the 1970s, it is clear that those who served with Ranbaxy in the 1970s marvelled at Singh's ability to get import licences for drugs. Quite strongly linked to the Congress, Bhai Mohan Singh, recipient of two national awards, was everybody's friend in

political circles. He was one of Indira Gandhi's key supporters during the Emergency along with Dhirubhai Ambani. It is alleged that the 1975 Hathi Committee Report, which gave a huge boost to Indian pharmaceutical companies, was written in the drawing room of Bhai Mohan Singh.

In 1977, Ranbaxy made its first international foray in its joint venture in Lagos, Nigeria and then into Malaysia and Thailand. Ranbaxy expanded its production at home as well, opening a new state-of-the-art dosage plant in Dewas in 1983. In 1987, the company became India's leading antibiotic and antibacterial producer when it completed a new API plant in Toansa, in Punjab. The Toansa facility backed up Ranbaxy's plans to enter the U.S. market, and in 1988, the Toansa plant received Food and Drug Administration (FDA) approval, one of the earliest cases of USFDA approval before the final outcome of the Uruguay round. As part of its new strategy, Ranbaxy launched its own research and development centre in 1985.

The company also stepped up its marketing efforts, launching a new dedicated marketing subsidiary, Stancare, that year. By 1990, the company had a new product to sell, when Ranbaxy was granted a U.S. patent for its doxycycline antibiotic preparation. The following year, the company was granted a U.S. patent for its cephalosporin preparations, and the company built a new state-of-the-art facility for their production in Mohali. Thus the move towards securing an international footing through USFDA approvals came immediately after the major liberalisation of the Indian economy under the Congress government in 1991. A major milestone for the company came in 1992, when it reached a marketing agreement with Eli Lilly & Co. The companies set up a joint venture in India to produce and market Lilly's branded pharmaceuticals for the domestic market. At the same time, Lilly agreed to begin marketing Ranbaxy's generic medications in the United States. In this way, Ranbaxy gained widescale access, backed by the giant Lilly, into the world's single largest drugs market (Annual Reports, Various Issues).

Parvinder Singh took over as head of the company—ousting his father in a family feud in 1992 (Bhandari 2005). By then, Ranbaxy had grown into one of India's largest pharmaceutical companies on the basis of its generics production. Yet as pressure grew on India to begin enforcing international drug patents, the company itself appeared to have reached a crossroads—to remain focused on copying generic molecules, or to begin developing new drugs in-house. The company chose the latter, after a struggle between the old and the new patriarch (Bhandari 2005) and in 1993 adopted a new corporate mission to announce its reformulated ambitions: 'to become a research-based international company' (Annual Report 1993).

Ranbaxy succeeded in its overseas expansion through a series of joint ventures described as 'piggybacking' (Sengupta 2003). By the middle of the current decade, nearly 80 percent of its sales came from outside India. As a first step, the company launched a new joint venture in China, backing its entry into that market with a production facility in Guangzhou. The following year, the company established subsidiaries in London and Raleigh in North

Carolina. In 1995, the company stepped up its U.S. presence with the purchase of Ohm Laboratories Inc., which gave the company its first manufacturing plant in that market. Ranbaxy then launched construction of a new state-of-the-art manufacturing wing, which gained FDA approval. Thus the 'research base' was developed through a spate of international joint ventures and outright acquisitions.

This new facility enabled Ranbaxy to step up its presence in the United States, and in 1998 the company began marketing its generic products under its own brand name. In addition, the company filed an application to begin Phase I clinical testing of its first in-house developed New Chemical Entity (NCE). The following year, the company's Novel Drug Delivery System (NDDS) efforts paid off as well, when Bayer acquired the rights to market Ranbaxy's single daily-dosage ciprofloxacin formulation.

Ranbaxy's international expansion continued as well, with the launch of marketing operations in Brazil. As the largest pharmaceuticals market in Latin America, Brazil was the cornerstone of the company's plans to expand throughout the region. Ranbaxy also expanded in Europe, with the agreement in 2000 to acquire Bayer's Germany-based generics business, Basics. The company added production plants in Malaysia and Thailand. Meanwhile, a younger member of the family diversified into a hospital network business named Fortis once again capitalising on the 'healthcare reforms' of the mid-1990s that encouraged the development of expensive private state-of-the-art hospitals and clinics.

According to media reports in 2001, Ranbaxy stocks was at one time a favourite of Ketan Parekh, an infamous stock broker based in Mumbai who has been linked to several 'scams' in the stock market. He first shot into prominence when he took the stock to the almost unthinkable level of Rs 1300. Though reportedly, he is no longer active in the stock, newspaper reports suggested that a Ranbaxy subsidiary was used in the Global Trust Bank (GTB) scam in July 2004 in which Parekh was heavily implicated and probably suffered losses. Ranbaxy had a history of active involvement in the stock market- through stocks and through badla investment (SEBI 2005). Though the annual report for 1999, the alleged year of investment in GTB shares does not show any GTB shares in writing, it could have been done in 2000 without public knowledge. According to a media report, "the company's silence on the whole issue is intriguing" (The Hindu Businessline, July 26 2001). The development of Ranbaxy encapsulates the growth of trading house turned manufacturers with initial accumulation from money lending, contracting and real estate into an Indian multinational with global presence in less than 40 years.

The history of the Khorakiwalas of Wockhardt goes back to 1897 when they started as Akbarallys, a small retail outfit that slowly developed into a Department Store, following the concept of convenience shopping under one roof in Bombay, after the British owned Department Stores like Whiteway Laidlow, Evan Fraser, Hall & Anderson, and Army & Navy Stores closed down. F. T. Khorakiwala, chairman of the Akbarally's chain of department stores

is a former sheriff of Mumbai and the chancellor of New Delhi's Jamia Millia Islamia (JMI) University. In 1960, the Khorakiwala family acquired Monginis, a small Italian owned cake shop in the Fort Area of Bombay. This bakery business expanded in the 1980s and 1990s through franchisee networks into select urban areas in the country. The Khorakiwala family formed Worli Chemicals as a partnership in 1959. The company changed its name to Wockhardt Pharmaceuticals but continued its operations as a firm manufacturing pharmaceuticals in a factory located at Worli, Mumbai. Between 1973 and 1979, the Company set up a new manufacturing plant for pharmaceutical formulations at Chikalthana near Aurangabad in Maharashtra. Another Company Wockhardt Synchem Pvt. Ltd. was formed to manufacture bulk drugs at Ankleshwar in Gujarat. In 1983 Wockhardt Pvt. Ltd. and Wockhardt Hitech Laboratories Pvt. Ltd. were formed to manufacture nutrition foods at Kalal in Gujarat. Wockhardt Pvt. Ltd. and Wockhardt Hitech Laboratories Pvt. Ltd. were amalgamated with Wockhardt Synchem Pvt. Ltd. and the name was changed to Wockhardt Ltd. which converted into a public limited company. In 1989-90, the company set up an intravenous fluid manufacturing plant at Waluj with technical assistance from Pharmaplan GmbH of Germany. Wockhardt diversified into medical services by setting up a day care facility in Calcutta. The Group's principal activity is to manufacture and trade in pharmaceutical products, biopesticides and agro products. The Group has seven manufacturing locations and a research and development centre (Annual Reports, Various Issues). Thus Wockhardt started under the import-substituting regime of the 1950s, diversifying from its bakery and retail business into pharmaceutical manufacture and trade. It expanded manufacturing after the Indian Patent Act in the 1970s and took advantage of the joint venture years of the early 1980s to expand its technology base. It also piggybacked on the 'healthcare reforms' to set up several day care centres and clinics with state of the art equipment that catered to the 'health market' for those who could afford it.

