The Incomplete Transition: Stunted Industrialisation and the Historical Development of India's Big Business Class

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Abstract:

In many parts of the world, industrialisation has been an outcome of their capitalist development, with profit seeking capitalists serving as its agents. Differences in the characters of this class of agents, shaped by their origins and their mutual interaction with actual industrialisation processes, however, characterise different stories of capitalist development. This paper explores this theme in relation to Indian capitalism – examining how the colonial origins of the Indian industrial capitalist class imparted to it a specific character and the limited extent to which that legacy could be overcome by the subsequent relatively restricted industrialisation process. The case of the Reliance group is used to fortify and illustrate the argument.

Historically industrialization of countries has had a strong association with capitalism and profit-oriented capitalist firms have been its chief agents in many parts of the world. Many countries successfully followed Britain to achieve an 'industrialized' status, but this has been far from being a universal a phenomenon. India is a case in point and 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.

In Europe, the process of transition from feudalism to capitalism led to the emergence of what Marx emphasized was a new kind of capital - namely, industrial capital. This capital was distinct from the historically older forms of capital, namely merchant capital and usurious capital, which required only the existence of commodity production or trade and commerce as their basis and had existed long before capitalist relations of production came into being. Industrial capital required in addition the commodification of labour-power or the availability of wage-labour. Marx also indicated an important difference between the transformation where “the producer becomes merchant and capitalist” and where “the merchant establishes direct sway over production” (Marx 1977). In designating the former as “the really revolutionising path” he highlighted the significance of production as the source of surplus value as opposed to the reliance on differences in prices of purchase and sale and the implications of this difference for the behaviour of capitalists. It was the subordination of commerce to production rather than the other way around that provided the essential, even if not complete, setting, as described by Marx in Volume I of Capital (Marx 1974), for the gradual revolutionising of production that eventually expressed itself in the transition from handicraft production to machinery-using modern industry and the unleashing of modern industrialization.

Implicit in this distinction Marx made was the importance of understanding the *historical* nature of the industrial capitalist class – that it was not the same at all times and all places. It could not only be variable across societies depending upon the specific circumstances of its origin, but also be subject to change in any society through the course of the capitalist development with which it mutually interacted. Differences in the characters of the industrial capitalist class shaped by their origins and their mutual interaction with actual industrialization processes therefore characterize different stories of capitalist development. This paper explores this theme in relation to Indian capitalism – examining how the colonial origins of the Indian capitalist class shaped its character and the extent to which that legacy could be overcome by its subsequent development within and through a relatively restricted industrialization process.

I. The Origins of Indian Capitalism: Merchants, Colonialism and Factory Industry

The Indian subcontinent had a long history of fairly developed trade and commerce before the arrival of Europeans in India and merchant communities could be found across the territory (Habib 1990). This by itself did not spawn the emergence of an indigenous capitalist transformation before capitalism arrived in India from overseas – leading eventually to the colonial subjugation of India by a nation which was amongst the first to experience the transition to capitalism, became home to the first industrial revolution and was the world's leading economic and political power for a long period. India and its subjugation were critical to the making of Britain's transformation and the maintenance of its pre-eminent position in the world, producing as its counterpart a peculiar combination of continuity and change in Indian society. Whether European colonialism short-circuited an incipient transition to capitalism out of the impetus originating from the internal dynamics of pre-capitalist Indian society has been a disputed view[1]. The fact however remains that the capitalism that historically developed in India was not a product of such a transformation and instead was the outcome of the interaction between a dominant developing capitalism and a pre-capitalist society it subjugated. Almost a century of colonialism preceded the sustained emergence of a capitalist production sector in India and the subsequent development of that sector for an equally long period was also under a colonial dispensation.

The colonial context of course meant that the state represented propertied interests- but foreign ones and not of any indigenous capitalist class. Instead of being an outcome of a widespread social transformation that would unleash the productive potential of the economy of the subcontinent, Indian capitalism was born in a background where India was subject to the operation of severe compressionary forces generated by the process of extraction of a tribute (the 'drain') as well as the exploitation of her market at the expense of India's traditional manufacturing industry (de-industrialization). A small capitalist industrial sector emerged as

[1] R.P. Dutt suggested that the disintegration of the Mughal empire was preparing the basis for such a transition to capitalism [Dutt 1983]. Irfan Habib (1969) however put forward a convincing case to the contrary.

a partial fall-out of the railway development that colonial rulers promoted for their own reasons and whose dominant impact was to reinforce and expand the geographical scope of the colonial exploitation of India. Capitalist industry came to be established in India therefore when she was actually rapidly receding from her position as one of the great manufacturing regions of the world[2] and her export surplus facilitating the drain came to be built primarily on commodities produced by the agricultural sector. The modern industrial factory sector remained a small enclave of the economy – at independence, still dominated by the relatively technologically unsophisticated light manufacturing industries, it accounted for barely 8 per cent of the economy's aggregate output and less than 2 per cent of employment. On the other hand, transformation also eluded the main sector of the economy accounting for over half the output and three-quarters of employment at independence, namely agriculture. While it had not remained unchanged through the history of colonialism, Indian agriculture was still a primarily peasant agriculture in which no radical transformation had happened in the way production was organized or the techniques that were used (Patnaik 1999). Agricultural productivity was low and while agriculture supported an extremely wealthy class of landowners much of the agrarian population, which included not just a differentiated peasantry but also a class of agricultural wage-workers, remained in extreme poverty.

