Capitalists and Industrialization in India

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Historically industrialization has had a strong association with capitalism and profit-oriented capitalist firms have been its important instruments in many parts of the world. Britain was the pioneer nation in this regard. Many other countries have successfully followed her to achieve an 'industrialized' status. Such success, however, has been far from universal and there have been other sides to that process. The Indian case serves to highlight the significance of the concrete internal and external conjunctures in determining whether and to what extent does a process of capitalist development produces industrialization.

I

In Europe, a period of time separated the initial emergence of capitalist relations of production and the advent of the Industrial Revolution. Capitalism emerged out of a process of transition from feudalism whereby the dominance of capital over the production process took the form of the emergence of a new kind of capital - industrial capital. The pre-condition for the emergence of this industrial capital was the availability of wage-labour which made it distinct from the historically older form of capital, namely merchant capital, which required only the existence of trade and commerce as its basis. It is the advent of *capitalist* production and the subordination of commerce to production rather than the other way around that provided the setting, as vividly described by Marx in Volume I of Capital, for the gradual revolutionising of production that eventually expressed itself in the transition from handicraft production to machinery-using modern industry.

Capitalism's emergence in India in a colonial context, however, did not have a similarly revolutionising effect. Colonialism itself played the kind of role that in Marx's view merchant capital did in Europe when it established its sway over production – expanding commerce but preserving and maintaining the pre-existing mode of production as a precondition for a surplus appropriation process. India's agrarian sector under colonial rule provided the prominent example of this phenomenon. The surplus appropriated from that sector, a kind of primitive accumulation, in addition fed not capitalist accumulation in India but instead formed the basis for tribute transfer to Britain from its Indian colony. The destruction of India's traditional handicraft industry fostered by colonialism on the other hand had little to do with the expansion of modern industry in India, facilitating instead industrial expansion in Britain. It gave rise to a process of deindustrialization rather than industrialization – whose effects were only partially reversed by the import-substitution process that took place towards the later part of colonial rule. In addition to these was the absence of any consistent support to industrialization from a state guided by the imperatives of maintaining India as an appendage of the British imperial system.

The emergence of the capitalist class in India also reflected the lack of capitalism's revolutionary character. Capitalist production was more or less synonymous with modern industry from the very beginning. This emergence of modern industry was initiated by pre-existing merchant capital making use of the availability of machinery in the form of imports. It was thus an extension of commercial activity rather than a process of industry coming to rule commerce. In addition was the fractured development of the industrial capitalist class, its originally dominant component being a European segment tied to and dependent on colonial rule and inhibiting the development of its native component. This reinforced the effects of the fact that it was not their mastery over production or technological innovativeness but instead accumulations through trade and commerce and their connections and skills in that sphere that had formed the basis for the emergence of India's industrial capitalist class. This combined with the colonial background to shape an attitude towards technology of long-term significance. Technology was not something to be developed but simply something to be acquired in the market and from foreign sources. India’s industrial capitalist class never fully shed this attitude acquired as a result of its specific origin.

The development of modern industry in the period of over nine decades preceding independence was hardly spectacular. When the process began, most of the world excluding Britain did not qualify to be called industrialized. By 1947, however, all the advanced countries and regions had experienced their industrial take-offs. In India, the modern industrial sector remained very small and narrow. The real historical significance of its development under colonialism lay not in the great economic transformation it produced but in it creating the future ruling class and its immediate antagonist, the working class.

II

The historical background of colonialism also meant Indian independence lacked the character of a full-fledged bourgeois revolution. It meant the end of direct foreign rule and that was of critically important significance insofar as it opened up the possibility for the use of the state to promote capitalist industrialization. However, the transfer of power associated with independence did not represent a decisive episode in the transition from one social formation to another. The end of colonialism did not mean fundamental changes in the economic and social structure created under its aegis. It brought India’s capitalist class to power but only in alliance with dominant landed interests. The limits to the agrarian reform programme and the consequent persistence of an enduring agrarian constraint on industrialization stood testimony to this.

