Indian Capitalism: A Case that doesn’t Fit?

Surajit Mazumdar

Institute for Studies in Industrial Development

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Institute for Studies in Industrial Development
4, Institutional Area, Vasant Kunj, New Delhi - 110 070
Phone: +91 11 2676 1600; Fax: +91 11 2676 1631
E-mail: <info@isid.org.in> Website: <http://isid.org.in>

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Surajit Mazumdar*

[Abstract: This paper critically examines the ‘Varieties of Capitalism’ (VoC) School’s approach to constructing typologies of capitalisms with reference to the specific case of Indian capitalism. It emphasizes that two factors related to its origin and initial emergence remain crucial for explaining many of the key and sometimes very specific outcomes being generated by the operation of Indian capitalism in its current stage. These factors are, firstly, that Indian capitalism was born out of the womb of capitalist colonialism, and secondly, that no thoroughgoing agrarian transformation happened in India before or after independence. These have strongly conditioned capitalist development in India after independence, first under a more statist and protectionist regime till 1991 and subsequently under a more open and market-oriented policy in the era of globalization. The transformational impact of this development has been consequently limited, even in comparison to other late-industrializing Asian capitalisms, and insufficient to transcend these factors. Yet changes have happened over time, which lie behind the break state economic policy made with the past in 1991. The paper argues that such a combination of continuity and change poses some vexing problems for the characterization of contemporary Indian capitalism as a particular variety.]

1. Introduction

This paper critically examines the ‘Varieties of Capitalism’ (VoC) School’s approach to constructing typologies of capitalisms with reference to the specific case of Indian capitalism. Can the VoC approach be used to meaningfully classify Indian capitalism as a specific type? This is a legitimate enough question that can be asked of a perspective that seeks to provide a general analytical framework for understanding capitalist diversity. While I do ask this question my objective in this paper is not to provide a definitive answer to it. Instead I use the Indian example to highlight certain aspects of capitalist diversity which may not have been paid sufficient attention to in a research program that has remained focused mainly on developed capitalisms. In the process I hope to contribute,

* The author is Professor at the Institute. E-mail: surajit.mazumdar@gmail.com

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even if modestly, to the ongoing discussion on what constitutes the appropriate basis for distinguishing capitalisms.

For the purposes of this paper I use the expression VoC School in a broad sense, not limiting it to the influential Hall and Soskice perspective. I include within it others who also highlight the persistent diversity of national capitalisms in the post-war period and the co-existence of different models. A fairly significant corpus of literature of this genre has emerged in the last decade and a half (Amable 2000 and 2003, Berger and Dore 1996, Dore et al 1999, Dore 2000, Hall and Soskice 2001, Hollingsworth and Boyer 1997, Kitschelt et al. 1999, Streek and Yamamura 2001, Whitley 1998 and 1999). These studies have challenged the conception that international competition has resulted in a tendency of convergence towards a single capitalist model superior to all others. Indeed, what is argued is that precisely because they are different from each other, the responses to the common pressures emanating from the process of Globalization also vary across national capitalisms. While there is a ‘variety’ of perspectives even within this tradition of thinking, the similarities between them are often far greater than their differences. One can therefore justifiably speak about a broader VoC School united by a common objective and many shared ideas.

2. The Varieties Approach, Third World Capitalisms and the Indian Case

One of the key premises of the VoC School is that capitalist economies differ from each other in more than their surface features, and these produce variations in their working and the outcomes they generate. The state-capital relationship, the relationship between firms and the industrial relations system, the financial and corporate governance systems, and indeed how all of these fit in with each other, are some of the spheres in which such differences are observed to exist. Variations in these dimensions across economies however are accompanied by the relative temporal stability of their specific configuration in each individual case. These make for differences in the ‘institutional configurations’, ‘systems of coordination’, ‘production regimes’, ‘social system of production’, ‘business systems’, ‘modes of regulation’, etc. that are characteristic of different capitalisms and condition their respective motions. Thus there are different ‘types’ of capitalism which exhibit different trajectories. The pace of growth, patterns of income distribution, the intensity and nature of innovative activity generated, the specializations they tend towards, and even responses to common pressures like those generated by globalization are some of the principal outcomes in which differences are expected to follow from the differences in capitalist models. These provide the rationale for constructing typologies of capitalisms, and the classic distinction made is between Liberal and Coordinated Market Economies (LMEs and
organized.

In other words, the VoC School’s contention is that the understanding of the economic organization of capitalism would be incomplete if it were to restrict itself to the features that mark out capitalism as a distinctive economic system and can be found in all capitalist economies. The results they will produce cannot be simply read off from these features without taking into account the specific forms these features take, the larger social and political setting in which they are located, and the influence these then have on the behaviour of different actors in the economic domain. The analysis of capitalism must therefore include an analysis of capitalist variety. Sympathetic critiques of the VoC perspective have however argued that it tends to neglect the former in the process of emphasizing the latter (Howell 2003), or that it mixes up between ideal types and actual cases (Crouch 2005).

For the VoC School the national economy is clearly the principal unit of analysis. The emphasis in the main is on differences in the way different national economies are internally organized. This focus on national models has also been subject to friendly criticism. It has been described as reification of the national economy, the ignoring of the fact that such economies do not operate entirely autonomously (Watson 2003), or as ‘methodological nationalism’ which neglects transnational processes and the sub-national scale (Peck and Theodore 2007).

