

Variations in Relations of Capital (over time and across regions) in India

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I Types of Capitalism: Rentier vs. Entrepreneurial

II Capital-Labour Relations

III Political Fragmentation Increasing

IV Rising Inequality and the Populist Pressures

V Polarized Public Debates on Capitalist Growth vs. Dispossession

I Rentier vs. Entrepreneurial Capitalism

Much talk of ‘crony capitalism’, particularly in view of the recent scams and corruption scandals.

Also, frequent reference to massive amounts in the central budgets of corporate-sector ‘revenue foregone’ by the government (largely for accelerated depreciation for capital and investment in backward regions).

Very few empirical studies of corporate structure, at the disaggregated or beyond-anecdotal levels. A couple of micro studies on the basis of Prowess firm-level data:

- Mody, Nath and Walton (2010), analyzing the data on profit behaviour of firms, show a largely mixed picture, though they on balance suggest more corporate dynamism than market entrenchment**
- Alfaro and Chari (2013) show that in deregulated manufacturing industries while there has been considerable entry of relatively small firms, the dominance of large incumbent firms (including the big business houses) continues unchallenged**

- **Different from western history of the evolution of rentier into entrepreneurial capitalism (like the ‘robber barons’ of the late-19th century US evolving into the captains of industry)? Will the former ultimately block the latter in India? Postwar Japanese capitalism has shown coexistence of technological dynamism of some large conglomerates with a rent-seeking dominant political party**
- **How is the rental income spent? In conspicuous consumption, or on further rent extraction and buying politicians, or in long-term productive investment?**
- **Some general features of recent capitalism raising rental income in many parts of the world:**
 - **Preponderance of financial capital**
 - **Market value of politically controlled natural resources (including land, mineral rights, spectrum) shooting up**

- **Coordination-contingent rent-sharing in East Asian type industrial policy (not very active in India outside the IT and pharmaceuticals sectors)**

- **Special features of rentier capitalism in India in recent years**
 - **State-dominated financial sector, banks used to fund political projects, and a high degree of concentration in the disbursement of loans to private business**
 - **Non-bank financial sector poorly regulated**
 - **Money laundering through Mauritius**
 - **More rental opportunities through external commercial borrowing and speculative capital flows**
 - **As global competition increases, putting pressure on profits in the traded sectors, capital moves more to non-traded sectors (land, infrastructure, services) where there is more scope for monopoly rent**

- **The need for large and illicit election finance as elections become increasingly expensive (with a typical parliamentary constituency of more than 1.3 million people, whereas in UK it is only about 60 thousand people)**
- **Increasingly direct involvement of politicians in businesses like education, liquor, mines, etc.**
- **Public-private partnerships particularly in infrastructure building, where collusion between business and politicians allow for regulatory capture and rampant cost overruns and renegotiation of terms (amounting to bid-rigging)**
- **Private business acquires political clout through ownership and control of the media**

- **Regional variations in**
 - **the endowment of rent-generating natural resources**
 - **business competition**
 - **tax breaks and other business-friendly policies**
 - **regulatory delays giving rise to differing scope for corruption**

- **infrastructure building activities**
- **the role of the upwardly mobile agricultural castes entering regional entrepreneurial activities (Patidars in Gujarat, Kammas in Andhra Pradesh, Nadars and Gounders in Tamil Nadu and so on)**

II Capital-Labour Relations and state involvement

Low labour bargaining power all over the world, partly due to the nature of technical progress, and partly to the credible threats of footloose capital and outsourcing

Extreme labour fragmentation in India

- **any seven people can form a trade union in India, an anarchic regime in recognition of and competition among unions, and proliferation of bargaining agents**
- **organized labour a small island in a vast ocean of informal workers**
- **ethno-linguistic and political partisan divisions (although, some rise of ‘independent’ unions at the firm level in recent years)**

- **Increasing incidence of hiring contract labourers in the formal sector (with lower pay and fewer benefits than in the case of regular labourers), leading to acute industrial tension (recent outburst of violence in Maruti enterprise in Haryana, as just one example)**

Regional variations in welfare regimes for (formal plus informal) workers. The history of social movements matters here. Among major states, Himachal Pradesh, Kerala and Tamil Nadu are the best welfare states.

Interesting contrast between Tamil Nadu and West Bengal, originating in

- **the nature of social movements**
- **links with regional capital**
- **cultural attitude to wealth creation vs. redistribution**
- **how insulated the bureaucracy is from the political process**

At the general India level a major economic question (a ticking time bomb!): growth of employment has been very sluggish over the last two decades of high growth. India's success stories, unlike those in China, Vietnam and Indonesia, have not involved labour-intensive industrialization

What are the main obstacles?

The financial media and some economists blame the rigid labour laws, particularly those relating to hiring and firing. These laws are applied with different degrees of rigour in different states.

On labour laws, while I am in favour of relaxing some of the rigidity, there are some considerations usually ignored in the business columnists' discussion:

- Take the labour-intensive garment industry. The disaggregated firm-level data (taking formal and informal sector together) show that 92% of the firms have fewer than 8 employees. What prevents them from becoming 80-employee firms? Labour law cannot be the constraint here.**

- **The binding constraints are more likely to be reliable supply of electricity, roads, credit, managerial and vocational training, etc. By always pointing to the labour laws we are often barking up the wrong tree.**
- **What one needs is a package deal: allowing more flexibility in hiring and firing has to be combined with a reasonable scheme of unemployment compensation, from an earmarked fund to which employers as well employees should contribute. No Indian politician has yet gathered the courage or imagination to come up with such a package deal.**
- **A study of the garment industry by Tewari (2010) shows that at the ground level of even such a footloose and globalized industry like garments there are some new initiatives on the part of suppliers in the global chain to follow labour-friendly practices which actually improve productivity (by reducing labour turnover and helping firms in timely delivery and achieving**

product quality). While some business groups continue to think of ‘flexibility’ as being ‘union-free’, there are now new kinds of independent unions (for example, the NTUI labour federation—particularly with the Garment and Textile Workers’ Union in Bangalore) which try to mediate in the shaping and sustaining of labour-friendly practices that are compatible with global competitiveness.

III Increasing political fragmentation

- The collective action problem, in going beyond short-term subsidies and handouts, to long-term investment even more acute than before
- Contradiction between political power shifting to regional governments and the vertical fiscal imbalance (the coalition governments at the Centre use with regional politicians the ‘carrot’ of fiscal transfers and the ‘stick’ of CBI enquiry into disproportionate wealth)

- In fiscal federalism tension between economically advancing states (which want their efforts rewarded) and the populous backward states with a large number of MP's (which seek redistributive transfers).

However, very little of the central transfers goes towards correcting the severe infrastructural deficiencies of the poorer states.

IV Rising Inequality and the populist pressures for short-term transfers (sometimes at the expense of long-term pro-poor investments)

V A case for some balance in the polarized and strident debates, on the need for capitalist growth for job creation and infrastructure building on the one hand, and the issues of displacement, dispossession and environmental degradation, currently raising investment uncertainty, on the other