

Varieties of State-Capital Relations in India

LOUISE TILLIN

A report of a workshop held in King's India Institute, London that sought to move beyond narrow disciplinary approaches in understanding the Indian economy.

Louise Tillin (Louise.Tillin@kcl.ac.uk) teaches at the King's India Institute, King's College, London, the UK.

This note is a summary of discussions that took place at a workshop on “Varieties of State-Capital Relations in India” in May 2013 as part of a partnership between University of California Berkeley, King's College London and the Indira Gandhi Institute of Development Research, Mumbai.¹ The partnership has been established in an attempt to revitalise the field of political economy with respect to contemporary India, seeking to challenge the move towards more narrow disciplinary approaches in recent years. The workshop brought together political scientists, economists and several

anthropologists around the theme of variation in state-capital relations in India over time and space.

The need to better understand the shape of state-capital relations has been heightened by the coincidence of (a) high rates of economic growth alongside high-profile corruption cases since the early 2000s indicating the existence – in places – of collusive relations between state and capital; (b) pressing distributive conflicts arising from rising inequality as well as displacement, dispossession and environmental degradation which call into question the role of the state and political institutions in mediating these conflicts. The slowdown of overall growth rates in the last financial year has increased the immediate urgency to understand India's contemporary political economic settlement in the face of these twin pressures.

The workshop was held at King's India Institute, King's College London. This

summary of discussions will be organised thematically, as far as possible. It will draw out the main themes of deliberations, rather than seek to be comprehensive or to report discussions sequentially. The summary is not intended to present a uniform view of those present – that would not be possible – rather it is intended to summarise the main themes and questions that arose during deliberations. The workshop was opened by a presentation by Pranab Bardhan. Following this, a number of presentations were made by members of the group. The central threads of discussions can be captured under the following four headings: the balance between rentier and entrepreneurial capitalism; conceptualising regional variation in state-capital relations and its effects on economic performance; the shape of India's private sector and distributive conflict.

Rentier vs Entrepreneurial Capitalism:

Pranab Bardhan began by asking what kind of capitalism is now dominant in India, posing the question of whether a form of rentier capitalism could ultimately block entrepreneurial capitalism. To what extent does India look different from the progression in the United States made by the robber barons of the Gilded Age to become respectable “captains of industry”? Or from east Asian states such as Japan where technological dynamism in large conglomerates coexisted with an avidly rent-seeking dominant political party? Or to put the question in other ways, as subsequent speakers did:

- When does rent-extraction endanger economic dynamism? (Michael Walton).
- Why is corruption growth reducing in some instances, and growth enhancing in others? (Atul Kohli).
- To what extent does India's political economy resemble models of “developmental states” seen in the east Asian context (and how far is this a useful comparison)?
- India has travelled a considerable distance from being what K N Raj, echoing Michael Kalecki, described as an “intermediate regime” as he sought to explain India's modest economic performance until the 1980s. What is the economic and social composition of the ascending

coalition that sustains the new regime, and how different and durable is it compared to the earlier configuration? (R Nagaraj).

Pranab Bardhan pointed out that India's recent phase of growth has coincided with two global trends which have increased the value of rental income across the world: (a) financialisation; (b) the increased market value of state-controlled natural resources – land, mineral rights, spectrum – because of Chinese demand, but also growth in other developing countries. As Michael Walton's research has suggested, much of the new dynamism – or entry of new players – in the Indian economy in the 2000s was in companies investing in rent-intensive, non-traded sectors (such as land and real estate, infrastructure, natural resources, etc), while the entry of new manufacturing firms flattened in the 2000s (compared to the 1990s when there was greater entry by new firms).² This, he suggested, may be a worrying dynamic.