2.1. Third World Capitalism

On the whole, the VoC School has not squarely confronted the issue of characterizing capitalisms outside the group of developed capitalisms which have been its principal focus (Peck and Theodore 2007). Few attempts have been made to extending the framework to developing country or Third World capitalisms. One such attempt focusing on Latin American capitalisms has resulted in the creation of a third type outside the LME-CME spectrum (Schneider 2009). It has been argued that Asian capitalisms too cannot be easily fitted into the LME-CME dichotomy and that they may be a distinct group and yet heterogeneous within (Carney et al 2009). The problems associated with classifying Third World capitalisms may however run deeper. When these capitalisms, India’s being an important case, are brought into the frame, the diversity in contemporary capitalism becomes visibly greater. In addition there are important differences between advanced and Third World capitalisms, and within Third World capitalisms themselves. Many of these variations are of a different nature than those distinguishing one model of developed capitalism from another in the VoC framework.
One of the implications of the focus on national models of capitalism in developed countries is that the VoC approach does not explicitly bring into the picture the extreme economic unevenness across national economies and inequalities in their respective positions in the international structure of capitalism. Surely however these are elements of diversity between capitalist economies that have a bearing on the specific outcomes they produce. Isolated capitalist economies have never existed in history. Instead the co-existence and mutual interaction of the national and international dimensions of capitalism has been an integral feature of its history. Unevenness in the positions of different national economies has always accompanied this. The unevenness between the advanced economies of the capitalist core and the underdeveloped economies is an especially significant one, given its magnitude and durability.

In some important senses Third world capitalisms are a type unto themselves, different from advanced capitalisms because of their distinctive historical routes to capitalism. Most of them had not experienced their independent transitions to capitalism before being forcibly brought into its ambit by the leading capitalist nations. The extraordinary economic expansion experienced by the capitalist core since the Industrial Revolution of the late 18th century however largely bypassed the colonized or semi-colonized underdeveloped world. These regions were made to occupy the specific position in the international division of labour of being primary-commodity producers. Decolonisation and the new geo-political realities emerging after the Second World War certainly improved the prospects of capitalist development in Third World countries. They did so however in a background where a wide gulf had already been created between them and the advanced countries. Vast differences in economic, military, and political strengths mattered precisely because disengaging themselves from the international capitalist economy was not an option for Third World countries seeking to promote their own national developments. They had to therefore occupy a subordinate position in the world order of capitalism even after their direct subjugation by the leading powers ceased. At the same time, the internal structures of Third world countries had evolved in a way where they were not necessarily full-fledged capitalist economic formations. Thus wide differences in economic levels, in their positions in the international order, and in their economic structures commonly separated TW capitalisms from their developed counterparts in the post-war period.

Their specific historical situation meant that the set of outcomes of greatest significance for Third World capitalisms were not identical in nature and scope to those emphasized in the context of advanced capitalisms by the VoC approach. In general the critical issue was the extent of the transformational impact capitalist development could produce on their societies and in their historical situation. It was not just a matter of whether growth would be somewhat slower or faster, but whether it would enable them to close the gap with
developed capitalisms. In the process, would these countries be able to make a decisive transition away from being primarily agrarian economies? On the issue of specialization, to what extent they could succeed in breaking out of the existing pattern of the international division of labour was critical. In their international trade this was not a question of merely developing industrial exports but also going beyond the state where their relative backwardness had to be the basis for competitive advantage (in the form of low wages, for instance). For Third World economies, the important question was not so much what specific innovative abilities they would develop but whether they would develop any such capacity at all or would they remain technologically dependent?

History has of course not stood still since the 1950s, and neither have therefore Third World capitalisms. Change but also significant continuity and a great diversity of individual trajectories has characterised their movement. Collectively and individually Third world societies and economies have changed in important ways. Capitalist development in the Third World has however generated a highly uneven pattern of movement from the initial conditions common to most underdeveloped economies. Rarely has it shown their initial distinctiveness to have been a purely transitory situation evolving towards one or the other models of advanced capitalism. Only a handful have can be said to have managed to come even remotely close to bridging the gap with developed economies while at the other end of the spectrum are some who have fallen further behind. This diversity of Third World experiences and their sources also need to be also taken into account in any exercise in comparative capitalism. On the whole, however, change has meant the reproduction of the deep seated iniquities of the world economy in newer forms rather than their elimination. The fundamental difference between the two groups of capitalisms on either side of that divide has therefore shown itself to be resilient rather than transitory.

2.2. Contemporary Indian Capitalism: Some Salient Features

In the diversity of Third World experiences in capitalist development, the specifically Indian story may in some senses be a unique one or one of its kind. It is like most other such experiences one of significant continuity and important change, but in its own distinctive way.

In recent times, India has drawn attention as one of the largest economies of the world and amongst its fastest growing. Yet its per capita income is still below the levels crossed in Western Europe and North America over a century ago, and less than a tenth of their current levels (in purchasing power parity terms). A seven per cent increase in per capita income in India therefore gives rise to a smaller increment than a one per cent increase in the developed world. Some Indians may today rank amongst the wealthiest people in the world. Eighty per cent of the Indian population however lives on less than two dollars a
day, half of them below a dollar a day. By any indicator therefore, India is still economically an extremely poor country and a good distance behind even China, the other exceptionally large developing economy.

If we turn our attention to her occupational and output structure, India would have to be considered the most agrarian and least industrialized of the world’s major economies, developed and developing. Fifty seven per cent of the workforce in India is still engaged in agricultural activity (18 per cent is in industry and 25 per cent in services). This is the highest amongst the six largest developing economies, far ahead of China’s 44 per cent. Amongst these India also has the lowest per capita GDP. Agriculture’s share in GDP has of course come down significantly since India’s independence in 1947 – from more than half to just 17 per cent today. But this has not happened so much due to industry increasing its share as the exceptional growth India has seen of its services sector (Mazumdar 2010). Though it does possess a large and diverse industrial sector, industry and manufacturing’s share in Indian output crept up rather slowly for most of its post-independence history. It then stopped rising entirely in the mid-1990s when it was still under 30 per cent, well short of peak levels attained not only in the advanced industrialized countries but even in the late-industrializing East Asian economies or countries in Latin America. Thus India stopped industrializing in the conventional sense of the term before achieving high levels of per capita incomes and industrial output. Her services sector however has grown steadily and now accounts for about 55 per cent of GDP. India’s output structure therefore has now started resembling the post-industrialization structures of the developed countries. However, unlike in their case, there is a vast gap between the services sector shares in output and employment in India.