The context of its emergence also produced a peculiarly fractured composition of the industrial capitalist class in India - creating two distinct components within it, a foreign or expatriate one and a native one. "These two 'halves' of the capitalist mode of production evolved in different forms, at different speeds and in different branches of the economy, and each had an entirely different significance for India's future" (Levkovsky 1966, pp. 44-45). The overwhelming dominance of a European enterprise that owed its very existence to colonial rule was a feature of most of the period, particularly before 1914 (Ray 1985). This was far more marked in Eastern India than it was in the Western part of the country. Europeans not only dominated in foreign trade and modern banking but also virtually monopolized many segments of large-scale manufacturing industry, as well as tea plantations

[2] Even if these are considered only very broadly indicative of what really happened, Paul Bairoch's estimates (cited in Simmons, 1985) bring out India's industrial regression during the 19th century. According to these estimates, India's share in world manufacturing production fell from just under 20% at the beginning of the century (it was nearly 25% in 1750) to under 2% by the end. During this period, India's per capita industrialization level fell to a sixth of its original level.

and coal mining[3]. The only major exception was the cotton textile industry where Indian enterprise played the leading role. Apart from this, Indian enterprise was dominant only in relatively smaller segments like oil mills and rice mills. The relative strengthening of the position of Indian capitalists after the First World War was accompanied by some shifts within them – the decline of some of the old and expansion through the addition of new members.

Colonial conditions and a practically non-existent internal social transformation that preceded its creation meant that the possibility of industrial capitalists rising from the ranks of the producers was ruled out. So, from where did the industrial capitalist class emerge? Closely related to the question of the origins of the industrial capitalist class is that of the pattern of division between indigenous and European enterprise and source of dominance of the latter. These have invited scholarly attention which has produced contested views.

As regards its origin, the dominant view is that the industrial capitalist class developed through mercantile capital adding to its portfolio production activity in related spheres.

"Modern industry in India owed its development primarily to two classes of people: British merchants who had come out to represent British trading firms, and the cotton merchants of Bombay and, latterly, of Ahmedabad and other centres." (Lokanathan, 1935, p. 14)

Trade and commerce were very much an integral part of colonial Indian economy. A European mercantile community emerged in India with the establishment of the rule of the East India Company. Initially, company officials themselves acted as private traders in the Company's territories. The representative units of European controlled private trade, however, changed from time to time. The expatriate business community that was to be the European component of the industrial capitalist class in the second half of the 19th century may have been the successor to earlier communities rather than growing out of them (Rungta 1970, Tomlinson 1993). The indigenous capitalist class on the other hand was seen to originate in the "older merchant communities embedded in the time-honoured caste system" (Ray 1994. p. 1). A contrary view, however, is that industrial entrepreneurs came from diverse backgrounds: "It

[3] See the estimates cited in Levkosky, Table III, p. 58 which show that British controlled firms accounted for 60% of employment in large-scale industries in 1915, and 70% of the employment in non-British controlled firms was in cotton spinning and weaving. Bagchi (1980) Table 6.7 p.183 shows clearly the European dominance in tea and coal.

makes little sense to explain the evolution of industrial capitalism in India with reference to the so-called business communities as suggested by some scholars" (Tripathi and Mehta 1990, p. 195).

The European dominance in this period has been explained in terms of the 'imperial division of economic space', and "the persistent advantages enjoyed by the Europeans not only because of their early start and acquaintance with external markets but also because of the racial alignment of government patronage and the financial and other services supporting and reinforcing European control over trade and industry" (Bagchi 1980, p. 205). Traditional Indian mercantile enterprise in this view was pushed in this structure into the internal trade that supported India's external commerce. The extent of this racial division of the economic space was however less marked in Western India, which was annexed much later and therefore escaped the "days of rapacious conquest and plunder by the East India Company" and where "British traders had less time to establish themselves…" (Bagchi, p. 202). In Bombay, Indian merchants retained many of their international trading connections and were able to use the profits from their traditional presence in the existing trade with the Far East, and the connections with that region that entailed, to move into cotton textile manufacturing. In Ahmedabad, the local connections of merchant communities, and their continued strong presence due to relatively limited European penetration, enabled them to use the market provided by the handloom industry (Ray 1994).

This perspective outlined above has been challenged on many counts. Maria Misra (1991), for example, has contested the argument about the affinities between European businessmen and British officials on the ground that a high proportion of European businessmen in India were Scotsmen or those who had not been to public schools. Barring a few exceptions, they were in her view socially distanced from the officers of the Indian Civil Service who came from more elite backgrounds, and they took little active interest in politics. Morris (1983) argued that the more limited entry of Indian businessmen into industry was due to the fact that perhaps Europeans were satisfied with lower profit rates in industry while Indians could have been induced only by higher profits comparable to what they earned from other activities. In Tripathi and Mehta's view, the success of British entrepreneurs rested on the use of superior technology and appropriate management practices both of which they introduced into India (Tripathi and Mehta 1990). It was the activities of these entrepreneurs that in turn raised the perception of Indians about the prospects associated with such business ventures and the general environmental effect of colonial rule broadened the horizons of the native populace. These combined with the creation of more favourable institutional and economic conditions in time drew Indians from diverse backgrounds into initiating industrial ventures.

"The conclusion, thus, is inescapable that it was the British colonialism that stirred, though unwittingly, the soil of institutional rearrangements necessary for the seeds of industrial entrepreneurship to germinate. History must give even the devil its due." (Tripathi and Mehta 1990, p. 197).