Capital has moved into non-traded sectors in the context of increasing global competition which has put pressure on profits. As Mushtaq Khan emphasised, the challenges of establishing competitive companies in the contemporary world is central to understanding the balance between rentier and entrepreneurial capitalism. Khan argues that a fundamental problem is the level of missing “tacit knowledge” about how to produce products that will be competitive globally. In the 1980s and 1990s, a number of modern sectors were already close to the frontier of competitiveness, and policy instruments within what is often described as a pro-business shift allowed some companies to achieve high capabilities. But these conditions do not continue to hold today as many sectors have moved further away from the frontier of competitiveness and political instability has created uncertainty over long-term policy horizons. For this reason, he suggested, the relationship between big business and politics has become less productive and more associated with damaging corruption and “scams”, with rents being less likely to drive development of industrial capabilities than may

have been the case earlier.³ Michael Walton noted that there has been a striking correlation between the fall-off in entry of new manufacturing firms and the surge of Chinese imports into India. This may be an illustration of Mushtaq Khan's concern – the challenge of going from Indian manufacturing capability to Chinese manufacturing capability. Khan noted that the question of how states resolve capability development problems in order to develop competitive capitalist enterprises is a fundamental problem. The goal needs to be a capitalism that is broad-based both regionally and sectorally: if capitalism is concentrated in only a few sectors, it will not suffice in terms of the political economy necessary for a viable state.

Another form of rent-sharing that has been delineated in east Asian industrial policy as having productive effects was highlighted by Pranab Bardhan – the creation of what Mahasiko Aoki described as “cooperation contingent rents” in which the state incentivises businesses to coordinate in order to resolve coordination problems in the early stages of industrialisation. Yet this kind of policy has not been very prominent in India outside specific sectors such as information technology (IT), and to some extent pharmaceuticals.

Other faces of rentier capitalism in contemporary India include concentration of bank lending by a state-dominated financial sector. As Pranab Bardhan argued, banks are used to fund political projects, and there is a strong concentration in the disbursement of loans leaving smaller firms disadvantaged. The pressure for large-scale and illicit election funds has increased as elections become more expensive. Politicians are increasingly directly involved in businesses, including education, liquor and mines. Furthermore, as several participants delineated, the retrospective renegotiation of the terms of public-private partnerships and rampant cost overruns – especially in infrastructure – has illustrated collusion between politicians and private sector firms. Lastly, James Manor pointed to a different phenomenon that may have changed the dynamics and consequences of corruption by politicians:

he raised the question of whether the surge in government revenues in many states may have given politicians more freedom to loot without endangering fiscal rectitude.

Yet there are other parts of the economy that remain more dynamic. Aseema Sinha pointed to the increasing divergence within Indian capital that she has found in her recent research. She pointed out that recent years have seen growing differentiation between competitive sectors of the economy (typically more export-oriented firms, which are still engaged in some amount of innovation, such as pharmaceuticals, IT, textiles, auto-components) and protected sectors. R Nagaraj presented indicative data on the size and structure of India's corporate sector between 1990 and 2009 which demonstrated that there is considerable churning among top firms. He also showed that the share of the top 100 companies in the corporate sector in terms of value added, total assets and net worth has not increased, and if anything has slightly declined. This indicates that large firms are not entrenched and can be challenged by new entrants, underlining the continuation of a good degree of competitiveness among the largest corporations.⁴

As was pointed out during the concluding discussion, the working assumption among the group was generally that there is a meaningful distinction to be upheld between "pro-business" policies and "pro-market" policies. Many participants however suggested that a clearer definition of what "pro-business" policies look like would be useful. As Kunal Sen asked, what is the ideal type being invoked? Mushtaq Khan offered one definition: to be pro-business is to provide resources to business but with certain conditions attached. He warned that other policies often depicted as "pro-business" (such as provision of easy money, casualising labour or providing land on beneficial terms) may have short-term positive effects but may not end up advantaging business in the longer term. And as Vijay Joshi submitted, there are some areas in which arguing that the state should have a special relationship with business to facilitate certain transactions, such as land acquisition, is not necessarily

a desirable route. Thus there was a good degree of debate – not concluded in this meeting – about how to categorise different types of "pro-business" policies and to measure their effects.

Conceptualising Regional Variation in State-Capital Relations and Its Effects on Economic Performance:

The need to do more to conceptualise regional variation was widely recognised among participants and this is something that members of partnership will work towards in future activities. The general assumption was that we should pay attention to regional variation, yet a number of participants also pointed to the relationship between the regional and the national. There was some concern that there is a risk of getting lost in the detail – an acknowledgement that the detail of individual cases is important, but it needs to be informed by a larger view.