India also has an exceptionally large unorganized or informal sector. This sector accounts for a little more than half of India’s Net Domestic Product (NDP) and nearly 90 per cent of employment. Indian agriculture dominated by small-scale cultivation is virtually entirely outside the formal sector. A large peasantry and hired agricultural labour makes up the workforce in that sector, but landownership is not limited to the peasantry. In industry and services too, more than 70 per cent of workers are employed in their informal components. Self-employment or highly irregular wage-employment therefore dominates the Indian employment scene.

In the organized or formal segment of the Indian economy, a significant share is of the public sector. This sector presently accounts for a little over a fifth of India’s GDP, about 45 per cent of the organized sector NDP, and two-third of organized sector employment. These levels are a little lower than those prevailing at the beginning of the 1990s. In contrast, after 1991 the long-standing stability of the relative size of the corporate sector dominated private organized sector within the Indian economy was replaced by a rapid
rise. Even then it accounts for less than a quarter of India’s aggregate NDP, and not even three per cent of employment. Large business firms organized occasionally as individual joint-stock companies but more often as multi-company business groups, have always dominated this private organized segment of India’s economy. Foreign controlled multinationals (MNCs) account for an important share in it, but most of the Indian private corporate sector is made up of large Indian firms. These are typically family controlled but not family owned, controlling families usually contributing only a fraction of the capital. Indian firms till very recently were mainly domestically based, but the last decade has seen a distinct trend of increasing internationalization.

However, Indian big business firms still reflect the one feature that always marked out Indian capital as a Third World capital, namely a limited capacity for self-development of technology. Indian firms relied on accessing technology from abroad during her import-substituting industrialization days (Alam 1985, Tyabji 2000). There is little evidence that subsequent heightened exposure to global competition has led to any significant general increase in the innovative capacity of the Indian private sector (Mani 2009). Even in the two most internationalized sectors which apparently are somewhat exceptional in this regard, pharmaceuticals and software, limited capabilities have meant Indian firms occupying a subordinate position to internationally dominant firms (Chaudhuri 2008, Jha 2007, D’Costa 2004). Even the foreign acquisitions by Indian firms, enabled mainly by their financial strength, have been perhaps attempts to acquire missing competitive strengths like innovative capacity (Nayyar 2008).

India’s international trade pattern too is somewhat peculiar just like her production structure. India did gradually move away after independence from being a primary commodity exporter and manufactured products came to dominate her merchandise exports. However, unlike many East and South East Asian countries, India has so far not managed to make a significant mark as an exporter of manufactures. The levels of these exports are not very high and imports of manufactured products are significant along with large oil imports. MNC interest in India has also been mainly of the market seeking variety (Nagraj 2003, Kumar 2008). MNCs have therefore not played a very significant role in making India a platform for world market production and outsourcing in manufactured activities. It has been a different story in services, where outsourcing to India has grown significantly in recent years. It is in services therefore that India has achieved its greatest export success. This is however heavily concentrated in a very specific category, of information-technology (IT) and IT-enabled services, where India is by far the dominant exporter amongst developing countries. The result of these has been that the ratio of India’s services exports to her merchandise exports is exceptionally high compared to global averages. In recent times a significant surplus in her invisibles trade (made up of a surplus in services trade and large inflows of remittances) have kept India’s current account deficit
within manageable limits in the face of a ballooning trade deficit. India’s emerging position in the international division of labour therefore appears to be quite different from many of its Third World counterparts.

The earlier brief description of India’s economic structure should have been sufficient to indicate that the class structure associated with Indian capitalism is extremely complex. The classic classes of capitalism constitute only a numerically small proportion of the Indian population. There are in addition other dimensions to the complexity of Indian society – in particular the continued survival of the institution of caste and of tribal communities, and the tremendous religious, linguistic, and cultural diversity of the Indian people. The formal political structure of this society defined by a republican constitution has remained relatively stable over the last six decades. Its key elements are a federal system of government with cabinets and legislatures at the central and state level (states being organized mainly on a linguistic basis) elected on the basis of universal adult suffrage.

Even from this sketchy outline of some of the key features of Indian capitalism one may conclude that the structure and setting of Indian capitalism and its long-term and immediate trajectory have important distinctive elements. These separate India from not only developed capitalisms but also many other Third World capitalisms.

2.3. From Dirigisme to Liberalization: A Regime Change?

1991 marked a decisive turning point in India’s post-independence economic history as economic policy made a radical break with the past and a process of ‘liberalization’ was ushered. Looked at in terms of the typologies of capitalist models associated with the VoC school, one could characterise this shift as a movement from the state attempting to create some version of a CME model to its promotion of the LME model.

After independence, India had adopted a strategy of protection, import-substituting industrialization and ‘planned’ economic development. In this strategy, in principle, the state had to play the role of guiding and directing economic activity. Apart from controls on inflows of products, capital, and technology from the rest of the world, Indian dirigisme involved a partitioning of economic activity between the private and public sectors. The public sector was designated to play a dominant role in certain key industries and sectors and occupy the ‘commanding heights’ of the economy. The public sector thus came to dominate the mining, oil and gas, electricity, financial sectors, and some heavy manufacturing industries. The private sector however remained dominant in manufacturing. The strategy also involved an attempt to direct the investment of private firms in accordance with plan priorities. Towards this end, an elaborate system of controls
on private capital was created, the centrepiece of which was a system of industrial licensing. It was the formal segment in manufacturing which was subjected to this kind of regulation. Public sector financial institutions became the main suppliers of finance to private corporations whose capital issues were also subject to control and regulation.