It is not possible to review here in detail these different interpretations of the history of industrial capitalist enterprise in colonial India. Nevertheless, it can be definitely said that the Indian capitalist class emerged out of a process of merchants turning producers. All those who successfully entered modern factory industry may not have belong to traditional mercantile communities – but a large number did, and when they did not, some prior involvement in trading or banking activities seemed to have been much more the rule than the exception[4]. Tripathi and Mehta's own account of the social background of members of the industrial capitalist class of Gujarati origin in the 19th century refers to communities such as Bhatias, Kanbis and Lewa Patidars which were non-Vaisya castes but nevertheless had sections involved in trading. In other words, it might have been the case that involvement in mercantile activity had spread beyond those communities for whom it had been a traditional hereditary occupation - the substantive fact therefore appears to be that native capitalists emerged from a mercantile background even if not always from the merchant castes. The overwhelming majority of the latter in any case did not enter industry.

A background in trade or indigenous banking was not at all surprising in the case of native industrialists. Apart from large landownership, the sphere of trade and commerce was the only one through which the sufficiently large prior accumulations necessary for investment in large-scale industry was possible. The limited opportunities for such investment also arose along the

[4] See Bagchi (1994), p. 184 for a picture of the community distribution of ownership of factories in Bombay Presidency in 1911. Tripathi and Mehta (1990) themselves show that in Ahmedabad at the end of the 19th century, though the largest millowner and the pioneer of the city's cotton textile industry was Ranchhodlal Chotalal, a Nagar Brahman, Jains and Vaisnava Banias controlled 21 of the 25 mills. Ranchhodlal himself began his career as an employee of a traditional banking house and his pioneering venture was financed by three such banking firms (Ray 1994, p. 41).

existing channels of trade, with production being introduced in between the buying and selling associated with commodity trade. European enterprise in industry also emerged through the intersection between trade and production and, "…there was no sharp distinction between commercial and industrial interests." (Bagchi 1980, p. 200).

If one feature of the industrial capitalist class in India was its strong connections with pre-capitalist merchant communities, it also acquired in its peculiar way features often associated with more advanced capitalist contexts. One of these was that capitalist industrial enterprise from its very birth had a pronounced *corporate* character in the sense that extensive use was made of the limited liability joint-stock company - though not all capitalist property was corporate owned, in most major industries that was the case throughout (Lokanathan 1935). This in fact could be said to reflect not the development of a financial system but its absence - the popularity of the joint-stock company for the promotion of industrial ventures reflected the combination of the underdeveloped nature of capitalism in India, and the legal availability of an institution by virtue of its transmission from a more advanced capitalism. A general incorporation law came to India in the form of the Companies Act of 1850, following the English Act of 1844. One advantage of the joint-stock company that could thus be created was its usefulness in mobilizing long-term capital at a time when no specialized financial institutions existed to perform that function, banks largely concentrating on short-term finance (Rungta, 1970, Lokanathan, 1935). Share capital issues therefore became one of the major means for financing fixed investment, though such capital was typically raised from a relatively small circle of people[5]. Another factor that may have contributed to the prevalence of the joint-stock company was the limited liability principle associated with it. Even when industrial ventures were financed by a few individuals, the limited liability associated with share capital would have made it the more attractive mode of advancing capital for undertaking risky industrial ventures, since other assets these individuals commanded would not be threatened by its failure. In the uncertain environment of that time, these considerations must undoubtedly have been important. However, though the limited liability principle applied to private companies too, public companies were in greater number than private ones right through the

[5] Das, p. 5 and table on p. 8; Lokanathan, Ch. IV, and same table on p. 182

period[6]. This would suggest that centralization of capital was an important function performed by joint-stock companies.

A second feature, equally prominent throughout the pre-independence history of the corporate sector was the prevalence of the institution of the *managing agency* [7]. Both European and Indian controlled companies that developed in the second half of the 19th century were characterized by this particular form of management from the very beginnings and in most cases, once a managing agent came to be appointed it appeared to have been very difficult for shareholders to dislodge it (Rungta 1970, Lokanathan 1935, Das 1938, Basu 1958). The combination of these two institutions in the form of a joint-stock company under the virtually perpetual control of a managing agency firm represented an interesting case of the separation of ownership and control that was very different from that which came to be described as managerial capitalism:

"Thus a form of organisation was evolved which, while formally joint-stock, was in reality largely proprietary character, and the managing agency system tended to combine the virtues of the unity of management of a proprietary or partnership concern with the ampler resources of a joint-stock company." (Lokanathan 1935, p.)

Though instances of a managing agency firm managing a single company were quite common, there also emerged alongside the centralization of control of several companies. The 'Managing Agency House', wherein several companies were managed by a single managing agency firm which promoted them became first the typical shape that the dominant European enterprise took in the pre-1914 period (Ray 1985). This subsequently also served as the model for the large Indian business groups. The latter however, sometimes used more than one managing agency firm to control separate combinations of companies. The combination of centralization

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[6] In 1916-17, there were 2306 public companies and only 207 private companies with respective paid-up capitals of Rs. 85 crores and Rs. 5.8 crores. Even as late as 1945-46, the number of public companies at 10129 was more than that of the 7214 private companies, and they accounted for over three quarters of the total paid-up capital: Dar, p.7

[7] This system involved the contractual vesting of the responsibility for managing the affairs of a company to a managing agency firm in return for a remuneration or commission. However, notwithstanding their formal position, managing agents were not really providers of services for a fee. Instead they were in fact the active agents in promotion of companies they managed.

of capital by joint-stock companies and that of control of companies, and that too on a very narrow base of capitalist development, gave capitalism in India a highly concentrated character that remained its stable feature from its inception to the end of colonial rule. Industrial capitalism in India was thus born with not only a pronounced mercantile but also a 'monopoly capitalist' feature.