Two papers presented by Kunal Sen and Mushtaq Khan offered conceptual maps of state-business relations; while papers on regional variations were presented by Atul Kohli, Michael Walton, Pallavi Roy and Sripad Motiram.

Both Kunal Sen and Mushtaq Khan depict interactions between the state and business as predominantly informal and not rule-bound. Mushtaq Khan uses a framework of "political settlements" to analyse the distribution of power across economic, political and bureaucratic organisations. Pallavi Roy has developed the use of a political settlements framework to understand variation across states. She presented a comparison between Gujarat, West Bengal, Maharashtra and Tamil Nadu. Kunal Sen described "effective state-business relations" as a "set of highly institutionalised, responsive and public interactions between the state and the business elites".⁵ There was some debate about how to capture the nature of "informality" or the absence of formal rules in relations between state and capital. The deployment of the term "clientelism" to describe the informal nature of relations between state and business was particularly contested.

Several state-level comparisons and/or typologies were called into play during

the discussions. These focused on the dual questions of the nature of rent-sharing, as well as welfare regimes. Pranab Bardhan noted that endowment of rent-generating natural resources is different across states; business competition is different – some states are more monopolised than others; there are differences in tax-breaks/business-friendly policies across states; regulatory delays are different giving rise to different scope for corruption; infrastructural development differs; and upwardly mobile agricultural castes have become regional capitalist classes in some states but not others. He drew a strong contrast between "welfare regimes" in West Bengal and Tamil Nadu in terms of the nature of social movements, links with regional capital (more indigenised in Tamil Nadu), cultural attitude to wealth creation as opposed to redistribution, and the extent to which the bureaucracy is insulated from the political process. Atul Kohli summarised the three ideal-typical types of regional states he has developed in recent work. Neopatrimonial states (states with a classic politics of patronage in which public purpose is weak and clientelistic relationships, such as Uttar Pradesh); developmental states (states with a highly developed sense of public purpose, but narrow definition of who the public is – primarily business groups, for example, Gujarat) and "social democratic" states (where politics has a much broader social base which supports certain types of policies, for example, West Bengal).⁶ In most states, these trends compete with each other and at different points in time, different models dominate. There was some degree of debate about the extent to which West Bengal over time should indeed continue to be described as "social democratic" or as having a "welfare" state.

Two papers drilled deeper into the single case of Andhra Pradesh. Michael Walton (presenting work co-authored with Gulzar Natarajan) used the case study to ask when a rent-sharing system is aligned or not aligned with favourable development dynamics. Their initial findings suggest the existence of a highly functional rent-creating and rent-sharing system in Andhra Pradesh that links

politicians and businesses; alongside a series of populist and other re-election strategies which helped to maintain a degree of regime legitimacy, and had some positive effects on welfare. For instance, poverty incidence was halved between 1993/94 and 2009/10. However, they also explore the idea that increasing economic and political entrenchment, while functional to the rent-sharing system, could be leading to a new phase that will undercut economic dynamism, whether through lack of entry of new firms or rising diversion of resources into unproductive activities. The second paper by Sripad Motiram (co-authored with Vamsi Vakulabharanam) employed a framework drawing on “social structures of accumulation” to delineate four distinctive regimes through which capitalism has developed in Andhra Pradesh.

Shape of India’s Private Sector: There was also acknowledgement among participants that overall there is considerable need for more empirical research about the composition of the private sector. But the workshop did hear from several participants who have conducted research on the private sector. Adnan Naseemullah presented work on the way in which industrial firms have coped with uncertainty in recent years. While the Nehruvian state put a lot of emphasis, political capital and resources on stabilising the environment for industrial production – through development finance institutions, and management of labour-capital relations, for instance – those institutions have been dismantled through the process of liberalisation. His research illustrates how firms have found new informal mechanisms to cope with uncertainty in the present climate. Aseema Sinha brought the international dimension of domestic political economy into clearer relief, by focusing on how global linkages affect the relationships between national states and corporate interests. Jahnvi Phalkey noted that the place of technology in the historical development of industrial capital is not currently well-mapped.