While agriculture was overwhelmingly a private activity, the state did become deeply involved in the agrarian economy of independent India. Public investment within limits took place in agriculture and rural development. The state promoted technological change - the shift to high-yielding varieties of seeds and increased use of inputs like chemical fertilizers and some element of mechanization. For this the state subsidized inputs and facilitated increased flow of subsidized credit to the rural sector. It also promoted credit and marketing co-operatives. Intervention in the trade in agricultural products, particularly food, was a major feature. This encompassed control on foreign trade, government purchases as part of a price-support mechanism, maintenance of stocks, and development of a limited public-distribution system.

The post-independence statist and protectionist strategy remained broadly in place till the beginning of the 1990s. The picture changed swiftly and dramatically following a foreign exchange crisis in 1991. Like elsewhere in the world liberalization and deregulation became the dominant themes of Indian economic policy after 1991. With this India opened itself up to trade and capital flows, dismantled the old system of controls over private capital, opened up sectors of public sector dominance for the private sector and also began privatizing public sector firms, and adopted fiscal conservatism as the guiding ideology of macroeconomic policy. Financial sector deregulation was also accompanied by apparent attempts to promote an active ‘market for corporate control’, which is much favoured in neo-liberal thinking as a superior to regulation as a disciplining mechanism.

At one level the changes that have taken place in India after 1991 are significant and not surface changes with no significant impact on the working of Indian capitalism. India’s economic trajectory has undoubtedly become more subject to the spontaneous tendencies emerging from within her own economy, the global economy, and their mutual interaction, which have some visible effects.

Capital account and financial sector liberalization have eliminated the key role of public sector institutions as suppliers of finance and stock-market stabilizers, and altered the corporate financing system. Portfolio capital flows through Foreign Institutional Investors (FIIs) have become the important movers of the Indian stock market and determinants of the conditions whereby Indian firms could raise cheap capital through capital issues. The financing options of Indian big business firms have also changed as a result of increased access to foreign finance.
The competitive environment for Indian firms has also changed. Earlier they competed mainly amongst themselves in a sheltered market, and much of business rivalry involved trying to play the control regime to their respective advantages. Now they are exposed to international competition but at the same time also enjoy greater freedom in pursuing their respective strategic imperatives. At the same time they have had to redefine their relationship with MNCs who have been enabled and induced by liberalization to move towards changing their approach towards their Indian affiliates and joint-ventures (Basant 2000). On the whole, Indian firms have managed these transitions and have dominated the process of rapid corporate growth of the last two decades (Mazumdar 2008a). However, this has been accompanied by an element of de-industrialization of private corporate capital in India. While private corporate presence in industry is still substantial, growth in manufacturing has not been the source of the enlarging of the share of the private organized sector in Indian output. Rather it is has been because private business firms have found lucrative opportunities in externally as well as domestically demanded services, and of late also in construction. Services have consequently decisively displaced manufacturing as the principal sphere of private corporate activity.

It is the policy options available to the state that have become more restricted by the opening up of the Indian economy, particularly to volatile capital flows that have created problems of exchange-rate instability. The consequent change in macroeconomic policy did not result in India’s case in a severe contraction of the kind Latin America and Africa had experienced in the ‘lost decade’ of the 1980s. There was also however no initial acceleration in growth from the trend that had been established in the 1980s. The acceleration happened only from 2003–04 onwards, but this was also preceded by a six-year period of subdued growth starting in the second half of the 1990s. Moreover, growth had become even more services oriented than earlier. One sphere however which has been adversely affected by liberalization has been the agrarian sector. Fiscal compression and other measures associated with liberal economic policies contributed to the emergence of a deep-rooted agrarian crisis in India since the mid 1990s (Patnaik 2003 and 2007, Reddy and Mishra 2008). Symptomatic of this crisis has been the over two hundred thousand cases of farmer suicides in the last decade and a half. Given the dependence of a large part of the workforce on agriculture for their livelihood, and the sector’s role in determining the reservation wage in non-agricultural activities, the grim agrarian situation has contributed to ensuring that despite high growth the large majority have remained confined to extremely low levels of income (Sengupta, Kannan and Raveendran 2008). Indeed in India, even food consumption levels have fallen for large segments of the population in comparison to pre-liberalization days.

The sharp rise in inequality in India after independence is one symptom of the fact that liberalization has reinforced the iniquities that were always embedded into her
fundamental economic and social structure. No radical change in that structure either preceded or followed Indian liberalization. Nor did liberalization represent a new arrangement or a new social compromise evolving through the democratic processes of India’s polity. It was imposed from above and it in turn made India’s democracy less responsive to the aspirations of the majority of the people (Nayyar 1998). One of the forces behind the shift was external pressure, which as a Third World capitalism India was vulnerable to. Liberalization in India to begin with came through the standard route of an IMF imposed structural adjustment programme in the wake of a foreign exchange crisis. Some elements of Indian liberalization clearly owe their origin to external pressure1. However, while resistance to liberalization came from other segments of Indian society, Indian big business did not put up any challenge to it. Instead it came to eventually actively push the ‘reform’ agenda and has been a powerful social force behind firmly establishing the direction shift in economic policy that first emerged in 1991 (Pedersen 2007, Kohli 2009b). In the process the power of corporate and business influence that has been an integral feature of independent India’s political economy since independence was both revealed and strengthened.

Like its endorsement of the current liberalization strategy, Indian big business had advocated and supported the economic policy framework adopted after independence (Ray 1985). Its power and influence also however contributed to undermining that framework, as the Indian state failed to impose any meaningful discipline on private capital (Chibber 2004). Big business firms routinely abused, manipulated, and circumvented the system of regulation in pursuit of their private ends. Private investment failed to be therefore truly channelled. While industrialization and its overall transformative impact on Indian society remained limited, import-substituting industrialization did change Indian big business and its context. On the one hand there was a process of ‘learning’ through which Indian big business gained strengths it did not possess at independence. At the same time there was a change in the technological requirements of capitalist development, which given its weakness on the technological front Indian big business could only access from abroad. These set up the circumstances for the change in its attitude towards economic policy (Mazumdar 2008a). The change in that policy and its ascendancy to the position of being the driver of growth and development, has only served to enhance the power and influence of corporate capital.