Capitalist industrialization under the dirigiste regime after independence had to thus take place in a constrained internal and external context. In such circumstances, the achievements of India’s import-substituting industrialization between independence and 1991 were limited along many different dimensions. The average pace of industrial growth was far more rapid than in the colonial era but was marked by instability. Yet an industrial sector considerably larger and more diversified than at independence came into being by the end of the 1980s even as per capita levels of industrial production remained low. The industrial sector’s share in aggregate output, including the part contributed by its informal component, crept up very slowly to just over a quarter by the end of the 1980s. Industrial expansion and even services growth, however, contributed very little to the expansion of non-agricultural employment and shifts in the occupational structure. The large part of the workforce remained rural and employed in agriculture. On the foreign trade front, India ceased to be a mainly primary product exporter but did not succeed in becoming a significant exporter of manufactured products. Whatever limited exports happened were also dominated by low-tech labour-intensive products. Import-substituting industrialization did not also generate sufficiently strong incentives for Indian industry to invest in development of its own technological capacity. Instead, the diffusion of technology from abroad formed the basis for the appearance of new products, industries and processes.

The growth and diversification that India's industrial structure experienced was part of a larger story of the diffusion of industrialization to the Third World in the second half of the twentieth century. This diffusion brought the industrial structures of Third World economies closer to that of advanced countries, though the latter continued to account for a disproportionate share of manufacturing value added. However, in comparison to some of her other Third World counterparts in Asia, India’s long-term trend of industrial growth as well as its transformative impact were more limited. Industrial development nevertheless did enable a significant development of Indian big business whose significance was to be fully revealed only after liberalization.

The private corporate share in the economy’s output remained relatively stable at around or below 15 per cent till the end of the 1980s after some initial increase in the 1950s. Capital accumulation in the corporate sector was largely ‘externally’ financed and there was a trend to shift from equity to debt and from individual to institutional financing. However, the private corporate sector’s expansion was not based on a net transfer from outside the sector as the outflows from it in the form of taxes, dividends and interest remained in excess of external funds raised.

The relative stability of the private corporate share in output reflected the combined effect of two factors – the limited extent of industrialization and the redistribution of economic activity between the private corporate, public and unorganized sectors. A feature of the post-independence development was the tendency for the narrowing down of private corporate activity to the manufacturing sector, as sectors like mining, electricity, transport, communication, and the large financial sector became virtually the exclusive preserve of the public sector. Even in manufacturing activities, the public sector share increased, though private corporate capital remained the dominant component in the organized manufacturing sector. However, there was a massive redistribution of the weaving segment of the textile industry from the organized mills to the unorganized power loom sector.

As the corporate sector became more concentrated in a diversifying manufacturing sector even as it ceded space in what was the largest manufacturing industry at independence, the industrial spread of private corporate capital changed considerably. Associated with this were a number of other important changes.

At independence, large private corporate capital was heavily concentrated in industries like the cotton and jute textile industries, mining, tea manufacture, etc. By the end of the 1980s private corporate capital in these was limited or absent. Instead big businesses were often built around presence in one or more of a range of other industries that had grown over different time periods such as steel and steel products, chemicals, cement, automobiles and automobile products, industrial and other machinery and consumer electronics. These industries were also technologically more 'modern' industries. In the process of being agents of their development, private capitalist firms learnt how to to find, source, handle and adapt for profitable use technologies available internationally and gained this ability and production experience across a whole range of industries. They, however, moved away from producing for a mass market to focusing on narrower market based on higher average incomes. The change in the industrial spread also meant a retreat of private corporate capital from large direct employment and the management of large workforces. The newer industries into which corporate capital had spread by the end of the 1980s were also inherently more oligopolistic in nature than the textile industries had been.

The acquiring of industrial features by the capitalist class through the process of import-substituting industrialization should of course be seen alongside its limits. The leaders of capitalist industry achieved or sustained their status not on the basis of an ability to be technologically innovative but by their successful manoeuvring of the regime of controls and securing technology from abroad. These abilities had a generic character and fostered a tendency towards business groups expanding wherever opportunity presented itself – thus inhibiting both a widening of the class as well as the development of abilities associated with specialization. This ability to be mobile across industries, however, enabled many of the older constituents of the Indian capitalist class to survive the transition associated with industrial development. At the same time, the growth of new constituents on a similar basis meant that changes in the composition that did happen produced very little independent effect on the process of Indian capitalists shedding some of the features they acquired due to the peculiar circumstances of their origin.