A further point which was underlined with reference to the shape of India’s private sector was the effects of the

dynamics of the recent phase of growth on the state of Indian business. A recent paper by R Nagaraj shows that India’s boom between 2003 and 2008 was driven by “debt-led growth coinciding with an exceptional phase in international trade”⁷ As R Nagaraj and Vikram Mehta both underlined, many companies today are overleveraged and teetering on the edge. But some companies have reorganised themselves and continue to be competitive in global markets.

Distributive Conflict: A final important thread running throughout the concerns of the workshop – and one that will be a central theme of future deliberations – was the question of distributive conflicts, and patterns of social and economic exclusion that have arisen in the context of India’s particular model of capitalist development.

Pranab Bardhan made the important observation that resolution of the conflict between the impulse for capitalist growth and the assertions by those dispossessed, and displaced in the process will determine the shape of capitalism going forward. He suggested that political parties are less able today to play a mediating role between these competing views and distributive conflicts, especially with the breakdown of intra-party democracy. For this reason, social movements and non-governmental organisations have become increasingly important, but these are often single issue and are therefore less able to discuss compromises and/or trade-offs.

A number of participants noted that in approaching such issues there was considerable merit in asking “old fashioned questions” about class, and answering them in “old fashioned ways” (to use R Nagaraj’s phraseology). Alpa Shah offered a definition of political economy focused on the transformation of “social relations and interactions between social groups” which lie behind the production of wealth, welfare and poverty. Sripad Motiram and Vamsi Vakulabharam’s paper drew attention to the utility of tracing cleavages of class, caste and region in understanding the nature of a state-level economic regime (in this instance, in the

case of Andhra Pradesh). There was therefore considerable openness to multiple frameworks for studying India’s political economy.

Atul Kohli ended the meeting by reminding us that a failure of state lies behind India’s model of growth: India came to growth having failed to solve questions of redistribution. The Indian state ultimately had nowhere to go apart from towards a “pro-business” model in the late 1970s. But this meant that India arrived at growth before solving questions of (re-)distribution. This stands in contrast to east Asian states where distributive questions had been solved to a significant degree before growth began (“whether through communism or fear of communism”). Atul Kohli argued that India has probably moved towards an east Asian model in certain important ways, but that it is also very different to states of east Asia. Firstly, it shifted to a “pro-business” approach as a result of state failure, and secondly in India, a capitalist class already existed when a pro-business shift was enacted. In east Asia, by contrast, states brought capitalism into being – the state has had to be in a much more transformative role there because they were giving birth to capitalism. The Indian state was always going to be different – a facilitator rather than transformer.

NOTES

- 1 We are grateful to the UK-India Education Research Initiative (UKIERI) for funding this initiative.
- 2 See also Aditi Gandhi and Michael Walton (2012), “Where Do India’s Billionaires Get Their Wealth?”, *Economic & Political Weekly*, Vol XLVII: 40.
- 3 See also Mushtaq Khan (2011), *India’s Evolving Political Settlement and the Challenges of Sustaining Development*. SOAS, University of London, London, available at <http://eprints.soas.ac.uk/12844/>
- 4 See also Ashok Mody, Anusha Nath and Michael Walton (2011), “Sources of Corporate Profits in India: Business Dynamism or Advantages of Entrenchment?” in Suman Bery, Barry Bosworth and Arvind Panagariya (ed.), *India Policy Forum*, Volume 7 (New Delhi: Sage).
- 5 Kunal Sen (ed.), *State-Business Relations and Economic Development in India and Africa* (Routledge 2012).
- 6 Atul Kohli, *Poverty amid Plenty in the New India* (Cambridge: Cambridge University Press), 2012.
- 7 R Nagaraj (2013), “India’s Dream Run, 2003-08: Understanding the Boom and Its Aftermath”, *Economic & Political Weekly*, Vol XLVIII: 20.