1 An example of this is the change in India’s intellectual property regime. The Indian Patent Act of 1970, which recognized process but not product patents, had played a very important role in enabling Indian firms to undermine the dominance of MNCs in the pharmaceutical sector. As part of her WTO commitments, however, India had to amend the Act after liberalization.
The background of Indian liberalization and the external and domestic forces behind the push towards it point towards the continuities that link Indian capitalism in its liberalization phase with its past. Liberalization in one sense was a regime change and in another sense not, with the latter stability being an important factor behind the former change.

3. Colonialism, the Agrarian Constraint and Indian Capitalism

If Indian capitalism has produced a very distinctive set of outcomes, both in the longer run as well as in its more immediate liberalization phase, two factors have played an important role. These are, firstly, that Indian capitalism was born out of the womb of capitalist colonialism, and secondly, that no thoroughgoing agrarian transformation happened in India before or after independence.

3.1. Colonialism and the Origins of Indian Capitalism

For a period that spanned nearly two centuries and began just before the first Industrial Revolution in history, India was the largest and most important colonial possession of the largest of the modern empires. India played a key role in both Britain's rise to, and in cushioning its ultimate decline from, the position of being the world's leading economic and political power. India itself, referred to at one time as the "Jewel in the Crown", however emerged out of this phase, transformed in many fundamental ways, but as one of the world's most impoverished nations.

Capitalist production had not made its beginnings in India prior to British rule, and colonialism short circuited any possibility of an independent transition to capitalism. The capitalist sector that emerged in India mid way through the period of British rule was thus the result of the structural transformation emerging from the specific context of the subservience of the Indian economy. The beginnings of capitalist production in India, and its development for nearly a century, took place under a colonial dispensation. Some important and peculiarly distinctive features thus marked its pre-independence history. Five of these, in particular, may be highlighted.

First, capitalist production was more or less synonymous with modern factory production, the agrarian sector being completely outside its ambit. Indian agriculture remained a primarily peasant agriculture, from which a hierarchy of landed interests and the state extracted a substantial surplus. The agrarian sector did not of course remain unchanged under the impact of colonialism but these did not radically change the way production was organized or the techniques that were used (Patnaik 1999). Agricultural productivity
remained low and while agriculture supported an extremely wealthy class of landowners, and provided a significant part of the state revenue for a long time, much of the agrarian population remained in extreme poverty.

Second, modern capitalist industry emerged in a background of an ongoing process of de-industrialization of India’s economy, the massive destruction of her traditional artisanal industry. This was initiated by the entry of British cotton textiles into the Indian market in a big way after 1813. De-industrialization in India continued for the major part of the 19th century though traditional industry was not completely eliminated, and India rapidly receded from its position as one of the great manufacturing regions of the world of the pre-industrial revolution era2.

Thirdly, both preceding and following the advent of capitalist enterprise in India was a continuous unilateral transfer of colonial tribute from India to Britain. In other words, for a period of nearly two centuries capital was siphoned out of India. In the period since the mid-19th century, the basis for this was provided by exports of a variety of primary commodities produced mainly by a backward but forcibly increasingly commercialized agricultural sector. The large surplus that India’s merchandise trade generated was siphoned off through the ‘home charges’ and other heads of invisibles.

Fourthly, capitalist development in the colonial context was severely handicapped by the absence of any consistent state support to a process of industrialization. India’s industrialization was not amongst the colonial state’s priorities. The imperatives on which it acted were often also in conflict with the interests of capitalist industrialization in India (Bagchi 1980, Ray 1985). One of the important implications of this was that the resources that even a backward agriculture could have supplied to support industrialization remained unutilized. The agrarian surplus that financed the tribute transfer from India could have financed a greater degree of domestic capital formation. The agricultural products that were exported for this purpose could have been used to supply more raw materials to domestic industry and enable imports of industrial producer goods.

Fifthly, the industrial capitalist class that emerged had two distinct components – a foreign and a native one. The dominant component of the capitalist sector was made up of enterprises initiated by an expatriate European (mainly British) business community (Ray

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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 this period. 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.
1985). The capital commanded by these European controlled enterprises was largely accumulated from India, so that they were not really the agents of a flow of British capital to India. This European enterprise was fundamentally different from the MNCs which entered the scene only in the twentieth century. It was tied to the colonial context, and dependent on it, to a much greater extent. A native or indigenous industrial capitalist class however also slowly emerged alongside, mainly through a process of graduating from purely mercantile activities to industry. Its development was however impeded by the dominance of European enterprise.

An additional feature of India’s industrialization was the early emergence of a corporate sector. The enactment of a general incorporation law in the middle of the 19th century just preceded the first successful establishment of modern factories. The histories of modern factory production and the corporate sector in the country were not only therefore coincident in time but closely related. Both Indian and European enterprises made extensive use of joint-stock companies for undertaking industrial ventures in the colonial period (Rungta, 1970, Lokanathan, 1935). In the absence of specialized financial institutions to perform that function, banks largely concentrating on short-term finance, share capital issues had been the major means for financing fixed investment. However, business corporations in colonial India had never acquired the character of having extremely widely dispersed ownership. Capital was typically raised from a relatively small circle of people and the class of shareholders in India remained relatively small.

The emergence of capitalist enterprise and a modern industrial sector barely touched the surface of Indian society in the colonial era. At independence this sector accounted for barely 8 per cent of national income, and less than 2 per cent of employment. This modern industrial sector still co-existed in turn with a surviving traditional manufacturing sector (or its modified version) that was still larger in terms of its contribution to national output and in employment. Notwithstanding an element of structural diversification over the preceding three decades, the light textile industries dominated India’s industrial structure at independence. Most importantly, India was still a mainly agrarian economy.