In 1935, Khwaja Abdul Hamied, a young scientist, set up the Chemical Industrial and Pharmaceutical Laboratories which acquired the acronym Cipla, at 289 Bellasis Road where a small bungalow with a few rooms was taken on lease for 20 years for Rs 350 a month. He gave the company all his patent and proprietary formulas for several drugs and medicines, without charging any royalty. On August 17, 1935, Cipla was registered as a public limited company with an authorised capital of Rs 6 lakhs. Cipla was officially opened on September 22, 1937 when the first products were ready for the market. The Sunday Standard wrote on September 24, 1937:

The birth of Cipla which was launched into the world by Dr K A Hamied will be a red letter day in the annals of Bombay Industries. The first city in India can now boast of a concern, which will supersede all existing firms in the magnitude of its operations. India has lagged behind in the march of science but she is now awakening from her lethargy. The new company has mapped out an ambitious programme and with intelligent direction and skilful production bids fair to establish a great reputation in the East. (CIPLA Annual Report 1987)

In 1942, Dr Hamied's blueprint for a technical industrial research institute was accepted by the government and led to the birth of the Council of Scientific and Industrial Research (CSIR), which is today the apex public sector research body in the country. In 1944, Cipla bought premises at Bombay Central and decided to put up a 'first class modern pharmaceutical works and laboratory'. It was also decided to acquire land and buildings at Vikhroli. With severe import restrictions hampering production, the company decided to commence manufacturing the basic chemicals required for pharmaceuticals. In 1946, Cipla's product for hypertension, Serpinoid, was exported to the American Roland Corporation with a total sales value of Rs 800,000, a big amount in 1946. Five years later, the company entered into an agreement with a Swiss firm for manufacturing foromycene. Thus technology transfer before the Patent Act of 1970 was dependent on such arrangements with foreign corporations. Dr Yusuf Hamied, the founder's son, returned with a doctorate in chemistry from Cambridge and joined Cipla as an officer in charge of research and development in 1960. In 1961, the Vikhroli factory started manufacturing diosgenin. This heralded the manufacture of several steroids and hormones derived from diosgenin. Thus CIPLA is one of the earliest stories of import-substitution, this time by a scientist entrepreneur and thus does not have a history of primitive accumulation in trade and finance unlike our other case studies. But once again it could only expand its base in the 1970s after the intervention of the Indian Patent Act. Since then, it has evolved into a global player through 'discovery research' and following its own path, avoiding the piggybacking on multinationals that has been the norm in the neoliberal era.

Most of today's top-league pharmaceutical houses can be traced to the development of production facilities in the period between 1970 and 1990 through the provisions of the patent act, state assistance and capital raised from both nationalised banks and the market – Glenmark (1977), Sun Pharma (1983), Dr Reddy's (1984), Elder Pharma (1988). Apart from the protection for 'process patents', loan sanctions from development banks to the 'miscellaneous chemicals' sector, the bulk of which constituted disbursement to the pharmaceuticals sector increased phenomenally. The actual amount disbursed by just one bank, Industrial Development Bank of India (IDBI) increased to Rs 2167 millions in 1987-88 (IDBI 1987-88: 32 Table 2.3). The aggregate amount disbursed to this sector from July 1964 to June 1988 amounted to Rs 12781 millions (Ibid). From this we can see that state assistance through direct loans, the refinancing of industrial loans and the discounting of bills expanded all through the period from 1965 to 1980 and beyond in the debt-driven growth scenario of the 1980s.

Joint ventures became the common mode of expansion. This came with state support for joint ventures that allowed an Indian pharmaceutical producer to piggyback on to an American generics company, either as a supplier or as a revenue-sharing partner. Cheminor, the part of the Dr Reddy's group that specialises in selling generics to developed country markets formed a series of alliances with American generics firms. Wockhardt entered a joint venture with New

Jersey-based Sidmak Laboratories, which markets two of its formulations; the two firms split the profits evenly. Ranbaxy went a step further and became a pioneer in buying companies in advanced markets. In 1995 they acquired Ohm Laboratories in New Brunswick, New Jersey. The next year it was an Irish firm, a German firm, a Chinese firm and so on. Ranbaxy's generic drugs pipeline is valued at a figure between \$250 million and \$300 million and focuses mainly on drug delivery systems such as one-a-day versions of major drugs. Ranbaxy recently scored a success by licensing to Bayer a once-daily version of Bayer's leading drug, the anti-infective Ciprobay. Bayer proposed to sell the product in Germany and in the US under the deal.

At the same time liberalisation of the MRTP Act through the new economic policy of 1985 under Rajiv Gandhi saw the first spate of acquisitions and mergers in the domestic market. Nicholas Piramal was the only significant group that made an entry through an outright acquisition. They acquired Nicholas Laboratories, a small formulations company in 1988 from Sara Lee.

Two kinds of processes can be identified in our accounts: import substitution reliant on Western education and technology and based on 'professional' state aided development (CIPLA in the earlier period, BCPL, Dr Reddy's in the initial period) and unrelated diversification based on American or British educated second generation technocrats entering the family owned structures of business houses (Wockhardt, Nicholas Piramal and Ranbaxy) in the 1970s and 1980s. These two processes contributed to the emergence of 'new' capitalists in this sector.

Growth was spread over Baroda and Ahmedabad in Gujarat, New Delhi, Mumbai, Punjab, Haryana and Hyderabad. However, the industry still remains concentrated in Maharashtra and Gujarat. Along with an indigenous history of industrial development that dated back to the late colonial period, the general state induced investment pattern elucidated in Table 6A (see previous chapter) was directly correlated with the regional concentration of industry in these two states. They were the biggest beneficiaries of financial assistance along with an indigenous history of industrial development that dated back to the colonial period. This was directly related to the amount of financial assistance given to the states by state owned finance companies and development banks. Within associations of bulk drug producers in Gujarat, there is a feeling of losing out to Maharashtra in terms of investment, output and formulations during the neoliberal period when states started competing against each other to bring in investment in the absence of a directed licensing and planned investment policy.

### **7.5 Scope and Limits of Current Arenas of Intervention**

In absolute opposition to the neoliberal compartmentalisation of the state and the market, the functionaries of the two zones have come even closer in the years of neoliberal deregulation with acquisitions from the public sector facilitated by state functionaries. With liberalisation relaxing licensing rules, Indian companies have found it easier to seek manufacturing partnerships. But, once again, only companies that have modern manufacturing

facilities, with sizeable capacities and financial muscle have been successful in roping in international clients. Battles on patents are intrinsically tied to extent of political influence over the state and are not tame legal battles. The ineffectiveness of the drug control authority is symptomatic of the even greater power of capitalists to make any effort at control utterly futile. Meanwhile this process is highly contingent on incentive structures and indirect subsidies in the form of tax-cuts by the state evident in the Annual Budget (2001-2002). The 2001-2002 budget of the BJP led NDA government provided weighted deduction of 150% of the expenditure on in-house research and development in certain areas. This has been extended to biotechnology as well for clinical trials, filing patents and obtaining regulatory approvals and reformulated transfer-pricing norms.

