

# 1 Introduction

These masses of people you are seeing  
Have heard Him guaranteeing  
A great time by and by.  
Meanwhile they must make sacrifices  
As the shops all put up their prices  
That great time is pie in the sky.

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

Post-independence political economy in India has been characterized by Ghosh (1998) as a drama enacted between votaries and opponents of liberalization. At one level, it is posited as a drama based on academic debates stemming from different ideological positions and different perspectives on the Indian economy (Ghosh, 1998). Byres (1997, 1998) and Ghosh (1998) provide excellent historicized reviews of these debates on planning and state policy respectively within the academic literature in India. The other level was of actual state action, which had less correspondence with this debate and was determined by the relative power of political configurations within society (Ghosh, 1998). This is the area that has received relatively less attention, though each of the ‘liberalization’ episodes in the history of independent India saw a concomitant academic debate. The two levels of debate according to Ghosh (1998) have merged occasionally in history but since the 1980s, there was a decisive merger of the two. This was a part of the political process of the shift of the state from dirigisme to neoliberalism as opposed to a specific deregulation or liberalization that is a feature of the entire post-independence period.

## 2 State and Capital in Independent India

The origins of these debates can be traced to the ideological struggle within the national liberation movement before independence. The arguments and ideological debates about the role of the state in the building and expansion of a viable capitalism in India were evident in the actual arena of state–society relations and political action, which defined the contours and limits of the relationship between state and capital in the decade preceding independence. This was a significant political development right from the time of the Congress taking office in the Provincial Governments in 1937 under the Government of India Act of 1935 (Rasul, 1989), the political developments in ensuring the marginalization of ‘Left’ opinion within the top echelons of the Congress from the annual session in Haripura in 1938 to the Tripuri session in 1939 (Sarkar, 1983; Tripathi, 1990) and the constitution of the National Planning Committee in 1939 that drew up the blue-print of planned capitalist development based on import-substituting industrialization (ISI) (Chibber, 2003).

The post-independence strategy was one of developing a state-led capitalism with a significant role assigned to the state developing a ‘mixed economy’ with the aim of complementarity and development of linkages between the ‘public’ and the ‘private’ sectors (Bagchi, 1982; Chandrasekhar, 1994). This was an outcome of the political limits on mass radicalization of the national liberation struggle. Added to this was the understanding that late capitalist development requires a more obvious role for state intervention and even early capitalist development had a significant, but different role for state intervention.

Two decades of experiments after independence with a state-led approach to a regulated capitalist development based on planned allocation of resources was within the framework of a ‘mixed economy’ that already had a ‘private’ sector while the state had the onerous task of building up the ‘public sector’ as part of the task of ‘nation-building’ based on capitalist growth processes (Desai, 1984). These experiments achieved much higher rates of capitalist growth than were achieved in the colonial period but also were followed by a slow down (Balakrishnan, 2010). The economic trajectory developed a specific set of contradictions that manifest themselves in rising inflation, high rates of unemployment, entrenched corruption and asset concentration in the hands of ‘big business’, the point of departure for the rent-seeking literature. This led to collective disenchantment in the polity reflected in the rise and consolidation of oppositional politics all through the period under consideration (Frankel, 2005). The collective disenchantment of a group of political functionaries

and sections of capitalists in their relationship with the state reached a peak in 1965–66 with the ‘food crisis’ combined with a severe balance of payment crisis (Nayar, 2001; Chibber, 2003). Some of these disenchanted sections had advocated and organized politically for a radical deregulatory ‘regime change’ towards *laissez faire* by funding individual candidates on the extreme right in the Swatantra Party and its electoral allies, mainly the Jan Sangh (Shroff, 1966; Kochanek, 1971). State policies in response shifted from an incentive-based approach to ‘industrial capital’ to an increasing set of dirigiste measures (Patnaik, 1984) that was popularly termed the ‘license-control raj’.

