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India's Socially Regulated Economy

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By far the larger part of the contemporary Indian economy – judged by measures as disparate as GDP and livelihoods – is not directly regulated by the state. It is regulated through social institutions. Social institutions express forms of power not confined to the economy. Macro-economic policy is implemented through their filters. In this paper some propositions derived from a large primary literature concerning the roles of gender, religious plurality, caste, space, class and the state are introduced. Liberalisation is argued to increase the tension between forces dissolving social forms of regulation and those intensifying them.

"Statics and dynamics are not engineering."
" Institutions show a continuous, reciprocal and progressive adaptation."
(Radha Kamal Mukherjee, 1940, p6, p7)

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* Queen Elizabeth House, Oxford University, Oxford (E-mail: barbara.harriss@qeh.ox.ac.uk). This is the Radha Kamal Mukherjee Memorial Lecture delivered at the 45th Annual Conference of the Indian Society of Labour Economics at Jadavpur University, Kolkata, December, 2003. In this lecture, the author pays a tribute to Radha Kamal Mukherjee, one of the Indian School of Social Scientists who investigated the problems of historical specificity and the instituted nature of the economy. The central argument in this lecture is a summary of the author's work India Working (Cambridge University Press, 2003), in the preface of which the author thanks the very many people whose comments have helped to give the argument its shape. It is also a reworked version of 'India's Informal Economy in the 1990s', Chapter 7, in Basu, K. (ed.) (2004), India's Emerging Economy: Performance and Prospects in the 1990s and Beyond, MIT Press, and is published here with the permission of the MIT Press.

I. Introduction

There is no better way of trying to pay homage to the significant contributions made to both economics and sociology by Prof. Radha Kamal Mukherjee, than by revisiting some of the important questions which preoccupied him - along with many other practical economists - in the first half of the last century. Many of these questions are now quite unfairly consigned to the dustbin of history where they settle beside the names of a multitude of scholars who asked them.[1] Chief among his questions are those about theorising historical specificity, about making higher-order statements about the dynamics of the economy as an instituted phenomenon, about theorising the matrix of non-market institutions without which the market economy cannot function, and about discovering the significance to the economy of their variety, their diversity and their dynamics. Even by the 1920s, Prof Mukherjee had deplored the way in which economics had 'largely weaned itself from the humane tradition' and emphasised a rigidly positivist analysis in which 'individuals are considered apart from the institutional setting' (Mukherjee, 1940a, pp.4-5).[2] He saw that economic value is not only the product of prices and costs but also of the institutions which guide each individual's 'choices' or actions and which are both constitutive and symbolic of the social relations and meanings from which all action emerges. For Mukherjee, this matrix is not a set of 'fixed constraints'. On the contrary, the actions of people socialised through these mutually interdependent institutions continually adapt them - so that they are always in flux and rarely consciously 'engineered' (ibid., p.7, 9, 12).[3] Realising that institutional diversity is foundational, he argued that it was necessary for economics to understand and seek to explain relationships that were context specific (ibid., p.9; Mukherjee, 1940b, p.28).[4]

It follows that ways need to be discovered of determining the key institutions through which the economy is shaped by human agency and of tracing their co-evolution. There is still no consensus over their identification or over the motors of institutional change. Mukherjee named 'industrial technique', the 'organisation of employment' and 'controls on capital mobility' (ibid., p.4). [5] In another exercise, he listed the state; social groups, their relations and institutions; private property; competition and custom; law, convention and public opinion; social values and ideologies (ibid., pp19-20). [6] Feminist economists have been assiduous in privileging gender.[7] Scholars such as Hodgson (2001) and Chang (2003, pp.53-56), revisiting the question of institutions, consider permutations and combinations of money,

1 Only recently has Geoffrey Hodgson brought them and their concerns back to life in his book 'How Economics forgot History' (2001).

2 Earlier references in Mukherjee, 1940a, pp4-5.

3Mukherjee, op. cit. p 7, p 9, p12.

4Mukherjee, op.cit. p9; 1940 b) p28

5Mukherjee, op. cit, p4.

6Op.cit. p19-20.