In the literature on the subject, it has been quite common to equate the managing agency system with the far from universal phenomenon of a single managing agency controlling a number of companies and then attributing the dominance of the system in the industrial scene after the 1850s to the shortage of entrepreneurial talent and the difficulties in raising finance (Lokanathan 1935, Das 1938, Basu 1958, Kling 1994). Thus, it was said that:

"The managing agency system may be defined as an institutional development of industrial organization where the promotion, finance and administration of a vast agglomeration of miscellaneous and unrelated enterprises, - mines, plantations, mills, public utilities, shipping interests, sales agencies and investment trusts – are controlled by a single firm." (Basu 1958, p. 4-5).

And further that it "was the only sub-system in the economy with the capital, business experience and continuity to provide the entrepreneurial and managerial talent." (Kling 1994, p 87)

While echoing the opinions about the existence of financial and managerial constraints, Tripathi and Mehta added another dimension to it applicable only to native enterprises. They argued that the popularity of the managing agency system was also due to the fact that it was in tune with the prevalent social realities of the country:

"The managing agency system was nothing but the adaptation of the system of family management for the management of industrial units. For, under it the head of the family promoting the enterprise was, for all practical purposes, synonymous with the head of the managing agency firm which was responsible for all critical decisions affecting the companies entrusted to its care. And since the promoter's close relatives, usually sons and brothers, constituted the managing agency, he could continue to have the same kind of supremacy in the management of his industries as he had in other matters affecting the family. This form of industrial management, coterminous with the joint-family structure as it was, entailed no departure from the well-entrenched conventions governing business behaviour in the country." (Tripathi and Mehta 1990, pp. 194-195)

Rungta (1970) offered a somewhat different explanation for the early association of the managing agency with native industrial enterprises. According to him, since both the capital and the management of, industrial concerns came from the merchant communities who also had other businesses as sources of making money, the willing of some to take on the specialized function of managing industrial concerns depended on some assurance of long-term possibilities of adequate returns. The managing agency system served therefore as the mechanism allowing some degree of division of labour in the management of businesses.

These explanations of the prevalence of the managing agency system may be considered somewhat unsatisfactory. Scarcity of capital and entrepreneurial ability, even if true, can at best explain concentration in general, and the predominance of European enterprise in particular. However, industrial concentration does not itself automatically imply either the recourse of the dominant few to the use of managing agencies system or their creation of multi-company houses. Concentration has existed in several places without either of them and has survived in independent India along with the multi-company group even after the abolition of managing agencies. Moreover, the scarcity of critical 'abilities', apart from needing some basis, could have been the attributes only of *particular* managing agents and not of the managing agency system. Moreover, as Rungta, Bagchi, and Ray have stressed, given the scale at which industrial development took place, there was no overall shortage of capital right up to 1947. Rungta also highlighted several instances of "share manias" and the duping of investors by unsavory managing agents in the 19th century. This would mean that finance was in certain circumstances forthcoming for industrial investments by even untried and untested entrepreneurs who also made use of the institution of the managing agency.

Thus, in the form of the dominant European managing agency houses, capitalist enterprise in India acquired a predominantly monopoly character from its early stages of development. This monopoly capital was however different from that which emerged in the advanced capitalist economies because it was not associated with large-scale integrated production processes and technological sophistication and innovation. It reflected not an advanced stage of capitalist development but rather was a product of a backwardness of Indian capitalism in a colonial context.

The native industrial capitalist class in India thus acquired in the process of its formation and development under colonialism a distinctive historical character (Bagchi 1988). It emerged from and remained rooted in a traditional mercantile background of making profits through differences in prices rather than through production. Its entry into modern factory production in fact was based on acquiring technology and know-how from advanced capitalism. Its success depended little on mastery over production or technological innovativeness and far more important were the connections and skills of the sphere of trade and commerce. Technology remained something that instead of being developed was simply to be acquired in the market. Even within the process of production, a bias was created in favour of the extraction of surplus through a combination of harsh labour conditions and cheap labour as against labour-productivity enhancing improvements in methods of production. Both the original accumulation that facilitated its entry into production as well as the accumulation generated by that production had therefore a strongly mercantile character. Nevertheless, it acquired a corporate and monopoly character that served to reinforce mercantile attitudes without the attendant technological advantages associated with the big business of advanced capitalism. The business family-controlled businesses group thus emerged the business group as the typical unit of decision-making in the Indian corporate sector (Hazari 1966).

The emergence of the Indian industrial capitalist class in India was thus as far removed from the revolutionizing path that Marx talked about as could be imagined. The lack of self-confidence created by the conditions of the development of the class under the shadow of foreign rule and the dominance of expatriate capital reinforced the hampered development of its industrial character. The class had to not only develop develop for a long period without explicit state support, its foundations were also too weak for it to decisively assert its own distinct interests for most of the period before independence. This situation changed after 1947, but did it mean that the chief social force behind as well as the main agent of the post-independence process of capitalist industrialization was able to in the process shed its original historical character?

II. Agriculture Constrained Industrialization and the Post-Independence Development of Capitalism and Capitalists

India's independence set the stage for the active and instrumental use of the state to promote capitalist industrialization. Indian industrialization, however, came to be more constrained and more dependent on cheap labour than in many other countries (Mazumdar 2013a) on account of the failure to deal with the agrarian constraint and remove what was called the "built-in-depressor" in India's agrarian structure (Thorner 1956). Apart from being unable to provide resources for financing capital formation in industry, a slow growing agriculture constrained industrial growth and generated instability in many other ways (Nayyar 1994). It gave rise to supply and demand constraints which were reinforced by the resultant inflationary barrier to industrial growth supporting public investment. As a result, India was somewhat of an exception even amongst major Third World economies, including those in her Asian neighbourhood, in that she failed to achieve an industrialization driven transformation of her economic structure. Seen in a comparative perspective, the Indian case is markedly the most stunted of industrializations among major economies of the world.