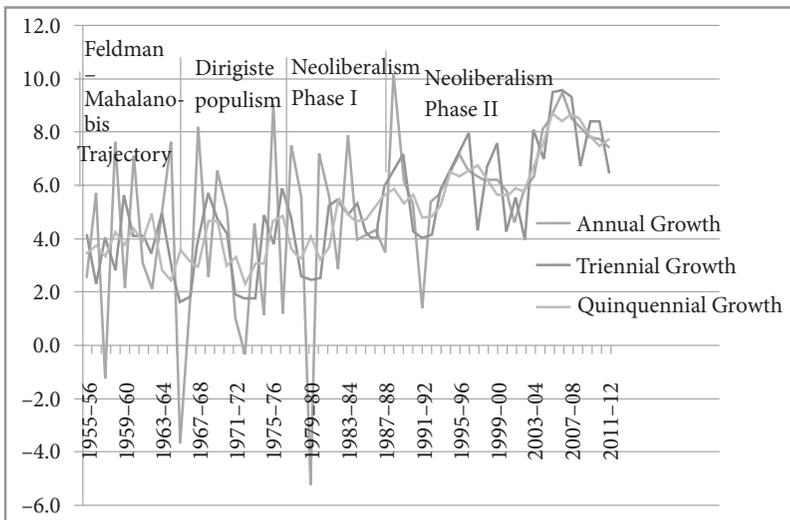
However, organized platforms of capitalists in India collectively rejected the idea of floating parties representing business in opposition to dirigisme (Kochanek, 1974). Neither did the collective platforms of the capitalist class as a whole endorse the arguments (FICCI, 1959, 1965) advocated by the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

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

#### 4 State and Capital in Independent India

neoliberal ‘reforms’, despite opposition from Communists and other Leftists (Vaghul, 1999). The growth of the economy in this period has been higher compared with the previous period; however, it has been found to be constrained by technology on one hand and has been argued to have led to social exclusion on the other (Nayak et al., 2010). This political economy account is necessary but not sufficient as it focuses on certain aspects of change but not continuities. This is our first point of departure.

The other approach to post-independence accounts of the Indian economy has been largely growth-centric in which economic growth has been studied as an outcome of policy regimes. The conventional wisdom that emerges from such accounts is that the transition to neoliberalism was driven by poor economic performance in India during the period of dirigiste growth (see Chapters Two and Three for a detailed discussion). The economy was supposed to have been characterized by inefficiencies because of government-created distortions that stifled entrepreneurship and needed to be corrected by neo-liberal ‘reforms’.



**Fig. 1.1** Mapping of growth to policy regimes in India: 1955–56 to 2011–12

However, does the data fully corroborate this identification of the problem as confined to the choice of policy regime? Or does it have structural features? Figure 1.1 maps India’s growth process under different policy regimes since 1955–56 up to 2011–12. The post-independence policy regimes can be divided into four phases. The first was the phase of

Nehruvian planning (1955–56 to 1964–65) implemented through the Feldman–Mahalanobis planning models and ended in stagnation of the economy after a period of growth acceleration. The second phase can be characterized as dirigiste populism that lasted from 1965–66 to 1978–79. This also ended in stagnation after a brief period of recovery and consists of two stop–go cycles. The third phase was the first neoliberal regime since 1979–80 to 1990–91 that also entailed two such cycles. The last period constituting the second neoliberal regime starts from 1990–91, entails two such stop–go cycles (the latter at a higher growth continuum) and ends in the current period. We find that the cyclical nature of growth is persistent in its systemic dimension regardless of shifts in policy regime. This indicates the prevalence of structural constraints and points to the secular nature of the structural dimensions in the economy in the post-independence period. This is our second point of departure.

We start with a stylization of the Indian economy at independence characterized by four constraints – agrarian, capital, technology and fiscal. This work examines the political economy of the role of changing social relations in the process of transformation and consolidation of the capital accumulation process in India after independence. To what extent could the institutions and processes of capital accumulation in India address these four constraints? Did the paradigm shift in the relationship between state and capital make any difference to the prevalence of these constraints? This is the first of two inter-related questions we address in the book.

The primary aim of this book is to add to the understanding of the specific relationship between state and capital in forging the dynamic role of the institutions of the state and the market that form the basis of capital accumulation in economies undergoing transition by using the evidence of India's economic transition after independence. This is the fundamental driving force of the economic growth process in societies attempting a capitalist development without a radical change in non-capitalist social relations that pervade the bulk of society. To what extent was the relationship between the 'public' institutions of the state and the 'private' institutions of capital critical for the capital accumulation process in post-independence India? How did this relationship change over time? This is the second question to be answered.