7 See Agarwal, 1994; Folbre, 1994 who map gender onto land rights, household work, labour markets and social policy.

banking and financial institutions, legitimate commodities, property rights, institutions of trade regulation, corporations, unions and exchange[8]. Already, two generations earlier, Mukherjee (1940b, pp.28-30) had also perceived that in order to uncover the interactions between economic organisation, and the modes of social conduct and ethical beliefs that underpinned an economy, this complex texture had to be understood not in the abstract but in the concrete. This then required a spatial context: the region is the field of play of the 'concrete wholes' comprised by an ensemble of institutions. [9] The region also shapes the character of an economy.

While, for Mukherjee the region was construed through a combination of culture and natural ecology, in this essay the region is that of India – a political nation and a multicultural society cradled in a great variety of agro-ecological regions. And the question to be investigated concerns the mutual development of a set of institutions reflecting forms of power which develop outside as well as inside the economy. These are institutions not generally considered by the institutional economists: gender, caste, religions and space as well as class and the state. How do they sustain the process of capitalist accumulation?

II. The informal economy

Some eighty-eight per cent of India's population lives and works in settlements with fewer than 200,000 people.[10] This still rural and small town economy is dominated by agricultural- and food-related goods and services. In 1997, an average of a little over 10 per cent of total consumption expenditure in this part of the economy was estimated to be devoted to the output of the corporate sector.[3]The other 90 per cent was spent on the output of the informal economy, in which most of the 88 per cent worked. The informal economy either lies outside the scope of state regulation, or is officially subject to state regulation but nevertheless does not operate according to the rules and laws through which the formal intention of regulation is inscribed. In the first sense it is familiar as 'unregistered' and 'unorganised', and defined as consisting of firms with electricity but under 10 workers or without electricity and over 20 workers (conditions which are very rare outside agriculture). With respect to the second definition, although this is clear enough on paper, in practice most firms with labour forces in excess of the threshold for registration have a substantial casual labour force that is undeclared under the Factories Act and hence not state-regulated. Indeed, one study of corporate capital put the proportion of unorganised labour in various corporations at between

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8See for example Chang, 2003, pp53-54

9 Mukherjee, 1940b, p28-30.

10 From the census, fewer than 12 % of the population lived in metropolitan cities. Over 74% were rural and 14% lived in towns under 2,00,000.

3 From raw data in Centre for Monitoring the Indian Economy, 1997. The proportion varies from 6 % in Assam to 17% in Punjab and Rajasthan.Corporate and public sector enterprise is estimated to produce about 20% of GDP (Sinha et al, 1999)

40 per cent and 85 per cent.[4] Moreover, out of India's labour force of over 390 million, only 7 per cent are workers on regular wages and salaries - and of this small proportion, only half are unionised. Between 1989 and the mid-1990s, the unregistered workforce appears to have increased, from 89 per cent to 93 per cent.

The informal economy was recently estimated as comprising 60 per cent of net domestic product, 68 per cent of income, 60 per cent of savings, 31 per cent of agricultural exports and even 41 per cent of manufactured exports.[5] There is no evidence that the informal economy is shrinking and there is plenty of evidence that it is the shock absorber of the reform period.[6] But shock absorption is but one of the many roles of this, the greater part of the Indian economy, and not the most important.

The fathers of modern India's development project, not least Nehru, and early development economists such as Myrdal were well aware of the forms of social organisation that regulated the economy - institutionalist theory had not yet been routed by what Radha Kamal Muhkerjee called the 'cold demon' of reason. [1]However, Myrdal considered them 'a tremendous force for inertia' (1968, p103). He, together with India's leading sociologists, expected them to be banished by the rationalities of big business, the state and planned development.[77]Some thirty years later in the 1990s, the era of liberalisation once again provoked predictions that the rationalities of contract would replace custom and that acquired characteristics would replace ascribed ones as the basis for market transactions.[8] Just as the economy would be released from political influence, so also would archaic kinds of social institution, or 'primordial identities', become increasingly irrelevant to its operation.

The main arguments advanced in this essay are that the larger part of the modern Indian economy is regulated in significant ways by social institutions derived from 'primordial identity' and that, (although continually contested), they are resistant or immune to change by means of macro-economic policy. These regulative institutions structure the economy, while being fields of power which also operate outside it. In its indirect regulation of this informal economy, the Indian state is not proof against the influence of these structuring identities, as a result of which it does not work as one would expect a modern developmental state to work. The implication is that standard prescriptions for reform under structural adjustment and liberalisation fail to address Indian reality. They are certainly expressed using concepts which

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4 Davala, 1992, in Bhowmik, 1998.Kanbur and Jhabwala (2004) find that 50% of workers unregistered garments firms do not have contracts.