The pace of industrial growth after independence was greater than in the colonial era (Sivasubramonian 2000) but sustained spells of rapid growth proved elusive. The industrial structure became more diversified compared to what it was at independence, but per capita levels of industrial production remained low as did the industrial sector's share in aggregate output. It was services more than that of industry which contributed towards faster GDP growth after 1980 even as the manufacturing sector share in GDP stagnated and eventually started to drift downwards from the mid-1990s (Mazumdar 2013b). India ceased to be a mainly primary product exporter but did not become at any stage a significant exporter of manufactured products. On the employment side, agriculture continued as the main employer and the relatively big movement away from it from the 1990s has been mainly distress driven. Manufacturing employment has barely touched a level of an eighth of total employment and that in its organized component has remained below 5 per cent.

The broad reality of structural constraints holding down the industrialization impetus has been a feature of the Indian reality across the shifts in policy regimes. The decade of the most industrial phase of Indian growth from the mid-1950s gave way to a long period of industrial stagnation within the dirigiste phase. In the period of liberalization, on the other hand, very short bursts of very rapid growth have served to impart a non-linearity to a discernible trend that has been characterized as premature de-industrialization (Mazumdar 2014). Exports of manufactured products may have increased during the liberalization period as compared to earlier, but so have imports and often at a faster pace. However, the speed and nature of development of big business and its relationship with the industrialization process changed quite significantly in the transition from dirigisme to liberalization.

Within the strategy of import-substituting industrialization and 'planned' economic development adopted after independence, private capital was allowed to dominate manufacturing activity. In fact, it came to be increasingly concentrated in manufacturing as the mining, financial, electricity and transport sectors came to be dominated by the public sector. The public sector in turn supported private investment in manufacturing – in particular by financing it. The attempted state direction of private investment in accordance with planned priorities resulted in a system of controls, the centrepiece of which was a system of industrial licensing. Subsequently, antimonopoly measures like the MRTP Act also came into being. None of this, however, meant that big business was crushed under the heavy arm of the state and the so-called "license-permit raj". Instead the Indian state failed to impose any meaningful discipline on private capital, another feature which distinguishing the Indian case from other late-industrializers like Korea (Chibber 2004). Big business firms routinely abused, manipulated, and circumvented the system of controls to their advantage. and this became more pronounced in the second half of the control regime, after circa 1970 (Goyal 1979, Kochanek 1987).

Within its limits, India's import-substituting industrialization process provided the backdrop to some important changes in the world of Indian big business (Mazumdar 2008). Big business groups grew in the relatively sheltered environment it offered to build and expand businesses that were mainly 'national' - producing, selling in and raising finances from the domestic economy. The industrial spread of corporate capital also changed in tandem with the process of industrial diversification. The initial overwhelming importance of a few traditional industries gave way to the growing importance of others such as steel and steel products, chemicals, cement, automobiles and automobile products, industrial and other machinery and consumer electronics. Sectors like pharmaceuticals that were originally dominated by foreign multinational firms were also increasingly penetrated by Indian controlled enterprises (Encarnation 1989). The expansion in newer and more 'modern' industries can be said to have increased the level of technological sophistication that Indian big business dealt with, though high levels of dependence on foreign technologies persisted

(Alam 1985, Tyabji 2000). Scales of operation in Indian industries were mostly considerably smaller than at the international level and technological gaps were still marked.

It could thus be argued that the Indian big capitalist class became over time relatively more industrial in nature than it had been at independence - insofar as it gained in production experience and learnt to find, absorb, adapt, and use technologies and technological advances across the industrial spectrum even if it never acquired the capability of developing them. It could also be argued that in this regard that Indian capital was no exception as industrialization based on diffusion of technology from abroad was a central and general feature of *late industrialization* (Amsden 2001). However, Indian capitalism also failed to be amongst the likes of South Korea and others in East Asia and build internationally competitive firms and industrial structures by the time it made the transition to liberalization and openness.

The business group structure and family control remained stable features of Indian capitalism, with inter-corporate investments simply replacing the old methods of controlling companies. However, the composition of the Indian big capitalist class did not remain fixed (Mazumdar 2011). While many who had emerged in the pre-independence continued to be dominant there were others that declined. On the other hand, a range of new business groups also appeared on the scene and some even upstaged older groups that remained prominent. This story of survival, decline and re-ordering of positions within the big capitalist class can be said to be consistent with a reality marked by a combination of a crisis prone industrial development, changes in the industrial structure over time, and business success primarily resting on ability to maneuver the control regime and access technology and finance from external sources, rather than on command over technology and production. Those who continued to be dominant despite the transformation in the industrial structure were able to do so because they could use these instruments to change themselves to counter the effects of changes in the industrial structure. New groups on the other hand could also find opportunities to use these same instruments to become agents of the growth of the relatively newer industries.