In doing this, the book (i) addresses specifically the gap in the analysis of the relationship between the state and capital from the period of the balance of payment crisis and the first IMF loan in 1966 till the liberalization episodes of the 1980s; (ii) provides a focused analysis of the

## 6 State and Capital in Independent India

interfaces of the organization of the ‘business house’, legislations spanning ‘corporate governance’ and ‘labour laws’, and the institution of the ‘family’ and ‘personal laws’; (iii) analyzes the social basis of regional differences in accumulation processes in post-independence India.

The book while mainly focussed on big capital also examines fractures between different capitals – Indian and foreign; small, medium and big; trading and industrial. In fact, one of the main arguments is that apart from the question of labour, different fractions of capital have had different relationships with the state and the book traces those differences and how those have changed over time. The expansion and diversification of the capitalist class with the rise of ‘new’ family-run business houses played a critical role in shaping the continuities in this relationship. The book examines the social origins, institutional access, privileges and restrictions, forms of political organization and modes of expansion of capital. It argues that both ‘zones of intervention’ and ‘zones of non-intervention’ by the state facilitated the various dimensions of this expansion. These developments forged new political alignments of capitalist interests and led to significant stratification within the class. These changes had critical impacts on the access of the capitalist class to technology and finance, defined the attitude of Indian capitalists towards ‘globalization’ and accelerated the informalization of labour force.

The period from 1966 to 1980 is crucial in forging these continuities and changes. This period is characterized in the literature on India by low growth rates, a gradual undermining of planning and stagnation in the economy. The book however points to a resolute restructuring and extension of the institutional organization of capital in this period covering both ‘zones of intervention’ and ‘zones of non-intervention’ by the state in the economy. This spanned from 1965–66, which is the time of the balance of payment crisis and up to the IMF loan to 1980, the year that marked the decisive move towards deregulation and decontrol. This period saw the expansion of capital that combined continuities and changes in the modes of capital accumulation reflected in the formation and expansion of ‘new’ business houses.

This period was marked by an expansion of the role of the state in enabling primary accumulation through the guarantee of intellectual property over processes mainly developed through reverse-engineering, the interlocking of banking and industrial capital along with the protection of subsidies that enabled ISI (import substituting industrialisation). These changes could be characterized as an extension of the ‘zone of intervention’

by the state. More importantly, this period also saw ‘new’ entrants into the preserve of big capital enabled by the monopoly restrictions laws and legalization of process patents, who engaged in accumulation processes in areas that were not covered by the state’s ambit of regulations and control. This spanned zones of non-intervention over the labour process, the development of business empires based on ‘franchisee’ operations and the development of a relatively free domestic market in finance. The central argument is that these developments were part of a new and emerging relationship between the state and emerging sections of capital and this laid the necessary foundations for the forging of the subsequent ideological consensus that informed the political rhetoric and reality of neoliberal reforms since the 1980s.

At the outset, one must acknowledge that the rich scholarship on the complexities of social relations in India covers many aspects of the relationship between the state and the society and not all of these aspects can be covered within the limits of this book. Our focus is on those aspects of the state–society relationship that are most important for understanding the relationship between the state and capital in India and how the relationship was instrumental in the shift from dirigisme to neoliberalism as the dominant political ideology of the contemporary Indian state.

Breaking away from the ‘false dichotomy’ of the state and the market, the book takes as its point of departure Poulantzas’ (1978) concept of the ‘relative autonomy’ of the Indian state. This is done by tracing the expansion and contraction of this spatial and temporal terrain of the state through the political contestations of various social classes and groups in their dynamic relationship with the state in the process of accumulation. The exact framework is defined by the problematic – that of historicizing a relatively recent period of Indian history, namely the post-independence period. The task is to trace the defining features of the relationship between state and capital in the shift from one distinct framework of state policies to another, namely dirigisme and neoliberalism. The framework of policies associated with the pre-neoliberal period in India has been characterized as ‘dirigisme’ – a process of state-led economic development. The analysis is focused on the sources and social modalities of such accumulation with an attempt to identify the contradictory pushes and pulls of the relationship that led to the shift from ‘dirigisme’ to neoliberalism understood as an ideology of the global project of capital (see Chapter Two). Thus, post-independence state–society relationship in India is posited as a struggle over the terrain of the relative autonomy of the state. The effectiveness of

## 8 State and Capital in Independent India

the Indian state is mediated by a series of inter-relationships, both political and economic between various contestants in the accumulation process. The effort is to highlight the social relations of capital and the continuities and changes in the institutional basis of the accumulation process that was characteristic of post-independence 'development' and formed the material basis of ideology formation and ideological change in India.