Notwithstanding the above, import-substituting industrialization did contribute to Indian capitalists gaining strengths they did not have at independence, enhancing their general ability to confront international competition. At the same time it had increased the scale and frequency at which technological advances needed to be introduced, which increased technological dependence. Catching up with the structure of industries at the international level had reduced the scope for industrial expansion through a successive diffusion of industries. Continued expansion had to be based primarily on existing industries rather than on new ones, and that too under conditions of a narrow domestic market. Such an expansion had to follow the international pattern or constitute a niche within it. Either way, the technological requirements were different from those of the past. Expansion on the basis of existing industries meant that all firms required recurrent technological advances in all industries. The strengths and weaknesses of Indian capital thus worked in tandem to move Indian capitalist opinion towards favouring a greater degree of integration with the world economy.

III

India's transition to liberalization and the opening up of the economy did not produce any overall growth depressing tendencies. Instead, the story of India's growth being faster than that of the rest of the world, which had emerged in the 1980s, continued and the first decade of the current century saw a further acceleration in growth. India's weight in the world economy measured in terms of its share in world GDP therefore has increased considerably. A new trend that appeared after liberalization, however, was that of the growth of the corporate sector being more rapid than that of the rest of the economy, more so in periods of higher growth. This was accompanied by a persistent trend of redistribution of the income generated within that sector in favour of profits and other surplus incomes, which cornered the entire gain in the sector's increased share in national income. Despite the opening up, it has not been foreign capital but Indian capitalists who have been the principal beneficiaries of this unprecedented corporate expansion. Moreover, Indian capital has also managed in this period to itself internationalize to an extent. Rapid aggregate growth and the success of Indian capitalist firms have thus provided the basis for the story of India's 'emergence' under globalization.

Industrialization has, however, not been at the heart of the post-liberalization capitalist accumulation regime in India. Industrial growth has tended to fluctuate with spells of high growth tending to be very short. The share of the industrial sector in GDP and that of manufacturing in particular have stagnated at the comparatively low levels achieved by the mid-1990s. On the export front, while India's share in world exports has grown and there has been some diversification of manufactured exports, imports have grown much faster leading to a significant increase in the trade deficit.

Rather than manufacturing, it is services and construction activities that have contributed the bulk of the aggregate growth as well as that of the corporate sector. It is also in services that India has achieved its greatest export success and this has combined with large remittance inflows to compensate somewhat for the ballooning trade deficit. For Indian capitalists, therefore, profitable opportunities for expansion in services and construction have provided the principal base for expanding their share in the economy's production. These have thus displaced manufacturing as the principal sphere of private corporate activity, reversing the earlier trend. This expansion pattern has, however, been at odds with the investment behaviour of the private corporate sector in which manufacturing still plays a key role. In two bursts, one in the first half of the 1990s and the second in the high growth phase before the global crisis, significant corporate investment took place in manufacturing and these were also periods of rapid growth of aggregate corporate investment and of manufacturing output. Both these bursts ended with collapses of corporate investment.

The services and construction dominated growth pattern and the instability of industrial output and investment are inherent features of the accumulation regime under liberalization which has been based on creating a generalized wage and income depressing tendency. On the one side is the rapidly growing private corporate sector which employs only a tiny fraction of the labour-force and where employment has not grown rapidly either. The largest sector of employment, agriculture, on the other hand has suffered a deep-rooted crisis under liberalization and contributed less than 9 per cent of India's GDP growth in the last two decades. As agriculture is unable to absorb any more of the labour force and the corporate sector having such a narrow bas of employment, non-agricultural informal employment has swelled considerably. Moreover, this has happened in a situation where the agrarian situation has held down the reservation wage in non-agricultural activities so that most employment – in agriculture, in the non-agricultural informal sector, and even in the organized sector, pays very little. Thus, even in the organized factory sector real wages have been flat or creeping downwards for two decades during which Indian per capita income has nearly tripled. Despite high aggregate growth, therefore, a large segment of the population remains caught in a low-income or low-wage situation.