5 Sinha et al, 1999

6 See Ghose, 1999

1 Muhkerjee, 1940 a , p4

77 Nehru, quoted in Madan, 1987

8 Jayaram, 1996, Lal, 1988, Mendelsohn, 1993; Panini, 1996,p28,p60

ignore the socially instituted economy. Yet their implementation is filtered through these structures. They will produce, if not the opposite of what is expected, at least some complicated surprises, ones not necessarily beneficial to most Indians or even to growth. Liberalisation increases the contradiction between solvent forces and forces which are re-working forms of social regulation and intensifying their economic content.

For Muhkerjee, to be scientific in the study of any economy required a critical search into the meaning of its social structures, which have a bearing on the 'phenomena and relations within an economic system'.[1] The study of India's informal economy is made even more complex because it has to be pieced together from innumerable more or less localised pieces of evidence, obtained for the most part from field research. Generalisations are therefore provisional and made here with caution. All-India-wide generalisations, however, including every aspect of macro-economic policy, ought to have the same health warning. Anyone who doubts the wider significance of the claims made here about the social structures under review must be willing to provide counter-evidence at the same level of detail. In any case, whatever the answers, the need to ask questions about social regulation is not in doubt.

III. Social regulation

Here, we attempt to examine the ways in which the most significant social structures of accumulation - religions, caste, space, classes and the state - regulate India's informal economy. We will start however with gender. There are two reasons for its priority. First gender regulates the basic building block of the Indian economy: the family firm. Second, gender matters to the development of the economy; it matters to development seen as the realisation of rights as well as to conceptions of development as freedom.[2]

Gender

Gender relations persist in being a pervasively important structure of accumulation in India. The informal economy is for the most part made from family businesses ['combat unit(s) designed for battle in the market' (White, 1993)]. These are the prime sites for the control of workers (of whom the most commonly oppressed and exploited are casual female labour [3]). Family businesses are also structures of hierarchical authority between men - patriarchy in its oldest sense. Irrespective of living arrangements, men negotiate authority based on the division of tasks and skill among them, while also deferring to authority based upon age. Men divide tasks between them - accountancy, purchase, sales (and the negotiation and enforcement of contracts and credit relations) - and the supervision of labour. 'It is usual for a man to recruit his partners, managers and technical experts from among his close kindred' observed M.N. Srinivas of industrial entrepreneurs near Delhi nearly 40 years ago, and this has changed little, if at all.[10]

1Mukherjee, 1940 a, p11, see also pp 12-16
2 Sen, 1999
3Kapadia and Lerche, 1999
01 Srinivas, 1966

Accumulation is, therefore, the result of an intensely male, concentrated and specialised set of relations of cooperative control for the production of managerial labour. These managers also own the capital, sometimes in substantial conglomerates based on kinship networks. As firms grow in size, the demand for male family labour increases; but as fertility declines, the number of male agnates decreases. Yet, instead of drawing women family members into these firms, local elite women tend to be deprived of productive work and live fairly secluded lives based on the home. Male affines seem to be preferred over the recruitment of professional managers.

Marriage alliances are carefully controlled to create and protect the resource flows crucial to capital accumulation. There are "business families" as well as " family businesses".[11] Laidlaw's description of Jain practice is worth quoting because it is widely relevant. A family's 'credit' in business "is its stock in the broadest sense, which includes social position, its reputation and the moral and religious as well as the business conduct of all its members... When a family contracts a good marriage, its credit increases.... The potential impact on business confidence of particular potential alliances are explicit factors for consideration...because business practice depends...so much on trust, moral conduct and financial standing... This means that a family's credit lies not only in the hands of the men who are actually engaged in business, but in that of its women too. When sons succeed automatically to their father's position in the family firm, the future of the business enterprise is, quite literally, in the women's hands" (Laidlaw, op. cit., p355-6). The ritual conduct of their women then has implications for business - private behaviour affects economic transactions.