The impact of colonialism on India’s industrialization was more than one of merely restricting and delaying it. Two centuries of tribute transfer, limited industrialization, and the economic structure created under colonialism all cast their shadow on the context of Indian industrialization after independence. There were many dimensions to this. For instance, tribute transfer had reduced considerably the quantum of capital that could have been potentially available. Limited industrialization was also a story of missed
opportunities for a 'take-off' that were not going to appear again in the same way.\(^3\) In the century that India had failed to industrialize, many other countries had joined Britain in the category of industrialized nations. This meant that the international market situation had changed irreversibly. In technological terms also Indian factory industry had fallen further behind than it had been at the start of its development 90 years earlier. But amongst all such long-term consequences, two deserve special mention. These are the bequeathing to independent India, of an Indian industrial capitalist class and corporate structure of a specific nature and character and an agrarian constraint on industrialization that had become only more severe over time.

The native indigenous industrial capitalist class that developed had come to industry from a mercantile background and grew under the shadow of European dominance. It gradually developed its distinct identity and became increasingly assertive with the rising tide of nationalism, including acquiring European control firms. But this was a relatively limited development of the class in more senses than one. Relatively few Indian industrial houses rose to prominence, and trade remained the principal business activity for Indian business communities. Even the industrial houses did not completely move away from trading. Most importantly it was not mastery over production or technological innovativeness that formed the basis for the emergence of India’s industrial capitalist class. Rather it was accumulations through trade and commerce and their connections and skills in that sphere that had been important (Ray 1994). Technology was 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.

One instance of the kind of ‘innovativeness’ and ‘learning’ ability Indian capitalists developed was the manner in which they replicated the pattern of centralizing control over many companies originally developed by European enterprise. Both European and Indian promoters of industrial companies had in the second half of the 19\(^{th}\) century made extensive use of the managing agency system to gain virtual proprietary control over these companies.\(^4\) Instances of a managing agency firm managing a single company were not only quite common but were in fact the norm with Indian controlled companies before the First World War. It was a segment of European capital that went further in centring control

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\(^3\) Ray pointed out that the phase of railway construction in the 19\(^{th}\) century, and that leading up to, and during, the second world war, as two major occasions “when India payed a heavy price for the policies of her colonial government”. [Ray 1994: 69].

\(^4\) 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 a number of companies in a single managing agency. These ‘managing agency houses’ were the original multi-company business enterprise in India, the precursors of the Indian business group. European businessmen therefore played a pioneering role in the creation of a corporate structure characterized by the virtually impregnable control of promoters over ‘public’ companies, and the centralization of control of a large number of companies in the hands of a single authority. These European controlled industrial houses have long disappeared from the scene. But the legacy of the corporate structure they contributed heavily to making is visible to this day. Indian business groups first imitated the European houses, though they did not necessarily confine themselves to using a single managing agency firm for controlling a number of companies. After independence, they developed the mechanism of inter-corporate investments to play the same role and replace the managing agency system that was eventually abolished by law (Hazari 1966, Sengupta 1983).

Also reflecting its peculiar origin was the somewhat contradictory elements in Indian capitalists’ attitude towards the post-independence industrialization effort. As the end of British rule approached, Indian businessmen played an active part in the formation of a consensus view on what would be the form and substance of the post-independence strategy of development (Ray, 1985). The interaction between businessmen and the future political leadership of the country that took place in the process however also provided the background for the development networks of relations between the worlds of business and politics. This carried within itself the potential for working at cross purposes to and even undermining the very planning process that it contributed in giving birth to. As mentioned earlier, this is precisely what did actually happen, distinguishing the Indian case from others like Korea (Chibber 2004).

All other historical limitations associated with India’s colonial past and late industrialization might have however been overcome had the legacy of colonialism not included constraints on achieving an agrarian transformation. The importance of such a transformation had increased by independence because the unutilized potential that had earlier existed in agriculture for supporting an industrialization process was no longer available after independence. India’s long-standing export surplus built on her agricultural exports had disappeared by the end of colonial rule. The contribution to state revenues of the once most important source, land revenue, had become insignificant while agricultural incomes had been exempted from income tax. The population was larger and increasing and this was happening in the wake of the trend of declining per capita food production that characterized the last half century of British rule (Blyn 1966). The political implications of food scarcity were also rather different than those that prevailed in the 19th century, when the colonial rulers could permit exports of foodgrains even when millions died in the recurrent famines that characterized that period. Moreover, by independence very little
surplus land was left to which cultivation could be extended. To add to all of this was the effects of the partition which accompanied India’s independence. This took outside the ambit of the Indian Union some of the most irrigated tracts of the sub-continent, a food surplus region, and major areas of production of the two most important industrial raw materials produced by the agrarian sector, namely cotton and jute. In such circumstances, let alone the limited ability of agriculture be a foreign exchange earner as it was earlier, food imports and imports of producer goods for industry (including agricultural raw materials) became potential competitors for scarce foreign exchange. Similarly food and cash crop production had also become potential competitors for scarce land. Unlike earlier when agriculture contributed majorly to state revenue, it was now a potential claimant on the scarce resources of the state.

3.2. The Agrarian Constraint on Industrialization

Overcoming the agrarian constraint after independence required many measures, the most important however being institutional reform in agriculture. India’s agrarian structure was not homogenous across the country but rather ‘a sum-total of regional structures’ (Joshi 1975: 200). Nevertheless there was a common essence to these different structures. This was captured by Daniel Thorner through his concept of the “built-in- depressor” in the agrarian structure (Thorner 1956) which highlight three important inter-related features associated with it. The first was the monopolization of a major part of land ownership by a small minority who extracted a significant part of the produce from insecure tenant farmers in the form of rent and usurious interest. Secondly, such a structure was inimical to investments in agricultural productivity and gave rise to a prevalence of small-scale agriculture. Thirdly, even as it kept agricultural productivity low, it gave rise to a highly concentrated distribution of agricultural income\(^6\).