Sucheta Dalal, a business columnist points out that among the many things that India was rushing to offer unasked to the United States after September 11, 2001, was External Affairs Minister Jaswant Singh's generous offer of \$1 million worth of Ciprofloxacin—the antidote to anthrax, sourced from Ranbaxy. This was a deal that was aimed at opening up the large US market to at least three Indian companies (Indian Express, 22<sup>nd</sup> October 2001). Thus the attempts at lobbying the US government for greater access to markets have been the key to the expansion of drug companies into the US market.

The link between state functionaries and key actors in the pharmaceutical sector was raised in the Indian parliament in 2006. In the liberalised system of licensing, licenses have become freely transferable unless challenged by competing agencies for patents. Consider the recent battle between the Indian drug company Cipla and the multinational drug company, Roche. The patent of Tameflu, supposed to be the only drug for the treatment of bird flu was the cause of the legal dispute. The campaign material from one Hetero drugs, an Indian company, which had acquired the sub-licence from Roche, a foreign multinational, was quoted in Parliament in March 2006. The Times of India reported in December 2005 that the company had already invested about 17 million dollars to produce the drug in India. The report claimed that the UPA led Indian government by the middle of January would acquire about one million such capsules and Hetero would be supplying these drugs. Some Left MPs demanded a thorough investigation as to what was the linkage between the Government of India acquiring this one million capsules of Tameflu at the price of 12 million dollars and the so called outbreak of bird flu in India in January which created a sustained spell of rumour and fear that lasted for months (Rajya Sabha, March 14 2006).

According to Tehelka, a media organisation, the value of Roche's deal with Hetero Drugs was worth Rs 100 crore and the company expected a profit of at least 10 percent. Hetero was set to export the bird-flu drug Oseltamivir to countries such as Indonesia and Bangladesh. Hetero, the Rs 720-crore pharmaceutical group company based in Hyderabad, is a relatively young company started in 1993. It has a good reputation in bulk drugs but is unknown in formulation drugs. Roche's awarding license to the relatively unknown, Hetero, was not a

surprise as the Swiss giant did not want to give any boost to its competitors — Cipla and Ranbaxy. Cipla's calculations were that if the situation got serious, the government would anyway give it a compulsory license, for which it would part with a "reasonable royalty". Roche expects 1.1 billion to 1.2 billion Swiss francs (\$921 million) in sales of the drug to governments this year, excluding its sales as a treatment for influenza. The company is working to ramp up its sales by 100 million treatments to a total of 400 million treatments this year.

"The government began stockpiling the drug from January 15, while bird flu visited later. The government has spent \$18 million (almost Rs 80 crore) on the purchase, not a small sum as claimed by certain quarters," said Basu, a Left Member of Parliament in the Upper House in a statement to the media. He added that the drug was being purchased from multinationals while there was a law after the third amendment to the Patents Act that in case of an epidemic, the government can give compulsory license to a company to produce essential drugs, even patented ones. The controversy exposed the nature of disputes and alleged corruption involving private and public functionaries in the new economic regime (Khare 2006).

There are other emerging patent disputes as well. Recently, Smith Kline Beecham has filed for exclusive marketing rights (EMR) for Rosiglitazone, an anti-diabetic drug, which it markets all over the world. However, three other Indian companies also manufacture and market the drug. Torrent, Dr Reddy's and Sun Pharmaceuticals have also filed for EMR, highlighting the need to streamline the policies of the Indian patents office (EPW Editorial, December 9, 2000).

This is reflected in the feeble efforts of the state in the area of establishing an empowered authority enforcing drug control procedures. The recommendation for setting up a National Drug Authority in the report of 1975 was reiterated in the drug policies of 1986 and 1994 but was not implemented till 1997. The National Pharmaceutical Pricing Authority (NPPA) was set up as an attached office of the Department of Chemicals and Petrochemicals on 29th August 1997 after an upheaval in Parliament over the question of likely spurts in the price of medicines in the domestic market. It has a mandate for setting ceilings on the sale price of bulk drugs and formulations covered in the First schedule. Only 74 out of 500 commonly used bulk drugs were kept under statutory price control. The Drug Price Control Order (DPCO), 1995 was an order issued by the Government of India under Section 3 of the Essential Commodities Act, 1955 to regulate the prices of drugs. The Order provided the list of price-controlled drugs, procedures for fixing of drug prices, methods of implementing prices fixed by the Government and penalties for contravention among other things. For the purpose of implementing the provisions of the DPCO, state powers have been vested in the NPPA.

Drugs have been declared an essential and accordingly put under the Essential Commodities Act. All formulations containing the bulk drugs under the First schedule either in a single or combination form fall under the price control category. However, the prices of other drugs can be regulated in the public interest. The effect of the shake-up that occurred in the drug regulatory authority in the 1990s was only tentatively felt in 2000 when the NPPA cut the prices

of 12 widely sold formulations and brought eight bulk drugs under price control, affecting a number of companies. Earlier in April 1999, the NPPA hiked the prices of 20 drug formulations, including Dettol liquid antiseptic, Novalgin tablet and insulin injections. The NPPA also reduced the prices of three formulation packs, including Zevit by 50 per cent and Becosule by 31 per cent, according to an official release. With the price fixation of four formulation packs for the first time, the authority had revised the prices of 33 medicines. It also sought to recover from several large companies the excess they have charged over the prescribed price as per the DPCO but this did not proceed very far.

From Table 7C, we find that the number of drugs under price control came down steadily over the years and stood at 73 in 2003. The Drug Policy announced by the NDA government in 2002 recommended that the number of drugs under price control be further reduced to 25.

Table 7C Number of Drugs under Price Control

1970	1979	1987	1995	2003	Proposed in the Drug Policy, 2002
All drugs	347	163	76	73	25

Source: Mukherjee 2004

As a result of the policies of decontrol, the prices of drugs have increased several times, many drugs being sold at 200 to 500 % profit margins, with only 20% of the population being able to access all the essential drugs they require (National Coordination Committee for Jana Swasthya Sabha 2004). The prices of commonly used antibiotics, anti-diabetics and analgesics have increased substantially. Out of the 253 formulations sold by the 73 top selling brands in 2000, 169 accounting for 67% of the sample show a price rise, with only 49 amounting to 19% show price declines and 35, accounting for 14%, show unchanged prices (Rane 2003).

The other expected, but nevertheless revealing, observation was the share of contingent liabilities disputed by the companies that were studied. A contingent liability may or maynot be liability to the company. It is mandatory to show the liability in the balance sheet. For example, a document for equity shareholders for Alembic revealed that up to June 30, 2003, Rs 193.65 millions were listed as contingent liabilities. From some basic calculations, we find that this accounts for 18% of its profits before tax and 30% of its profits after tax for the last three periods (Alembic 2003). This is based on a calculation of Alembic's average profits before tax for the last three years at Rs. 1054.9 millions and Profits after Tax of Rs. 652.85 millions. The structure of pending liability shown in Table 7D establishes the disproportionately high share of income tax and sales and excise tax. The data on liabilities to employees in terms of wage revision is not even estimated in these accounts.