Unlike what was the case for most of the period before it, since 1991 private corporate growth in India, dominated by Indian rather than foreign capital, has outpaced the rest of the economy (Mazumdar 2014). Since the same does not hold for industrial growth, it is expansion in non-manufacturing activities – services, construction, mining, electricity - that has been the basis for enlarging the share of the private corporate sector in production. These sectors have in time decisively displaced manufacturing from its pre-eminent position as the most important sphere of private corporate activity (Mazumdar 2015). This was aided by the opening up to private investment of several sectors that were earlier dominated by the public sector – which in turn has meant that playing a regulatory regime has remained an important part of successful profit making even if the old licensing system and import controls have disappeared. The rising importance of services, both domestic and foreign demand based, for the Indian corporate sector has expressed itself in various ways. The rise of firms which were initially of relatively modest size to the top rungs of the Indian corporate hierarchy in the liberalization era have been through growth in services or construction activities. Examples of this kind are Infosys (software), Bharti (communication) and GMR (Infrastructure). Such activities also helped others like Wipro and HCL (software) and HDFC and ICICI (financial services) and DLF (construction) move up the ladder. Even large groups with a significant industrial presence like Tata, AV Birla, Reliance and Mahindra, have built up a substantial presence in a range of non-manufacturing activities like software, communication, retail, financial services, infrastructure, etc.

Acquisition of some strengths and abilities that it did not possess at independence had to be the basis for Indian big business thriving as it has done even in the face of the global competition fostered by openness, and not only in the form of growth within India but also through internationalization (Mazumdar 2012). The increasing shift away from manufacturing could also, however, be interpreted as meaning that in a certain sense the industrial character of the Indian capitalist class has receded since the shift to liberalization. This does not mean that it has abandoned manufacturing activity. Many major Indian business firms are still mainly manufacturing based. If there is the export success of the information technology sector, there is also that of pharma. With both public sector and unorganized manufacturing declining, the dominance of the sector by the private corporate sector has in fact increased and restored to the levels seen in the early post-independence years. A major chunk of the invested private corporate capital remains in the manufacturing sector as many of the fast-growing services have low capital to output ratios. With freer access to global technology sources, there is also greater use of sophisticated production processes in Indian manufacturing. However, the survival of the old weakness in the technological sphere has also mattered with reliance being placed on sourcing technology from specialized technology suppliers, outsourcing to foreign firms, and wherever possible through the older traditional routes of technological collaboration and joint ventures with multinational firms.

Except for the pharmaceutical industry, there has been no significant increase in the innovative capacity of the Indian private sector after liberalization (Mani 2009) and outside that sector, R & D expenditures by Indian firms are practically non-existent. Even in pharmaceuticals, Indian firms continued to lack drug development capabilities and built their success mainly on the established strength in generics which was an outcome of India's earlier protective patent regime (Chaudhuri 2008, Jha 2007). A case can also be made that the marked orientation towards non-manufacturing activities in the pattern of expansion of Indian capital in part is attributable to their limited technological capacity. While certain sectors and industries have been left to be dominated by multinational firms, Indian firms have chosen services and construction activities where own technological capacities are less important and increased technological sophistication is mainly facilitated by technical equipment suppliers and software service providers. In the telecommunications and information technology sectors, for instance, Indian firms have no presence in the hardware segments. Even in software, even the innovative activity taking place in India has been driven by foreign R & D units (Mani 2009) while Indian firms have tended to find their niche in a relatively subordinate position to the internationally dominant firms (D'Costa 2004). Even foreign acquisitions by Indian firms in this period, their main mode of internationalization, could be seen as a means of acquiring technological capacities rather than being based on them (Nayyar 2008).

The Nature of Indian Capitalism: What does the Story of Reliance Reveal?[8]

The Reliance group scripted what was perhaps the most dramatic rise of a new group in the post-independence period. While it has achieved spectacular growth after 1991, and at least one of the two groups it subsequently split into has remained at the very top of the corporate hierarchy, Reliance's rise to the top was mainly a product of the pre-1991 context of Indian

[8] The discussion in this section is based on the more detailed analysis found in Mazumdar (2006) and a shorter version in Mazumdar (2017) where detailed references are provided.

capitalism. Understanding the basis for its remarkable success provides some insights into the nature of Indian capitalism.

Like most business groups in India, Reliance has always been a family-controlled enterprise with its affairs being managed by members of the Ambani family and their relatives. That Reliance was not distinguishable on this count from other traditional Indian groups was in fact brought out by the split that followed a generational change – repeating what has been a near universal phenomenon among Indian family-controlled groups. In terms of its social origins, the family was also from a merchant caste and while there was no family business that Dhirubhai Ambani inherited, Reliance's take-off certainly enjoyed the initial advantage provided by a family and social network (McDonald 1998).

The Reliance group also began its business history in trading, with the creation of Reliance Commercial Corporation, a partnership firm, in 1958 – and mercantile activities thus generated its 'original' accumulation. Reliance Commercial Corporation exported spices and other items to the Middle East and East Africa (Mohnot 1986; Piramal & Herdeck 1984) but by the mid-1960s its trading activity was focused on man-made fibres and textiles – in products and inputs of what was known as the 'art silk' industry. Though this was an export-oriented industry to which various incentives were given by the Government, Reliance's primary objective was to take advantage of these incentives to import synthetic fibres to be sold in the domestic market. This market was created by the increasing use of such fibres in fabric manufacture, but their production had then not started in India. Thus, the early history of the Reliance group coincided with the incipient stages of the development of the synthetic fibres and textiles industry in India and the group's subsequent growth remained closely tied to the development of these industries.