These patriarchal arrangements affect allocative efficiency. Competition between firms (which are superficially independent entities but actually based on kinship networks) is frequently suppressed. Collusive oligopolies can be enforced. A small but vivid illustration is the manufacture and marketing of sweets in a South Indian town. Five large separate shops exist which belong to a father and his four sons. Sweets are prepared to some extent separately, but working capital is shared, prices are fixed, wage rates are controlled, and entry to the sector is resisted. From the returns from sweets this joint family has invested in a large agricultural estate and also in a legal training for one of its scions.

Other economic consequences follow from keeping strong family control over young male property owners. They have often been educated only to the level compatible with continuing to live at home or with close kin, i.e. within the social and cultural limitations of small towns. The impact on economic performance of the education ceiling has been contradictory. On the one hand, the edge of competitive innovation is thereby blunted and since most technical change is capital biased, the economy is more labour intensive than it otherwise might be. On the other hand, rates of accumulation are kept high by lack of competition and innovation.

The reinforcement of patriarchal relations in the class controlling local capital also has

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11The distinction was first made by Fox (1969, p143) and developed by Laidlaw (1995, p354-5).

contradictory effects on the welfare of women. These have been theorised as positive for the female work force or for upwardly mobile subaltern social classes but negative in the heart of the local business class itself. Their most extreme impact is on life itself. Economic explanations focus on the consequences of what Ester Boserup called 'productive deprivation' [1] together with the diffusion from its north Indian heartland of the dowry, not vested in the bride but taking the form of a transfer from bride givers to bride receivers. As the economic costs of women rise and their economic benefits fall, so does their relative status. Recent research in South India, where the relative status of women has been high, confirms what Satish Agnihotri found, India-wide, for the 1980s, namely that as household wealth rises the relative survival chances of women drop.12 Whereas the juvenile sex ratio for landless agricultural households in 1994 was 930, that for under-15 children in the local agro-commercial and business elite was 784. 13 This is extremely low. The 2001 census reveals that whereas the aggregate sex ratio is improving, the child sex ratio is deteriorating to quite alarming proportions in certain states in north India.14 An economic explanation for this phenomenon would emphasise the implications of economic growth for the expansion of small scale property ownership, and then the implications of petty property for inheritance by men.

In the end, however, the relatively low and deteriorating life chances for women in the families of local business elites has to be accounted for by a male supremacist culture. For although gender bias in life chances can be explained by low relative female status arising from lack of earned income, by the burdensome costs of dowry and by the demand for male family labour in firms, business families are relatively wealthy and not bound by material constraints. In the business elite we studied in 1994, the ratio of estimated average dowry per daughter to estimated average business assets net of dowry per son was estimated at 1:12. Dowry is in no sense a burdensome pre-mortem inheritance. It can be concluded that the gender structure of wealth creation and property accumulation benefits men disproportionately.

Religious plurality

Although Indian religions have co-evolved over the centuries, practically no research has been done on the economic impacts of this co-evolution, whether on the impact of ideas and doctrines about right behaviour in the public sphere, and in relation to 'others', or on the impact of their respective forms of social organisation. Our argument here, therefore, consists of preliminary hypotheses. The roles of religions will always be specific. Religions can be found supplying collective identities which, in turn, provide indispensable conditions for capital accumulation. In India, religious affiliation can govern the creation and protection of rent, the acquisition of skills and contacts, the rationing of finance, the establishment and defence of collective reputation, the circulation of information, the norms that regulate the

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1Boserup, 1970
12Agnihotri, 1997/2000, see especially chs 1 and 2.
13Harriss-White, 1999
14Athreya, 2001

inheritance and management of property, and those that prescribe the subordination of women. In addition, religious groups are often found regulating and distributing livelihoods, and providing insurance and last-resort "social security". In these ways once more the distinction between the private and the public sphere is blurred and forms of non-economic and divine authority may still be found to govern economic behaviour. A single simplified example must stand for many. The economic significance of the Jain religion is far greater than the share of Jains in India's population (0.4 per cent). With a religious philosophy involving non-violence and the renunciation of worldly passion and with a claim to be caste-free and ritually egalitarian, Jains are commonly found to be wealthy local merchants, moneylenders and pawnbrokers and are actually divided by subsect and lineage. The Jain mercantile diaspora began under the Mughals and was consolidated under the British (under whose rule banias laid the foundations of Indian manufacturing industry and banking). In the informal economy, Jain business and kinship is tightly structured along the lines described above. Outside the set of co-religionists, money is lent but not borrowed (other than from commercial banks).