Table 7D: Contingent Liabilities of Alembic Pharma

<b>Liability Details</b>	<b>Rs Millions</b>
Excise Duty	40.354
Sales Tax Liability	22.155
Income Tax Liabilities	104.334
Bills Discounted by Banks	4.536
Water Charges	4.138
Department of Chemicals and Petrochemicals, GOI	3.493
Guarantee and Counter Guarantee on behalf of Associates	14.646
Non-payment of Gas bills to ONGC	**
Wage Revision and other Employees Demands	***
<b>Total</b>	<b>193.656</b>

Source: Issue Document for Alembic Limited for Primary Equity issue, December 2003

\*\* This dates back to the period 1982-1987, where for five years the Company did not pay its gas bills to the Oil and Natural Gas Corporation.

\*\*\* The company claimed that this was impossible to ascertain.

A similar review of the documents of ten other major pharmaceutical companies revealed similar patterns of contingent liabilities in taxation. One must bear in mind that the Indian state has been 'rationalising' its tax structures with drastic cuts in corporate income tax rates since 1991 in consultation with the top representative associations of the Indian corporate sector like FICCI and ASSOCHAM. Thus the primary accumulation aspect of tax evasion continues unabated in spite of the reforms and more importantly helped by the deregulation and dismantling of powers of tax authorities of the state.

Thus mergers and acquisitions, some degree of subversion of patent laws and a scramble for captive markets by big pharmaceuticals are a product of the receding ambit of state jurisdiction in the economy. This rampant 'marketism' through non-intervention is propped up by state structures of incentives in the form of incentives such as tax subsidies and concessions. Thus the new role of the state has allowed a regime of expansion that is hinged on even greater non-transparency in the field of formulation drugs, while bulk drug manufacturing, the life-

blood of the huge small-scale sector, is fighting for survival in the two most industrially 'developed' states of Gujarat and Maharashtra.

Top Indian pharmaceuticals have been expanding their operations in Brazil under the auspices of Mercosur through either direct investment or joint ventures (Sengupta 2003). For example, Ranbaxy, the top ranking Indian pharmaceutical giant, launched a joint venture in pharmaceuticals in Sao Paulo in 1999 with the registration of 50 formulations. Another big company Core Healthcare has developed a subsidiary that markets their products in Sao Paulo. Strides Arolabs, a less well-known company has formed a joint venture in Rio de Janeiro and a factory for manufactured finished products in the State of Espirito Santo (Sengupta 2003).

Other overseas expansions through joint ventures and acquisitions have been recorded in the earlier section. Such ventures have problematic effects on the Indian economy. With the manufacturing base of small-scale industries in pharmaceuticals shrinking and drug prices hitting the roof, this pattern of expansion of larger firms reduces the possible effects of intervention and purposive action for Indian national development even if state functionaries were willing to take such action. In any case, the class basis of the state defined by its ties to big capitalists and their powerful organisations is such that this will is hard to trace since the 1980s.

#### Restructuring of Labour Deployment and Organisation

The rapid growth of the Indian pharmaceutical industry in its new phase hides behind it a number of dire consequences for the people working in that industry and for the wider employment prospects in the Indian economy. Between 1957 and 1966, the daily employment in factories making drugs and pharmaceuticals went up from 222,000 to 474,000 (Indian Labour Statistics, Various Issues). According to the Federation of Medical Representatives Association of India (FMRAI), in 2003, the pharmaceutical industry employed close to 3 million workers and more than two thirds were employed in highly skilled areas such as research, quality assurance, pharmacy & chemistry, engineering, business and technical management (FMRAI 2004).

The starkest contradiction within the 'growing' pharmaceutical sector has been the retrogression in employment with massive retrenchments all through the 1990s. At the same time there has been a growing trend to informalize key sections of the workforce to increase their workloads and to lower wages. The dimensions of the retrenchments go far beyond the 'jobless growth' attributed to Indian manufacturing in the 1990s (Bhalotra 1998). What has followed in this sector can be better characterised as job-reducing manufacturing growth. Boehringer Mannheim, and Park Davis who were the lone producers of Chloramphenicol in India stopped their production as its prices in the international market became cheaper than the cost of production in India. Sarabhai Chemicals closed their Vitamin C plant for a similar reason. In the attempts to shift to contract manufacturing and sales, Hindustan Ciba Geigy, Roche, Abbot, Boehringer Mannheim, Boots, Park Davis, Unichem and others have closed their factories, offered a voluntary retirement scheme to workers and sold the factory sites at a

premium price. Apart from these closures, Pfizer, Rhone Poulenc, Hoechst, Glaxo have reduced their work force through Voluntary Retirement Schemes. These companies are manufacturing their products with the help of loan licences. Some of these companies have opened new smaller factories in new places and appointed workers with lower wages and a greater workload. More casual workers are being appointed. In the last two years in the Mumbai Thane region of Maharashtra around 30,000 workers have lost their jobs in the pharmaceutical industry. Table 7E below provides an estimate of retrenchments in some pharmaceutical factories from the 1990s.

Table 7E: Estimates of Retrenchment of Factory Workers

Company	Year	Reduction of work force in Factories
Glaxo	1995	1564
Hoechst	1996	1049
Knoll Pharma (Boots)	1995	600
Smith Kline Beecham	1995	208
E. Merck	1995	194
Rhone Poulenc	1996	700
Hindusthan Ciba Geigy	1993	907
Duphar Interfran	1996	154
Bayer	1996	590
Abbott	1996	All workers (estimated to be 500)
Roche	1996	All 320 workers
Boehringer Mannheim	1997	All 335 workers
Park Davis	1997	All 650 workers
Pfizer	1995	215
Unichem	1997	All workers (estimated to be 300)

Source: FMRAI Records, Responses of Office Bearers of Unions

The total number of workers in the pharmaceutical factory sector is estimated to be 2,000,000. Our estimates from the table above along with the figures for retrenchment in the small-scale sector amounts to 38,276. These are likely to be underestimates as all companies that were surveyed refused to divulge any figures and Unions had credible estimates for only a few factories.

Apart from factory workers, distribution workers are also gradually being replaced by a Cost & Freight (C&F) agency system. The early instance of outsourcing of labour can be traced to the domestic operations of big pharmaceuticals. Most of the new entrants like Sun Pharma

outsourced their labour force in sales and marketing networks to stockists and distributors who emerged as 'cost and freight' (C&F) agents, a phenomenon that was overwhelmingly evident in the 1980s in all middle and top ranking pharmaceutical companies. According to a FMRAI spokesperson, "companies are recruiting employees of casual nature in the guise of officers, contracting the work out, making sales a part of the service conditions, imposing punitive actions, and also imposing unbearable workloads and a humiliating work system. Even after 55 years of independence, the central government has failed to announce minimum wage for the sales promotion employees". The workers are employed by agents who can raise their workload and lower wages. In the last decade around 15 thousand distribution workers have lost their jobs in the pharmaceutical industry (FMRAI 2004). Moreover, through the agency system the Government is deprived of sales tax. Thus tax evasion and casualisation of the work force are the twin motives that drive the C&F system.