When Reliance turned from merchant into producer in 1966, manufacture of synthetic fabrics (knitting and weaving) was combined with the processing of these textiles and synthetic yarn – which lay on the intersection between trading and manufacturing - and these activities formed the basis for its growth over the next decade. The entry into manufacturing also involved the creation of the first joint-stock company of the group – which was thereafter its most important company and eventually became Reliance Industries Ltd. in 1985[9]. 5 other companies came to be created before 1977 – two engaged in trading and marketing and 3 to take over the running businesses of family partnership firms. While this transition to the 'corporate' form did involve a change in the mode of financing its growth – it was not until 1977 that Reliance was to become a public company listed on the stock exchange. It had already by then achieved some size through a rapid growth financed chiefly by debt from public sector financial institutions. Even the conversion of Reliance Industries into a public company was initially prompted by the condition accompanying public sector financial institutions agreement to support to Reliance's expansion project in 1976-77.

The transformation of Reliance Industries into a public company marked the initiation to raising large amounts of finance from capital markets in the late 1970s and 1980s - which converted it into an extremely widely held public limited company. However, there was also a rapid proliferation in the number of narrowly held companies of the group, mainly to facilitate family control over the principal public company by acting as holders of a controlling stake. Public sector financial institutions continued to provide fairly significant financing support, but the significance of this declined when seen in purely *relative* terms. On the business activities side, an initial expansion in textile spinning and weaving, including through the acquisition of a sick industrial unit, was followed from the early 1980s by a decisive shift in the group's focus - to polyester (filament yarn and synthetic fibre) and other petrochemicals, through which was achieved the rapid growth that carrying Reliance to the top by the end of the decade. This was a shift that was clearly linked to its past activities, but it also involved a major graduation in the manufacturing processes involved and the nature of production facilities that needed to be created. The basis was in the process also laid for the further industrial expansion that Reliance was to undertake in the post-liberalization period –

[9] Incorporated as Reliance Textiles and Engineers Ltd., it was eventually transformed into Reliance Textile Industries Ltd. before finally acquiring the name Reliance Industries Ltd. Technically however there was a discontinuity in between. The conversion to a public company was preceded by Reliance Textiles' amalgamation into another company with no business, Mynylon Ltd. The name of that company was then changed to Reliance Textiles and its registered office shifted from Bangalore to Bombay. This otherwise strange sequence was apparently undertaken with the objective of maximizing the increase in the family holding in Reliance Industries before converting it into a public company. The number of shares did increase from 17 to 59.5 lakhs on account of the amalgamation, and it is from this that the family offered 28.2 lakh shares in 1977 for sale to the public in order to get the company listed on the stock exchanges.

built on further diversification in petrochemical production, greater backward integration and eventually the entry into petroleum refining and oil and gas and exploration.

When it comes to explaining Reliance's success despite being a newcomer, the first important thing to note is that in its transitions from trading to processing and manufacturing activities, and from textiles to petrochemicals, the trajectory of the Reliance group closely followed the related histories of development of the synthetic textiles, fibres and petrochemical industries. None of these industries existed before independence but their growth based on first a development in, and then a diffusion from, from advanced capitalism was part of the post-war late industrialization story across the Asian developing world including India. Reliance's trajectory of growth was one that closely reflected the overall pattern of expansion for organized units associated with the increasing penetration of synthetic fibres – Reliance having also the advantage of also being unaffected directly by the parallel crisis of the cotton textile industry.

What is in addition a remarkable feature of Reliance's growth before 1991 is that even in the Indian context it was not a pioneering firm – whether one considers the activities with which the Reliance group began its manufacturing history or any one of those it subsequently diversified into. It was typically a later entrant in all of them, though usually before they had achieved full maturity. Knitting and weaving units engaged in synthetic textile manufacturing existed before 1966. Spinning of synthetic fibre yarn began much before Reliance entered into that field in the late 1970s. The PFY industry had a decade and a half long history before Reliance's entry into the field and in case of PSF, almost twenty years separated the two. The public sector Indian Petrochemicals Corporation (IPCL) initiated the manufacture of polyester intermediates in 1973, again a decade and a half before Reliance's entry into them. Even in the case of Linear Alkyl Benzene (LAB), Reliance followed IPCL and the private sector Tamil Nadu Petroproducts of the M.A. Chidambaram group.

Not only was it typically a later entrant in all industries, it was by no means the only one responding to the expansion possibilities offered by them. Other new entrants or incumbent firms, both private and public sector, were also investing in them at the same time. In other words, the general directions in which Reliance chose to seek growth opportunities for itself were not typically unique. The parallel trajectory of the Orkay group for instance was remarkably similar to that of Reliance - right from the initial involvement in the art silk industry in the 1960s and up to the entry into PFY manufacture in the early 1980s[10]. In the 1980s, some 20 odd firms other than Reliance were responsible for four-fifths of the capacity expansion that the PFY and PSF industries experienced. Apart from Reliance, J.K. Synthetics, Bombay Dyeing of the Nowrosjee Wadia group, and the public sector Bongaigaon Refinery and Petrochemicals (BRPL) and IPCL expanded or created capacities for polyester intermediate manufacture. J.K. Synthetics preceded Reliance in combining PSF and PFY and along with BRPL also went in for a degree of vertical integration in polyester manufacture that Reliance was to undertake later.

Like every Indian business group, Reliance too sourced its technology from abroad. While these were at times from the same suppliers as its rival firms, in some cases, like the sourcing of technology from Du Pont, the original polyester manufacturer, the technological choices Reliance made were slightly different. These also, however, meant an increase in the costs of acquiring technology which was possible only because of the larger initial scales Reliance opted for. In fact, throughout its growth since 1966, Reliance's domestic market based growth was at the other end tremendously dependent on an ability to command large amounts of foreign exchange – for capital goods, raw materials and technology imports. As it integrated backwards, it replaced one set of imported current inputs with another so that the imported component of its raw material consumption remained high throughout.