In the few instances where transactions between economic parties belonging to different religions have been systematically studied [e.g. *Banias* by Fox (1969), *Jains* by Laidlaw (1995) and Ellis (1991), *Marwaris* by Timberg (1978), and *Muslims* by Mines (1972) and Wright (1981) and *Kaikkoolar* merchants by Mines (1984) 15], and depending on the relative size and power of the minorities locally, inter-religious transactions have been observed to be more exploitative than within-group ones.16 The co-existence of economic groups based on religion sustains and stabilises rates of return.

This is not to argue that collective preconditions to competition cannot be found in organisations that straddle groups defined by religion - as in the case of Chambers of Commerce - or be marked by groups within a given religion - as indeed they are with caste which is discussed next. The proliferation of sects and denominations has non-economic causes and, as we have seen with gender, other forces than a plurality of divine authorities also limit competition and protect rents. But actually existing religious plurality in contemporary India has meant that the deepening division of labour and the proliferation of new and technologically upgraded commodities and services are easily and commonly aligned with religious sub-castes and sects.1 Satish Saberwal (1996, p.39), following Marx, refers to it as India's social 'cellularity' onto which are mapped many 'communities of accumulation'. The consequences of such tesselation include the social patterning of residential areas, the spatial patterning of economic activity, the sometimes very profitable occupation by minorities of sectors of the economy formerly deemed to be defiling by Hindus (e.g. the tanning and recycling industries and the bidi (local cigarette) labour force all dominated by Muslims) or of crafts produced for former aristocratic patrons (e.g. in UP: brassware, glassware, cotton and silk embroidery and the making of perfume - all also dominated by Muslims). While there is evidence that the exclusive links between guilds

[16] Mines, 1972, Dasgupta, 1992

1For example, sound services have been pioneered by entrepreneurs from the barber caste (who are also musicians), drycleaning and power laundries by *dhobis* (washermen) , leather goods and travel agencies by Muslims.

based on religion and occupation have long been contested and are dissolving, there is nevertheless a significant amount of continuity in the Indian economy. Its general implication is a social resistance to the mobility of capital and labour; but the outcomes of this resistance are not determinate, depending as they do on local historical circumstance. For Jains this may mean great indirect power over the local rural economy through webs of credit. For other religious groups, such as the Muslim traders of Pallavaram, 16 the scale of their accumulation may be limited by lack of access to finance or long-distance trade contacts.

But religions also owe their roles in the economy in part to the secular aspirations of the state. First, in setting out under the Constitution to keep equi-distant from all religions, and by establishing a legal regulative framework for the economy (which has been implemented very patchily), the Indian state left the economy open to be an arena in which the religions compete in a great range of ways, from the provision of infrastructure inadequately provided by the state (such as educational facilities - open to one and all) to communal conflict fanned by economic rivalry.17 In so doing, they reinforce the conditions making religious organisation necessary in the economy. In this gentle to fierce competition, groups identified by religion become increasingly objectified sets of moral agents with locally contested rankings and power.

Yet the Indian state has not been able to keep equidistant, and indeed has been penetrated by, religions - by the routes of political patronage, by the consequences for minority politics of reservations, and by unequal treatment of the religions in the amendments of diverse bodies of religious personal and family law. As a result of this penetration and the tesselation of the economy, apparently neutral development policy will have differential impacts on people of different religions. Further, in not acknowledging the relation between the private sphere (to which, after Marx, it was assumed religion would be increasingly relegated) and the public sphere, which includes the economy, the impact of personal and family law on the economy was ignored. These bodies of divinely authorised law affect the building blocks of the economy through their differing impacts on property ownership and transfer on partition and inheritance and on the rights of individuals to (joint) property.