According to FMRAI sources, in the marketing field, sales promotion employees are facing tremendous attacks in the name of franchise, co-marketing, and appointment of communicators. Many permanent sales promotion employees are losing their jobs. Many others are appointed under the designation of 'executives' to remove them from the fold of the union. And again, more casual and contractual workers are being recruited. In this context, in 1997, in the national working committee meeting held in New Delhi, the FMRAI gave a call for a 'Bombay march' on November 29, 1997. It demanded from the Organisation of Pharmaceutical Producers of India an eight-point charter including job security in the light of mergers, maintenance of service conditions, recruitment to permanent categories, the rationalisation of the work system and the implementation of the Sales Promotion Employees (Conditions of Service) Act.

The change in marketing and sales structure emerged as a progression from financial widening. CIPLA made a whole range of employees in sales and promotion in distant and remote places redundant by establishing direct marketing through mailers with the opening up of the mail and courier service sector to private operations. Thus opening up the postal service to the private sector had an impact on both employment in small towns and also led to increased centralisation of operations in the pharmaceutical services sector.

About 100,000 of the 200,000 medical and sales representatives working in the sector participated in the one and a half month long relay strike from May 8 to June 25 2003 at the call of the Federation of Medical and Sales Representatives Associations of India (FMRAI), in pursuance of their 9 point demands charter. The strike began in Kerala on May 8 and concluded in West Bengal on June 25 covering Jammu and Kashmir, Kerala, Gujarat and Assam with 300 city and town units of the organisation taking part in it (Peoples Democracy, July 13 2003).

A review of 100 contracts of employment with C&Fs in Patna, Kolkata and Delhi revealed a norm of one or two-year employment contracts with no statutory benefits like provident fund and employees state insurance. Net take home salaries ranged from Rs.1500 to

Rs 5000 per month with an average of Rs 2500/-. In the cases where statutory benefits were part of contracts, 72% of the 50 respondents interviewed complained about non-compliance by the employer. 40% of the respondents specifically said that their employment was subject to a verbal agreement not to join the union. As the agreements between C&Fs and registered pharmaceutical companies operate on the borderline of the 'formal' and 'informal' sectors, a 'flexible' framework of labour relations had emerged in the pharmaceutical sector well before 1991 and has been exacerbated in the last two decades in spite of existing labour laws.

The findings of the survey fits in with the observations put forward by the FMRAI General Secretary, Amitava Guha "One of the biggest achievements of FMRAI has been the enactment of Sales Promotion Employees (SPE) Act, 1976 by the central government. However, the central government never took keen interest to see that all pharmaceutical companies are appointing their sales staff according to the provisions of the Act. This has resulted in the drug companies appointing sales personnel on their own terms and conditions, which is a direct violation of the Act. Today companies are recruiting medical representatives as officers and several of them are given jobs only after signing agreements with the company to stay away from FMRAI. This has not only weakened the bargaining power of the medical representative fraternity, but has also adversely affected the service conditions and job security of the medical representatives".

### **7.6 Implications for the Indian Economy**

The observations in this chapter have to be seen in the context of the National Health Policy (NHP), which was announced by the NDA government in 2002. It amounted to an abandonment of the concept of "comprehensive and universal health care", which India was committed to as a signatory to the Alma-Ata Declaration on Primary Health Care of 1978. The NHP remains silent on drug prices and manufacturing with the Ministry of Industries taking over the decisions about Drug Policy. Glossing over the issues concerning basic healthcare, the NHP instead argues for greater privatisation — privatisation of existing public hospitals, creating new private hospitals and subcontracting public health to NGOs, and emphasising the creation of health facilities to attract foreign exchange and promoting health tourism (Mukherjee 2004).

One could argue that the pharmaceutical sector is a very specific arena of the Indian economy. But in fact, very similar patterns based on import substitution in the 1970s, dependent on small and medium scale led growth resulting in highly concentrated market structures, can be traced in many sectors in the economy. Some of these have been highlighted in the case studies in Chapter Six. Patent protection, access to bank finance, public sector led R&D and the creation of a skilled workforce was common to the development of each of these sectors. The supplementary route of tapping into the stock market is also associated with most success stories in this period. Some of these patterns have been discussed in earlier chapters. The

structure of both 'old' and 'new' corporate groups in terms of holding patterns that provide 'control' mechanisms both for the owners and flexibility of labour organisations is also a common feature. At the same time, there has also been rampant non-compliance with tax and labour laws. These have repeatedly been the cause of public debate and social concern without any effective change.

Our survey of the changing relations between state and capital in the pharmaceutical sector, which, according to mainstream rhetoric was meant to break down this concentration affirms that the beneficiaries of state-capital relations have actually not changed in its tendency to lead to the concentration of assets. We have shown in the third section the concentrated nature of market structure in pharmaceuticals. Our findings establish that capital-state relations have changed in the zones of intervention by the state in favour of the political power of capital rather than by the state becoming minimalist in the Hayekian sense in the period of neoliberalism. The 'trickle-down' employment generation of the 1970s and 1980s has been reversed into a double-digit growth process contingent on job reduction, casualisation and rising prices in the pharmaceutical sector. Forms of informalisation through loan licensing, contract manufacturing and casualisation of labour have become central to the growth of the sector. Reverse engineering has been reversed into higher levels of technology dependence and the growth of joint ventures with technology leaders. Indian pharmaceutical companies have also globalised their production with effects on Indian employment growth and investment. Relative independence in technology has come at the cost of a much greater reliance on international financial markets and contract business that in itself adds to not just volatility but also to the highly concentrated asset structures spanning an international market and based on casualised forms of labour.

## Conclusion

This research has addressed the relationship between state and capital in India from the period of the balance of payment crisis and the IMF loan of 1966 till the liberalisation of the 1980s. This is a critical period because it marked a gradual but distinct move towards neoliberalism in contrast to the earlier liberalisation episodes since independence. A survey of academic writing across disciplines established that most analyses ignored the importance of the domestic political forces that had shaped the adoption of neoliberalism as the dominant ideology in India in a context that was undoubtedly helped by the restructuring of the global economy and the exhaustion of the dirigiste experiment in India.

Three main arguments inform the thesis. First, while many critics of neoliberalism have focused on the limitations of neoclassical economics and methodological individualism, less attention has been given to the dialectical relationship between ideology and internal political forces. This research has explored some of these relationships. In particular, the changing political relationships between capital, labour and the state can inform a better understanding of why neo-liberalism was adopted when it was. Second, in India, the expansion of capital both during the 'dirigiste' and 'neoliberal' periods was dependent on the state; and in both periods key features of capital accumulation depended on changing 'zones of intervention' and 'non-intervention' of the state. Third, the critical period between 1965-66 when contradictions within the 'state-led capitalist path' came to a head and the decisive turn towards a 'neoliberal' strategy in the 1980s was characterised by important continuities and changes in the 'sites' of primary accumulation of capital that reveal important internal drivers of the move towards liberalisation.