A redistribution of land-ownership and provision of security of tenures had to be the key measures in reforming the agrarian structure\(^6\). Both were stated objectives of legislations

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\(^5\) The figures given in Bettelheim (1977), pp. 25–26, would illustrate this: The average annual income per person in 1950–51 was ₹3200 for maliks (landlords) who constituted 17% of rural households, ₹130 for kisans (peasants) whose share in households was 45%, and ₹104 for the 38% of mazdoors (agricultural labour). At the same time, the per capita national income was ₹265.2, which was in any case amongst the lowest in the world.

\(^6\) The agrarian structure had a built-in depressor because given the competition for scarce land, the maximum surplus could be extracted by non-producing landowners from the often indebted cultivating peasantry. Those who secured these surpluses would not be the medium for investment of these surpluses in agricultural improvement. The peasantry, because of depressed incomes, was not left with the means to undertake these investments. Their insecure tenures further reduced their incentive to invest in improvements giving returns in the long-run.
enacted after independence in the 1950s and 1960s. It is however universally accepted that these in practice failed to make a significant dent. India’s post-independence land-reform programme became a victim of the fact that the agrarian structure also implied the existence of powerful landed classes who succeeded in thwarting it. Their clout further compounded the problem by ensuring that the pre-independence exemption of agricultural incomes from income tax survived the transition to self-rule.

While it achieved very limited success on the structural change front, the state as mentioned earlier did take other measures to improve agriculture. The agrarian structure too did not remain completely static in the post-independence period. As a result of the cumulative effects of the impetuses provided by state intervention, the spontaneous influences arising from within the agrarian structure and its interaction with the development of the non-agricultural sector, agrarian movements, and the operation of demographic factors, the agrarian structure did experience some modifications over time. These were slow and incremental changes that did not fundamentally reorganize Indian agriculture in a manner that would bring about a quantum change in its productivity.

The importance of the changes after independence in agriculture for creating the conditions for an accelerated process of industrial growth should neither be denied nor should they be exaggerated. There was success in arresting the trend of decline in per capita production observed earlier, that too despite hitting the land constraint. However the growth in agricultural productivity was relatively modest and not significantly greater than population growth. Over time, the dependence on food imports did come down, but only with per capita food consumption levels remaining relatively flat. Thus a slow agricultural growth was not replaced by consistent rapid growth after independence. Rather it was a fluctuating growth of a slightly higher order marked by a greater degree of regional unevenness (Rao, 1994; Patnaik, 1994). With this the agrarian constraint was eased somewhat but by no means eliminated. In the absence of institutional reform, it could not have been otherwise.

Apart from not being able to provide resources for financing capital formation in industry, a slow growing agriculture constrained industrial growth and generated instability in it through a variety of mechanisms. Unbalanced growth between industry and agriculture led to supply side constraints with inflationary effects. One of its implications was also an inflationary barrier to the growth of public investment necessary for supporting industrial growth (including investment in it). The agrarian situation was also at the heart of the market constraint on industrial development. The market problem however was wider than merely of slow growth of the “external” market in agriculture. It led to a persistent narrowness of the domestic market for industry. The narrowness of the market weakened the inducement to invest in industry. The inflationary barrier limited the capacity to widen
the market through public investment, while the inflationary redistribution of incomes reinforced market narrowness. Dependence of the industrial sector on demand generated by the relatively well to do also made the industrial structure more biased towards relatively capital- and import- intensive production than it need have been. This checked the growth of industrial employment as well as domestic production. A narrow market also had a limited capacity to provide the base on which exports of manufactured products could be developed over time.

Overall, the achievements of India’s import-substituting industrialization between independence and 1991 were limited by having to take place in the context of a severe agrarian constraint. The average pace of industrial growth was far more rapid than in the colonial era. The agrarian constraint however prevented sustained spells of high industrial growth, limited industrial investment, and did not permit even the capacity created by this investment to be always fully utilized. Consequently while India’s industrial base became wider in terms of industrial diversification through a successive diffusion of industries, it remained narrow in terms of its scale. A diversified industrial sector came into being even as per capita levels of industrial production remained low. Industrial expansion contributed very little to the expansion of non-agricultural employment. The scale and nature of industrial expansion also did not generate sufficiently strong incentives for Indian industry to invest in development of its own technological capacity.

3.3. The Historical Background and Post-Liberalization Development

India entered into the process of increased integration with the global economy with its background of failed institutional reform in the agrarian sector and a limited level of industrialization. This background and the present context of liberalization have worked in combination to give rise to sharply rising inequalities, a services-intensive pattern of growth, and the continued holding back of industrialization.

The agrarian crisis and the aggravation of income inequalities have sharply reinforced the narrowness of India’s domestic market. The almost exclusive dependence on upper-income groups for providing an expanding consumption demand has imparted an extremely distorted pattern to this expansion. In a country where penetration levels of manufactured consumption goods is exceptionally low; the consumption demand pattern has been shifting in favour of services, while the share of manufactured commodities has been consistently declining. In other words, there is a double squeeze on industrial demand related to income distribution trends under liberalization. At one end the holding down of incomes of a large majority of the population has continued to keep them out of the market for manufactured goods. At the other, rising incomes of those already in the market is resulting in further diversification of their demand increasingly in favour of services.
In the Indian case it has also not been possible to compensate the inadequate expansion of domestic demand for manufactured consumption goods with alternative demand sources like exports and investment. East Asian growth in recent times is supposed to have been based on the deliberate use of these in combination, with export surpluses serving as the engine for investment and growth (UNCTAD 2008). The Indian story however has been very different because Indian manufacturing’s historical development has limited its competitiveness even relative to its Third World counterparts. Developing East Asia in particular has enjoyed decisive advantages over India as a location for production for the world market. East Asia is a more integrated region than South Asia and includes countries with extremely diverse economic conditions. It has a larger population with higher average incomes and therefore a larger regional market. Its industrial base has been more developed and considerably larger and its infrastructure far superior to that of India. India does not even have the advantage, that some developing countries in Latin America, North Africa, Eastern Europe and even East Asia have, namely that of geographically proximity to any of the three major developed regions. Indian industry has therefore remained mainly domestic market oriented; been at best a supplementary producer for the world market; and lived under constant threat of competitive imports from East Asia.