Caste

Beteille (1996, p.450) writes of metropolitan India: 'Caste is no longer an important agent of social placement or control'. But in a small town in south India (which we think does not differ much from most other regions in this respect) field research shows that Beteille's conclusion does not hold. Here, the remnants of occupation-based castes are organised in several loose hierarchies based on work, diet, religion, language, land-based versus network forms of organisation and the politico-administrative categories of the state. Thus, all the

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16 Mines, 1972, p 93-118

17 Wright, 1981 , p43; Desai, 1984, p22-3; Engineer, 1984, p36-41; Deponte, 2000; see also Peoples' Union for Civil Liberties, 1998) for details of the Coimbatore riots of 1997 in which police were alleged to have destroyed the assets of small scale Muslim pavement sellers while paid riot-makers wrecked the large Muslim cloth shops. . For materialist contributions to the explanation of the pogrom in Gujarat in 2003 see, amongst others, Balagopal, 2002 : Prakash, 2003

work connected with the public health infrastructure, without which the economy cannot function, is left for Scheduled Castes. Most Backward Castes and Scheduled Castes form 80 per cent of the labour force. Backward Castes are gaining ground as owners of businesses, but Forward Castes dominate the concentration of capital. A third of all firms use family labour alone while a further 15 per cent will not employ labour not of their caste. So nearly half the firms are caste-homogeneous.

The local economy is increasingly organised in corporatist forms based directly or indirectly on caste. 'Caste is the strongest trades union'. Yet the regulative roles played by caste are complex. They vary with the position of individual castes in this loose hierarchy - and no doubt with the distribution of castes in different states.

Caste structures the creation and disposal of waste without which markets cannot function. Rubbish marks the boundary between domestic and public space. Caste males do not generally handle this waste. Its disposal is part of a paradigm of service and subordination where caste and gender still reflect rank and stigma.[18] Scheduled Caste labourers do this sanitary work, but they have also entered trade in commodities with certain physical properties, such as foodstuffs with skins, or things which have to be transformed by cooking prior to consumption, or which need recycling, or which are traded in physically dirty surroundings. Entry into such markets has been a matter of the seizure and legitimation of physical public space - fruit and vegetable sellers have encroached onto the platforms of some shops or set up stall or sack-space on the roadside. The local state, in the form of the Municipal Market, has allowed freer entry to Scheduled Caste traders than have existing marketplace businesses, which have reacted with hostility to this particular disturbance to the local market order.

Although party politics, religion, philanthropy and redistributive obligations all play a part in the way the local economy is organised and regulated, by far the most significant structures are caste-cum-trade associations. Caste has been reworked as an economic institution, least flexible at the base where social disadvantage is most entrenched. While some caste/trade associations are intermittent and called into life only when the trade is threatened, many, especially those of business sectors in which (Most) Backward Castes operate, are playing increasingly important roles in economic regulation and the provision of semi public goods and services which are essential preconditions to economic transactions. These include the rationing of entry to a trade, the definition of proper contracts, the settlement of disputes, collective insurance, collective representation to the state, the organisation of the spatial territory of the marketplace, the monitoring of rent-seeking and the way rents are shared with state officials and politicians, the control of labour disputes, the fixing of the wage and other terms and conditions of work, the control of prices in derived markets (e.g. for transport, porterage, sweeping and even certain raw materials), and last but not least collective security.[19]

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18 Beall, 1997

19 Basile and Harriss-White, 2000

The organizations of the local business elite differ from lower caste-cum-trade associations by being more mixed-caste, better networked and more ambitiously federated. Reinforcing patriarchy and the rhetoric of 'town unity', caste ideology works to support the economic interests of the local business class in exactly the manner Gramsci thought to be the essence of civil society.[20] Ideology, not usually considered a social structure of accumulation is in fact a significant shaper of it. It supplies the institutional structures on the back of which corporate organisations have evolved. It also helps to create the overlap between economy and society that is necessary to any corporatist project. The Indian economy has a distinctive propensity for this form of regulation, by means of which the antagonism between capital and labour is suppressed. The welfare and security of labour is at the bottom of the agenda of such institutions. Labour is often found to be admitted to these associations often only to be managed by owners in the interests of the owners' accumulative strategies.[21]