The holding down of wages, along with growth that is more productivity rather than employment driven, has contributed to moving private corporate sector distribution of income in favour of surplus incomes, even after accounting for the existence of a small segment of high-salaried white-collar employment within the sector. Partly this gain has tended to be retained by companies and has underlain the rapid rise in corporate savings seen in the last two decades. Even when distributed, however, its beneficiaries are inherently few in number.

The income distribution pattern of Indian growth, the parallel iniquities in access to credit, and the fiscal restrictions imposed on the state by liberalization have meant that it is the consumption and asset demand emanating from a small high-income group and from the private corporate sector which has shaped the overall pattern of movement of Indian demand. One implication of this has been that the increasing share of expenditure on services rather than on manufactured goods has characterized private consumption expenditure. While the large majority with low incomes has been kept out of the market for non-agricultural products, the increasing incomes at the top have produced a greater diversification of their demand. Relative to industry and manufacturing, however, these services have limited capacity to absorb investment. Corporate investment, therefore, tends to still go largely into manufacturing. This has made industrial demand more dependent on corporate investment in manufacturing and expenditure on real estate by high-income groups. Corporate manufacturing investment then faces the perpetual risk of creating capacity in excess of demand and has therefore shown great volatility and simultaneously generated instability in industrial growth. Aggravating this problem is the fact that the pattern of demand being generated makes it more biased towards relatively more import- and capital- intensive or high productivity production. The former combines with limited exports to aggravate the market constraint as well as balance of payments difficulties while the latter keeps employment growth down. Moreover, if productive investments like in manufacturing face a barrier it generates a tendency for asset demand to shift towards more unproductive and import-intensive forms like gold.

The success of Indian capitalist firms in the liberalization era has not been achieved by eliminating the old weakness in the technological sphere, but despite it. Consequently, their tendency has been to expand in directions where limited ability to develop technology does not constitute a serious barrier. This has reinforced the growth pattern because relative to many manufacturing activities in a number of services and construction activities the role of self-development of technology as a source of competitive strength tends to be limited. Increased technological sophistication in these has been facilitated by technical equipment suppliers and software service providers. This has combined with the process of privatization of many such sectors to create the tendency after liberalization for big business groups to move into an array of non-manufacturing activities like mining, power, construction (real estate and infrastructure), financial services, trade, information technology and telecom, etc. In the process, even as the technological sophistication of the production process has increased, Indian capital has in more senses than one experienced a process of losing its already limited industrial character.

IV

Modern factory industry and a corresponding industrial capitalist class have had a consistent history in India of over one and a half centuries. Yet capitalist development in India has failed through its different phases to produce anything more than what at best can be described as a stunted industrialization and limited the industrial nature of the capitalist class. In the current phase of Indian capitalist development, the relationship between capitalist accumulation and industrialization has not only become weaker but this weakening has also become more entrenched over time. As the capitalist class has managed to grow as never before through an expansion in non-manufacturing activities, its stake in an industrialization process has tended to get eroded. At the same time that very expansion has reinforced the capitalist demand for maintenance and strengthening of the neoliberal economic policy regime that enabled it. The economic policy regime in turn has increased the pressure exerted by this capitalist demand because of its effect of increasing the leverage of capital over the state which has reinforced the ruling class status of capitalists. Capitalist priorities press down harder on a state constrained to rely on private capital to drive the growth process and to generate revenues.

Of course the current accumulation regime is not without its contradictions and has faced serious difficulties from time to time. At the current juncture in fact it faces a serious crisis that is its direct outgrowth - the combination of a large current account deficit, high rates of inflation particularly of food, and slackening growth and investment. Such a crisis alone, however, does not produce any tendency for change in course. Indeed, if anything it generates the opposite – as exemplified by the series of ‘reform’ measures announced in recent times. It is only, therefore, a change in the correlation of class forces that can compel any change. The basis for such a change may be created by the current accumulation regime and its crisis though of course it will never be their automatic product.