We have argued that the expansion of capital in the first three decades of the post-independence period not only led to a concentration of assets, but also put the top business houses in a position of political and economic power that enabled them to export capital and technology abroad from the 1960s. This growth of capital was directly a product of the seemingly inward looking ISI policies of the period. The preoccupation of organised capital at this time was with ways to subjugate labour in the absence of effective strategies to enhance productivity growth. It was also at this time that cracks began to appear in the contract between state and capital that had been established at independence and this manifest itself in debates around the Companies Act and the jurisdiction of the Industrial Disputes Act.

The central task of our thesis is to examine the processes that were unleashed during the period of stagnation in the 1970s that led to the break from the growth strategy funded by public expenditure. We argue that during this time new aspirants to the capitalist class began to see the abuses of the licensing system by the clique of 'insider' capitalists in the 1970s as a threat. These new business groups saw the regime of internal controls as an impediment to the development of their own profitability and power. The rise of these 'new' business groups was regionally differentiated, and this is consistent with observations of growing regional

differentiation within India in the subsequent growth period. With the rise of new capitalists, there were also significant developments in the capital market, and an increase in 'rentier' finance, which sought to decontrol financial markets and ensure a delinking from production as it saw profit opportunities in capital markets.

Economic policy in response to these new economic and political forces led to increasing controls in some areas and deregulation in other areas. Later this was combined with populist policies. As a result, the role of the state in this period is impossible to understand in terms of the false dichotomy between the public and private sectors suggested by neoclassical analysts of this period. The changing nature of state intervention is a more complex story that we can understand in terms of changes in the social processes of accumulation in the industrial and other sectors of the economy in response to changes in the structure of the economy, the social structures of employment and labour organisation and the related changes in the strategies of labour and different fractions of capital.

For instance, our study of the pharmaceutical sector showed that the shift from dirigisme to neoliberalism, capital-state relations changed in the zones of intervention in response to the greater political power of some sections of capital rather than by the state becoming minimalist in the Hayekian sense. Reverse engineering strategies were reversed as higher profits were sought for a time through higher levels of technology dependence on Western countries and the growth of joint ventures with technology leaders. The growth strategies of the 1970s and 1980s that offered some limited protection for labour were reversed with job reduction, casualisation and rising prices in the pharmaceutical sector, achieving for a while double digit growth rates.

In a continent-sized country, our research had to sacrifice a lot of detail. It may be accused of generalisation based on relatively limited evidence. For example, a more detailed review of the agrarian question could not be undertaken except to outline the processes through which agrarian accumulation figured in the expansion of the capitalist class especially since the 1970s. However, despite the broad subject of the study, we attempted to be historically specific and identify the key elements that shaped the dialectical relationship between state and capital in a market-economy trying to develop on capitalist lines. We concentrate on the argument that the change from a low productivity low growth strategy towards a strategy achieving modest productivity growth led by high growth niches in the economy was driven by 'new' oligopolies that had emerged in the same way as earlier capitalists with new waves of traders turning to manufacturing. The thesis outlines the social processes through which these new capitalist emerged and the role of the state in this process. We trace critical aspects of the changes in the relationship between state and capital from the consolidated capitalist influence on policy in the early days of the independent Indian state to the rise, growth and diversification of the capitalist class and the consequent changes in the state-capital relationship. In this exercise, we have tried to cover diverse forms of evidence. Much has been written on the period under consideration and it is impossible to address the huge literature on post-independent economic development in

India. We have had to be very selective in the use of such secondary sources and have done so only when such writings are directly relevant either in supporting or challenging our arguments and evidence.

The growth of the capitalist sector in India has always to a large extent depended on specific relationships with the state. We saw this in the development of capitalist enclaves in the late colonial period when the political power of the tiny capitalist class was linked to the crisis of the British empire in the inter-war years due to the competition faced by British capital from other rising imperial powers. However, big capitalists soon achieved much greater influence over the structure and parameters of 'development' and capital accumulation in the state-to-be through their strong representation in the National Planning Committee in the years prior to independence. This change in the political power of capitalists had to do with political developments within the mainstream of the national liberation struggle, the marginalisation of the Left within the Congress between the Haripura to Tripuri sessions (1938 and 1939) and Congress taking office in the Provincial Governments in 1937.

After independence, the majority of FICCI members representing 'big' Indian capitalists were in favour of regulated capitalist development as had been agreed in the National Planning Committee report so long as the parameters of the planned economy were defined in consultation with capitalists. Given the low development of private finance capital, the commercial and industrial bourgeoisie in India at Independence were dependent on state patronage and protection for their profits, sources of finance, for the protection of personal laws defining the Hindu Undivided Family (HUF) as a legal entity to preserve the family-run business house structures, for access to technology and for disciplining labour.

From the Second Plan, state support was seen as very important by business even though the state's supportive role was limited to assistance in terms of trade protection, supply of capital goods and access to technology. All of these were in turn dependent on the 'goodwill' of Western nation-states whose priorities at that time included maintaining their geopolitical dominance and stability in a world threatened by 'actually existing socialism'. The two decades after independence saw a rapid fall in the share of agriculture and a rise in the share of regulated manufacturing. This structural change was a reversal of the colonial structure of the economy both in terms of growth and sectoral shares. The sources of bank finance were not controlled by the state in this period and remained in the 'private' sphere of the economy. The question of 'conditionalities on capital' did not arise, as the 'developmental state' needed the capitalist class more than the capitalist class needed the state for the physical expansion of capital due to the nature of power that had accrued to the small but politically strategic capitalist class in the course of the national liberation struggle. The dilemma lay elsewhere, the capitalist class was dependent on the state in the 'disciplining of labour' – the other class that had developed legitimacy and power through the plurality of trade union organisations since the 1920s.

It was not so much the process of planning and ISI per se, but the capitalist class's relationship with labour in an ideological climate that was hostile to capitalism that defined the contours of the capitalist class's dependent relation with the state. For all other purposes the state was dependent on capitalists more than capitalists' dependence on the state to make good the massive state led industrialisation undertaking after independence. Marjit and Acharyya (2003) in their neoliberal take have focused on the contrast between the formal and informal sectors in studies of labour, but not in studies of capital. Our enquiry provides a perspective that highlights the importance of subjugating organised labour and thus creating incentives for the 'informalisation' of the economy both during 'state-led capitalism' and 'neoliberalism'. In the period of dirigisme, workers had a political voice as long as trade unions were willing to defend the interest of workers and raise the level of political struggle in spite of the ruthless subjugation by the state from time to time. Neoliberalism brought with it the demand for scrapping of 'labour laws'. This is a demand for rolling back the achievements of the post-independence trade union movement; not the scrapping of archaic colonial laws as is often argued by - economists who see India's existing labour laws to be a big barrier to labour market flexibility ( Das 2000; Debroy and Bhandari 2005).

The scope for legally pursuing reverse engineering was only possible after 1970 with the scrapping of the Colonial Patent Act of 1911. The power of the landed rich ensured that agriculture saw no reforms; neither did the huge private industrial sector that consolidated and diversified under the Nehru-Mahalanobis strategy with assurances of no state take-over in the foreseeable future and a 'level playing field' for foreign capital. The public sector was geared to provide the infrastructure needed for post-independence capitalist development. The private capitalist sector was never made accountable or responsible.