As regards investment, liberalization has elevated the private corporate sector to the position of being the driver of the investment process. Public investment has been constrained by fiscal conservatism. Apart from not being able to generate demand for industry, limited public investment has also failed to contribute toward enhancing the international competitiveness of the Indian industrial sector. In addition, reforms in the financial sector have contributed to financial exclusion of non-corporate segments of the private sector in India even while increasing the financing options for the corporate sector. However, the private corporate sector is not an equally effective agency for investments in different sectors and of different kinds and therefore cannot fully substitute for public investment and investment by other segments of the economy. In fact private corporate investment tends to be heavily concentrated in manufacturing. Thus ascendancy of the private corporate sector in the Indian economy’s investment process has tended to bias that process towards the manufacturing sector. On the other hand, every other component of demand is becoming increasingly biased towards services. This has resulted in an investment-growth asymmetry, a tendency towards a mismatch between the investment pattern and the growth pattern (Mazumdar 2008b).

The presence of the investment-growth asymmetry makes any process of rapid growth of private corporate investment in India inherently unsustainable. Manufacturing investment also creates manufacturing capacity, and does not merely generate demand for manufactured products. Private corporate investment growth therefore has a tendency to outstrip demand expansion because in the aggregate demand for manufactured products,
that investment is only one part and has to counter the demand bias in favour of services from all other sources. This has already generated one episode of collapse of investment in the second half of the 1990s, which also brought down industrial growth levels for a period of six years. A set of favourable conditions, many external, revived corporate investment and industrial growth from 2003–04. However, even without the global crisis the sustenance of this was unlikely as the pace of investment in the manufacturing sector again was again outstripping demand growth.

Thus old historical constraints have operated in new ways to check industrialization and industrial growth in India after liberalization. The notable fact is that these have happened despite the story of services being different. Apart from domestic demand growth for services being driven by the rising incomes of higher income groups, exports of tradable services have grown rapidly. The export growth has not been in the conventional tradable services but in the new areas of software, professional, technical, and business services, that have emerged as a result of the developments in the sphere of communications. The availability in India of some of the specific mental labour required for their production has been due to India’s English language based tertiary education sector. This had come into being on a modest scale under colonialism but was significantly expanded and diversified after independence as part of the older strategy of industrialization. Advanced economies, and particularly the US, had for a long time been major beneficiaries of the outflow from India of high-end skilled labour developed by that sector (Khadria 1990, Nayyar 1994). With developments in communication technology, a much wider range of skills from high-end to low-end came to be accessed without physical relocation of the labour to the advanced economies. India’s general backwardness and the generally low value of the Indian rupee relative to international currencies were also important factors. These ensured that service activities located in India could yield high profit margins and generate what was very high-income employment in the Indian context, and yet be cheap for developed country firms using these services.

4. Conclusion: What Type is Indian Capitalism?

As indicated at the outset, the objective of this paper was to examine the scope for classifying Indian capitalism as a particular type using the VoC approach as an exercise in examining the generality of its framework. That capitalism is characterized by great diversity has of course not been challenged by what has been said and described in this paper. Indian capitalism is distinctive and its distinctiveness is not disappearing under the pressure of Globalization. To that extent a key premise of the VoC approach is supported by the examination of Indian capitalism in this paper. However, it is not so simple to move from this to classifying Indian capitalism as a particular type in terms of that approach. I
would like to point out in this regard three main issues, whose significance is not necessary limited to the specific problem of classification of Indian capitalism.

The first is that no meaningful classification of Indian capitalism as a particular type can ignore its two critical distinguishing features. What has been shown in this paper is that these are simply too important in defining what Indian capitalism is and shaping its trajectory of development. These two features are that it is a Third World capitalism with a colonial background unequally placed in the international structure of capitalism and that it is a capitalism which has never overcome its agrarian barrier. The former feature is shared by Indian capitalism with many others and distinguishes all of them from advanced capitalisms. The latter at least now and more so in terms of its specific character may separate Indian capitalism from more than just advanced capitalisms. Conventional typologies of capitalism however do not accord importance to characteristics of this kind in their classification schemas. It is not therefore clear how and where capitalism’s like India are to be placed within such schemas.

This is not to say that the characteristics usually emphasized by the VoC approach in distinguishing capitalisms are irrelevant and of no significance. However, even in terms of these characteristics, the classification of Indian capitalism would confront difficulties for two reasons. One is that the combination of these characteristics found in Indian capitalism in any phase of its history may not make for its clear-cut depiction as a particular type. More importantly, the combination of these characteristics if not all the individual elements have been temporally mobile. For instance, we have seen that the position before and after India’s liberalization are quite different from each other. Does one therefore conclude that the type of capitalism India is has changed? That such a fundamental change has happened may not however be a warranted conclusion given something else that has also emerged from this paper. This is that Indian capitalism has exhibited a distinctive long-term trajectory across different phases which can in turn be related to its more stable characteristics. How then does one classify a capitalism exhibiting such combinations of continuity and change?

Of the two features that I have emphasized as distinguishing Indian capitalism, one relates mainly to its internal structure and political economy but the other is about its international situation. This raises the question - is appropriate for a general framework of classifying capitalisms to focus mainly on how different capitalisms are internally organized? This is a wider issue and not simply related to the question of classifying Third World capitalisms. The outcomes produced by different forms of developed capitalism may not be attributable only to the way they are internally organized. If their positions in capitalism’s international political economy are different for developed and developing country capitalisms, there should also be variations in their working and outcomes attributable to this difference.
Their dominant positions within the global economy may be as important for developed capitalisms as the opposite situation is for Third World capitalisms. An obvious example of how such differences matter has been the United States’ ability to sustain huge external deficits which, if it had been a developing country, would have long ago triggered a crisis.
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