Space - Clusters

All these determinant structures of accumulation are mapped onto distinctive patterns of economic space. Capital is accumulated in towns and cities, yet India is weakly urbanised and its urbanisation displays a distinctive pattern of specialised clusters. Taking Tamil Nadu again (which is not exceptional in this respect), the Palar Valley specialises in leather goods, Cheyyar in reed mats, Arni and Kanchipuram in silk, Tiruchengode in drilling equipment and lorry bodies, Tirupur in hosiery, Salem, Coimbatore and Bhavani in textiles, Tiruchirapalli in gems, Sivakasi in matches, Palladam in chewing tobacco and so on - this list is very far from complete. Clustered development is thought to be a distinctive form of modern capitalism, one capable of generating two kinds of mutually beneficial collective efficiency. Passive collective efficiency is got from spatial proximity. This provokes the circulation of information, the consolidation of networks of contacts, subcontracting and process specialisation and access to services and infrastructure. Active collective efficiency is got from trade associations through which R and D, training and even export contacts may be engineered. But only a small minority of India's clusters are of this sort. Most clusters are low-tech, with highly exploitive labour arrangements; some are the disguised and outsourced production units of one or two big companies hellbent on escaping the pincer of unions and Factories Acts. Further, while the voluminous literature explores the high- and low-level trajectories of specialised clusters, another kind of clustered development, which is neglected, is to be found (with both high and low subsectors) in almost every urban settlement - gold ornament crafting along with pawnbroking is one such example and foodgrains processing another.

The character of clustered development varies, it can be hypothesised, not only according to local structures of property ownership and agrarian accumulation, but also according to the varying roles played in each cluster by castes (particularly but not exclusively mercantile castes) and by the state. The spatial distributions of these three social structures of

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20 Gramsci, 1971.

21 We have found this form of labour control in organisations 'representing' yarn twisters, market place porters and handcart pushers.

accumulation (class, caste and space) most strongly influence the kinds of commodities produced in a given area. They keep accumulation highly localised, shape the way labour is controlled, limit competition and permit - and legitimate the persistence of - environmental hazards such as the contamination of underground water and the ubiquity of solid waste.

In most regions the local agrarian structure stratifies rural society sufficiently to let a range of technologies of transformation co-exist in a stable manner, each with different labour and factor requirements, creating a finely-differentiated range of products for markets which are socially and geographically segmented.22 The agrarian structure also shapes the terms of resource transfers between the major sectors of the economy, the supply of surplus labour (mainly but not exclusively from agriculture), and the terms on which labour works - and may even accumulate - in the non-farm economy. Clusters are shaped by path dependency originating from local land tenure, land use and cropping patterns, but are perpetuated by other factors (such as the lock-in of processing technologies and the development of non local trade) when land use and cropping patterns change.

Though commerce is increasingly cosmopolitan, investments do not follow a simple logic of profitability because caste is often still the preferred basis for business partnerships, repeated contacts and credit. Private capital is un-fungible and ‘capital contra-flows’ may be observed in which urban capital-exporting castes investing in villages (e.g. in weaving) are unable to invest in the sectors open to migrant agricultural caste capital investing in town (e.g. in grain processing). Mercantile castes have a political and economic field based on networks independent of the agrarian castes. Nevertheless these networks are divided into the small localities that are distinctively marked by specialisation.23 (The one major exception to this rule is the 19th century marwari diaspora to regions weak in merchant castes where they still control the processing of - and trade in – most basic commodities, including gold.) In cases where a cluster has involved many castes, it has been found that the cooperation needed for collective efficiency is harder to organise and the transition from a low level equilibrium cluster to an Emilia Romagna type of industrial district is less likely.24

If there is a solvent for this spatially and socially clustered economy, it is more likely to be the state rather than the market. The state may operate not only via its interventionist control over strategic sectors which provide raw and intermediate materials but also via the provision of infrastructure and subsidies. There are two ways, however, in which the state tends to act to reinforce clustering rather than to erode it. The chequered histories of small industrial estates shows that the state tends to complement capital in existing central places rather than substituting for it on new sites, and there is a marked 'distance decay' in the quality and quantity of state infrastructural provision. Second, the state tolerates non- trivial environmental externalities by its negligent enforcement, or complicitous non-enforcement, of environmental standards. Exceptions to this (such as the degree of success of state-enforced, state-subsidised collective treatment plants for tanning effluent in the Palar valley