Thus uneven development was embedded in the contradictions of the Nehru-Mahalanobis strategy, not because it was conceived as a regulatory strategy as is argued by Bhagwati (1993) and Krueger and Chinoy (2002). On the contrary, first, the narrow ambit of its regulatory reach and second, its inability to effectively implement its regulatory mechanisms because of the political power of the expanding capitalist class were key to the limited sustainability of dirigisme. One outcome was a brief period of despotic and dirigiste populism in the 1970s combined with an increased centralisation of state power through the Emergency regime. But this period also saw repeated negotiations of the extent and nature of state intervention.

In the period between 1965 and 1980, the state remained the concentrated repository of power in terms of transfers to the capitalist class but also the repository of the power to negotiate, control and limit the organised power of industrial labour. By 1967, the one-party rule of the Congress was breaking down under its own contradictions and challenges from other oppositional parties that combined motley ideologies along with a support base mired in the caste-class nexus that defined social relations in most parts of India. Class based organised

politics was concentrated in Left strong-holds based on the simultaneous organisation of small and middle peasants to acquire property rights over land and the organisation of urban industrial labour in the pockets of capitalist enclaves. The contradictions of planning, the accentuation of poverty, the failure of the Congress to accommodate the intermediate classes and factions in the development process or to break the hegemony of the landlord and rich peasants within the Congress led to new alliances inside and outside Congress which kept realigning through the 1970s. These remained unstable and made it impossible for any political coalition to provide the stable incentive structure vital for the primary accumulation of capital to be productive.

By 1974 there was the Nav Nirman uprising in Gujarat, which inspired the 1974 JP movement in Bihar directed against corruption, bureaucracy and the centralisation of power. The urban petty-bourgeois uprising took a militant turn by March 1975 along with militant strikes by the working class that had reached a crescendo with the Railway strike in 1974. The state came down heavily on all forms of dissent (Chandra 2003, Frankel 2005), but it was clear that in the ten years from 1964 it was on the plank of 'social justice' that anti-Congress alignments bid for power at the level of state governments. Apart from Communist-dominated regions where the political agenda revolved around militant struggles for land reform and trade unionisation of the labour force, the polity became increasingly defined by regional agendas often linked to caste as in Bihar, or ethnolinguistic and 'son of the soil' revivalism as in Maharashtra and Tamil Nadu. But underlying it all was an intense dissatisfaction with the unevenness of the growth process up to 1975.

The absence of thoroughgoing land reforms, a result of the bourgeoisie's compromise with landlordism, kept productive forces in agriculture arrested. The market for mass consumption goods remained restricted and grew slowly for this reason. Moreover, the ability of the state capitalist sector to keep expanding, and thereby to keep enlarging the market for the private capitalist sector, got progressively undermined: the low agricultural growth put a ceiling on the rate at which public investment could grow without squeezing the living standard of the masses to an extent intolerable in a democracy; in addition, the ruling classes enriched themselves from the public exchequer, a form of 'primitive accumulation of capital', which further curtailed the growth of public investment. The *dirigiste* strategy of capitalist development, dependent on expanding public investment, entered a cul-de-sac and lost social support even as metropolitan capital—and, in particular, finance capital—stepped up its offensive against this strategy through the Bretton Woods institutions, and later the WTO, in a world where the crucial political support coming from socialist countries had disappeared.

Our account of Indian growth glosses over the merits of the argument that the decline in public expenditure meant that in promoting the primary accumulation of capital, the state could not adequately fulfil its other role of expanding the domestic market. We focus instead on what the state did in enabling new entrants to enter and drive growth. This included the reversal of the 'level playing field' through national patent legislation, some restrictions on monopoly and

the freeing of some economic space for the stock market to enable new sources of capital accumulation and reduce the dependence on state finance. The nationalisation of banks on the other hand extended accumulation into rural areas and led to a transformation of the political landscape. This also facilitated a new pattern of accumulation with a new nexus between trade and finance that was vital to the economic diversification of the 1980s as shown in Chapter Five. The interlocking of bank finance with industry was attempted through bank nationalisation. However the capital constraint meant that the way out was to tap into middle class savings through the stock market. This remained outside the ambit of state regulation for a period long enough for business houses to capitalise on the opportunity.

The process of diversification had quite distinct features. The first phase of diversification came after the food crisis of the late 1960s. The beneficiaries were often the 'rich peasants' and wholesale and retail traders whose accumulation was sustained by the state's role as 'risk absorber' through support prices, and subsidised loans to build storage and transport facilities. This was partly the result of the transformation of production for the beneficiaries of the two phases of the 'Green Revolution' – first in wheat in Punjab and Haryana and the second in rice in Andhra Pradesh and Tamil Nadu.

A second feature was the transformation of some public sector managers and technocrats, beneficiaries of the highly subsidised post-independence higher education system, into new 'entrepreneurs'. This was linked to the early 'Non Resident Indian' phenomenon of sons and daughters of the entrepreneurial class equipped with US degrees ready to take over the mantle if the 'family business' took off. Financial credit from state institutions, bank credit, political connections and social networks were key to expansion in this direction.

A final feature had to do with changing tastes in the 'narrow' domestic market. Import liberalisation in the 1980s had very little to do with a big 'export' drive. It was more in line with the changing structure of social relations in India led by a distinct but related social phenomenon of enrichment and accumulation. This change was driven by the prosperity of a set of rich and middle farmers in certain parts of North and later South India due to the 'Green Revolution' in wheat and rice, and the retail and wholesale trade beneficiaries who gained from the food crisis through the 'support price system'. To prevent massive social upheavals in the 1970s, the state stepped up public expenditures aimed at job creation and transfers to emerging rural political groups that had been empowered through the green revolution. This was accompanied by the entry of a new set of technocratic 'entrepreneurs' starting with relatively modest means in medium scale industry through the gradual liberalisation of import content and no longer bound to the public sector for basic and intermediate goods.

Capital expansion after the third plan period was dependent on the entry of 'new' capitalists some of whom were really old investors who had been in business for many years. Thus diversification was into new and not necessarily related areas of business by old players. At the same time, developments in terms of redefining the zones of state control and command

also led to the growth and diversification of 'new' business houses. The 1980s saw a change in the relationship between state and capital in the modalities of transfers, incentives and protection but not a fundamental rupture. These changes led to a further divergence of interests between big business houses and the smaller ones after dependency relations in terms of 'linkages' grew between the two in the period of controlled development.

The 1980s also saw state policy changing towards joint sector development between the public sector and the big private sector. With selective opening up to FDI and diversification of the economy through state promotion of telecom, petrochemical and IT sectors, there was a modest move towards export promotion but the inability to impose any measure of discipline on the capitalist class led to an unprecedented rise in foreign borrowings. As the small and medium scale industries grew, definitions of scale in terms of asset size kept changing to keep most enterprises within the network of direct patronage. Even in 1981, the FICCI president was arguing that the public sector versus private sector, domestic market versus export market, and small industry versus large industry were 'dead' issues. According to the analysis put forward by FICCI, the distinctive lines between the private and the public sector were blurred and one merged into the other through the share holding patterns and market based linkages that sought to bring about coordination and interdependence.