The path that the Reliance rode to tremendous business success thus was created by factors largely outside the influence of the group – an outcome of the specific pattern of industrialization in the post-independence period. Reliance was no technological innovator and its expansion made extensive use of foreign technology. Like the typical Indian group, it also needed to mobilize external finance. Even the boom in the capital issues market in the 1980s which it helped in making had its basis in the larger development in the Indian economy of growth and increased financialization of household sector savings from the late 1970s. Reliance also cannot be credited with discovering investment directions that were overlooked or avoided by other firms or considered too risky by them. If there was something unique in the Reliance story it was simply that: a) it was the only group whose presence spread across *all* the industries it had entered into; and b) in each of these industries Reliance

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[10] The sanctions for the establishment of PFY plants by Reliance and Orkay were on the same date.

was able to achieve a large and dominant presence relative to other rivals in these industries. How did it manage these in the face of rivalry?

The only two related things that can be identified as separating Reliance from its rivals, which ensured that Reliance rather than any other group was the greatest beneficiary of investment opportunities open to all firms, were its exceptional success in gaining from the regulatory regime and in mobilizing finance. From securing industrial and import licenses, MRTP and foreign collaboration approvals, financial support from public sector institutions and capital issues approvals and extending to taxes and import duties – the potential strategies of Reliance and its rivals involved multiple points of interaction with the prevailing regulatory regime which influenced what strategies could be put into practice by different firms and groups as well as their outcomes. The evidence indicates that Reliance's success in getting a favourable configuration of decisions by the relevant State agencies was rather exceptional through most of its history: Reliance was able to pursue a strategy of creating large capacities that may even have been denied to others who moved in that direction before Reliance[11]. It was then also able to stretch its approvals at the enforcement stage to create production capacities that were in effect larger than approved[12]. It could also spend more

[11] Reliance not only managed to secure licenses and MRTP approvals for what were then fairly large capacity creations/expansions in the petrochemicals industries, it also benefited from the fact that rivals who might have created barriers to its entry by creating similar capacities or diversified structures *before* Reliance were denied similar approvals. A perusal of rejections/approvals under the MRTP Act for capacity creation, for example, revealed that the Thapar group's proposal for setting up a PFY plant with a larger capacity than that created by Reliance, and made before Reliance actually began its production, was rejected after two years. By contrast, just a year after, Reliance's proposal for substantially increasing its capacity was approved in the same month in which the application was made. Similarly, the Shri Ram group's LAB proposal made before Reliance was also rejected as were those of others subsequently. Not only applications of other groups for large capacities, but also those that could have created other similarly vertically or horizontally integrated petrochemical manufacturers as Reliance were also rejected – for instance, the Thapar group's applications for both PFY and PTA, and of the JK Singhania group for PFY, PSF and PTA.

[12] Allegations that Reliance's succeeded in installing capacities that were much larger than its stated and licensed capacities even translated into official charges made by the customs authorities (Mohnot 1987). As far as evidence goes, it is true that Reliance Industries actual production figures for PFY were much higher than its stated installed

foreign exchange than was the norm in the industries it operated in. in the 1980s the raising of customs duties on imports of certain products and the lowering of excise duties on the same at times coincided with Reliance's switch from importing the product to producing it. Reliance's strategy, to be successfully executed, was also dependent on the exceptional mobilization of finance it managed. While it benefited here too from its 'connections', this was one area where Reliance could be credited with some degree of innovativeness. The capital issues in the 1980s helped to also shore up the profitability of its investments by reducing the costs of finance. In addition to this was the fact that Reliance was successful in making use of tax concessions to pay virtually no taxes on its profits for two decades.

Given all that has been described above, the question that arises is – to what extent can it be said that Reliance's remarkable rise was an expression of *industrial entrepreneurship* or did it more reflect the fact that the basis for success in Indian capitalism still retained a significant mercantile element?

Conclusion

Two centuries of colonial subjugation, over one and a half centuries of the development of modern capitalist industry, and more than seven decades of independence that included an initial phase of an attempted relatively autonomous development and then the period of move towards greater integration with the world economy – these are all component parts of a continuum in Indian history which is located within the world history of capitalism. Capitalism's decisive impact on India during this period shaped a movement that gave rise to the peculiar combination of a significant transformation and a resilient backwardness. Indian capitalism itself was born only within and out of that movement, and only at a particular stage of its course. The capitalist class that came into being under colonial conditions had an extremely imperfectly developed industrial character on account of the specific circumstances of its origin. Insofar as it had to be main agent for the post-independence process of capitalist

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capacity, almost double in 1989-90. Similarly, in the case of PTA production, in its very first year of operation, Reliance's PTA plant produced 25% over its stated capacity. Though it was not the only manufacturer with a capacity utilization of over 100%, the gap between its production and the industry average per unit was larger than that in the respective capacities.

industrialization in India, its historically shaped character constituted an additional element in the constraints such an industrialization inherited from colonialism. Insofar as these other constraints, in particular the agrarian one, was not eliminated, the basis for industrialization remained weak and Indian industrialization remained stunted. In the course of it, Indian capitalists and big business did acquire newer capabilities and a greater degree of self-confidence as a result of the industrial expansion and diversification that took place under dirigisme. These have been reinforced and strengthened by what from their own perspective has been a successful transition to globalization. Nevertheless, it is hard to trace in that development of the capitalist class a steady and decisive strengthening of its industrial character at the expense of the mercantile one – and therefore it is perhaps not yet time to conclude that this particular legacy of colonialism has become a thing of the past.

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