According to the ideologues within the leading chambers of commerce, the development of the private sector was greatly influenced by the growth of the public sector, the export market could be better served if industry has access to the domestic market and small units would develop faster when they were complementary to the growth of large industry. By 1975-76, a new pattern had set in. Unregulated manufacturing marked the rise of new business houses assisted by MRTP, FERA and the Indian Patent Act. The nationalised banks played an important role in terms of loan assistance but non-banking finance through deposit mobilisation and equity mobilisation by tapping into the savings of small investors were characteristic of this period.

However after the shift to neoliberalism, driven by changes in the world economic structure and the contradictions of the dirigiste populism of the 1970s, there was a reversal of capitalist strategies towards short-term considerations of quick profits and conventional comparative advantage. This was a significant reversal of the capability-building approach developed under the aegis of state protection in the period from 1966 to 1980.

The 1990s were characterised by a restructuring of the relationship with metropolitan capital, asset stripping of the state through policies of privatisation often termed 'disinvestment' and more recently the intensification of expansion of the top rungs of Indian capital to other countries. Roughly all the demands of various sections of the capitalist class since the 1960s seem to have been realized under neoliberal economic policies that emanated from the imperial centres of capital and that were apparently meticulously adopted by capitalists in India who were in a position to gain from the new regime. However the complete deregulation of labour

laws and the depoliticisation of the trade union movement are the important demands that still remain to be satisfied. The main contradiction of the present neoliberal expansion is the limited employment generated by the new accumulation strategy and the widening upward mobility of the top two deciles of the population. Thus neither 'trickle down' nor 'pulling up' has led to upward mobility through employment beyond the top twenty percent of income groups.

Our review of the pharmaceutical sector shows that a significant development in the sphere of technology acquisition was achieved by redefining the nature of intellectual property rights through the promulgation of the Indian Patents Act of 1970. State patronage combined with the national patent laws formed the basis for an accelerated expansion of 'old' firms and the entry of 'new' capital into the pharmaceutical sector through the 1970s. More recently, patent laws were changed once again in keeping with the commitment to Trade Related Intellectual Property Rights (TRIPS) leading to the withdrawal of process patents and the establishment of a twenty-year lifeline for product patents. In this latest phase of liberalisation, the capitalist expansion of the pharmaceutical sector has been driven by short-term considerations of profits and the exploitation of conventional comparative advantage. While this has allowed the Indian pharmaceutical sector to sustain high levels of growth, there are important implications here for further capability development.

One could argue that the pharmaceutical sector is a very specific part of the Indian economy. But in fact, very similar patterns can be seen in many growth sectors of the Indian economy. Growth was often based on import substitution in the 1970s that led to growth driven by small and medium sectors. The subsequent strategy of tapping into the stock market is also associated with many other successful sectors in the liberalisation period. Some of these patterns have been discussed in earlier chapters. The continuity in the structure of both 'old' and 'new' corporate groups in terms of holding patterns that provide 'control' mechanisms over labour and finance is also a common feature. The changes brought about by liberalisation had critical impacts on the access of different sections of the capitalist class to technology and finance, and resulted in radical changes in the attitude of Indian capitalists towards 'integration' into the 'new' imperial order. They also accelerated the informalisation of capital-labour relations with an intensification of attacks on both organised and unorganised labour.

In the 1960s it was argued that the pattern of government expenditure and private spending, and the structure and design of the accumulation strategy, were elite designed and elite benefiting. This could be deduced from the consumption patterns of the Indian middle class, in the items of government current expenditure and in the continued feebleness of the tax effort. Our survey of the changing relations between state and capital in the pharmaceutical sector after liberalisation, which according to mainstream rhetoric was meant to break down elite concentration, affirms that the beneficiaries of state-capital relations have actually not changed if assessed by the concentration of assets. Chapter Seven demonstrates the concentration in the market structure in pharmaceuticals. The achievement of a new spurt of

growth also came at the cost of total reliance on international financial markets and contract business that adds to volatility and relies on casualised forms of labour deployment.

It is remarkable that these developments happened with very little public debate. The initial developments began during the Emergency regime where the political atmosphere was one of suppression of opposition. That many of the key actors were close to the leading political functionaries responsible for the Emergency facilitated the reform process. The cover provided by the global shift towards liberalism in the subsequent period also paved the way for the ideological transition.

However, in the decades of neoliberalism, the increasing power of capital to negate or subvert any attempts of control has become a moot point as state power has become so entangled with big capitalist interests that even feeble attempts at establishing discipline or control over the accumulation process have been abdicated. In the ensuing melee of the 'free market for the powerful', the mainstream media and US returned Fund-Bank economists from India have pledged their faith in the market and dismissed the usefulness of any debate. The link with globalisation came at a conjuncture when the intended and unintended effects of the state-capital relationship had rendered some sections of big Indian capital competitive and in a position to expand not just in the domestic economy but overseas as well. However, it perpetuated the dependency of Indian capital for techniques and finance on more advanced capitalist countries and has paved the foundations of a 'franchisee economy' relying on cheap and 'flexible' labour. The polity has been increasingly fragmented by 'identity politics' endorsed by a postmodernist intelligentsia that does not even recognize the need for a critique of the economic strategies of capital. Petty-bourgeois ideologues revel in the power of Indian capital and limit themselves to preaching the importance of corporate social responsibility.

The findings of our research inevitably open up many further questions and lines of enquiry. An important and critical research task that would complement this work would be to study the changing strategies of other constituents of society in the shift from dirigisme to neoliberalism. It would be interesting and relevant to look at how the roles of caste, class, religion and gender have changed in the post-independence period, both driving and responding to changes in the state-capital relationship. This admittedly is a difficult task and involves two sets of issues. One is the complex question of discerning the multiple ways and the extent to which each of these categories play a role in the accumulation process. Related to this is the question whether the social markers of identity can be deconstructed into discrete units. The second issue relates to tracing the minute ways in which each of these social relations figure in the accumulation process as they constitute the hidden abode of reproduction of social relations. But one important set of literature has already developed focussing on the effects of neoliberal state policies on gender relations and dalit occupations (See Chapter One). Another set of literature addresses the theoretical issues involve in the conceptualisation of these categories in the capitalist mode of production (See Chapter Three). Based on case-studies, field surveys and

oral testimonials, an attempt can be made to explore the correlations and possible mechanisms of causation between the changing capital accumulation processes and the changes in role of markers of social identity like caste, class, religion and gender. A second and important research theme would be on comparative political economy studying similar shifts from state-led capitalist processes in comparable societies like Brazil, Egypt and Turkey with suitable modifications of the framework of research. At a deeper level, an important research and political task is to study the development of gender relations and the changing role of patriarchy in the fifty years of transition from a state-led capitalist society to the panoply of social relations evolving out of neoliberal changes. But the most important task for the activist researcher is to study the multiple modes of resistance that have developed within India against the backdrop of changes in the relationship between state and capital in the transition to neoliberalism. These new social forces may in time further shape the evolution of capitalist development in India.

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