[22] This is as true for rice as it is for cotton, groundnut and mustard oil and tobacco (Harriss-White, 1996a).
[23] Mines, 1984
[24] Nadvi, 1999; Schmitz and Nadvi, 1999

leather cluster) only prove the general rule.25

Classes

Labour

Most of the Indian workforce has no formal written contracts with their employers. Their livelihoods come from (casual) wage labour (30 per cent of the workforce) and from self employment, dispersed and fragmented petty production and trade (56 per cent of all livelihoods).[26] Right after Independence, the tiny trade-union sector was systematically demobilised and made to depend on the State for mediation with employers.[1] Now only about 3 per cent of the workforce is unionized and even this degree of labour organization has long been under attack from corporate capital (so it can hardly be the sole reason for the mediocre developmental performance of the corporate sector27). The other 97 per cent of workers are scarcely regulated by the state; they lack rights *to* work, enforceable rights *at* work and rights to social security. Migration notwithstanding, labour "markets" tend to be small-scale and fragmented. The Indian labour force is regulated not only through the compulsions of assetlessness, of clientelage, of beck-and-call contracts and (still) debt-mediated labour attachment, but also through the social structures of gender, religion, caste and the local corporatist occupation-based organisations.

Apart from the domestic sphere, women's work is heavily concentrated in rural sites and in agricultural work, on casual contracts and at wages bordering on starvation – on the average only 70 per cent of the wages paid to men.28 In non-farm work, women are likely to be concentrated in the lowest grades and stages, on piece rates rather than daily wages and with earnings even lower than those of men than in agriculture proper. Caste still shapes ideologies of work; it makes for compartmentalised labour markets 'with non-competing groups whose options are severely constrained' (Harriss, 1989). Few Brahmins will undertake heavy manual work, while to be Scheduled Caste (29 per cent of the population) makes a person twice as likely as otherwise to be a casual labourer, in agriculture and poor.29 Technologies reinforce the contempt meted out to dalits through demeaning and physically damaging work: enormous weights are still carried by headloading rather than by wheelbarrow or conveyor belt; brooms and brushes require women to work stooping rather than standing. Caste also screens-out dalit recruits for entry into jobs in the rural non-farm economy. Workers themselves sometimes enforce the stratification of occupations so as to maintain their hold over enclaves of the labour market. In cases when owners and employees belong to the same caste (e.g. in the diamond cutting industry in Surat (Gujurat) or the hosiery industry in Tiruppur (Tamil Nadu)) labourers often emphasise their solidarity with employers, thereby ensuring the exclusion of other caste groups. Caste also provides an idiom

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25 Kennedy, 1999
[26] Ghose, 1999
[1] Chibber, 2003 a and b
[27] Mukherjee Reed, 2000
[28] Ghose, 1999 for 1994.
29 Nagaraj, 1999; Jayaraj and Subramanian, 1999

in which many sections of the labouring poor organise themselves politically, though not always in the context of work or labour relations in production. Social movements and the political mobilisation of dalits have gained momentum in their search for respect and social status. Caste based social movements have developed in synergy with the workplace based politics of lower castes. In rural Bihar and elsewhere, the struggles of Scheduled Caste landless labour, at time in alliance with radical left wing political organisations, have led to violent confrontations, caste battles reflecting class conflict.30

Labour is also controlled through the supply of infrastructure, in public spaces and in domestic life as well as at work.31 Not only is life outside work socially regulated but also the state actively regulates the reproduction of labour, through their lack of housing, water, education, their lack of social security, and their lack of space for living and leisure - perhaps more comprehensively that it regulates their work. Caste based political organisation is often focussed on needs associated with this consumption and reproductive activity, work which is usually considered outside the sphere of market relations.

Capital – the 'intermediate classes'

Outside India's metropolitan cities, the greater part of the economy is still dominated by a loose, awkward coalition of what Michal Kalecki called 'intermediate classes' and what Aijaz Ahmad calls 'non-polar classes' 32: a loose coalition of rich peasants (agricultural producers employing labour), working commercial capitalists (family businesses), and the collusive fraction of the bureaucracy that implements state regulations – some of which protect local business and some of which they resist and sabotage (see Chibber, 2003, b). The income of the rich peasants and family businesses can 'neither be classified as a reward for labour nor as a payment for risk-taking (i.e. profit) but is an amalgam of the two. The self-employed lie midway between the large-scale, professionally managed capitalist enterprises of the private sector, and the working classes' (Jha, 1980, p95). The intermediate classes do not correspond to the Marxian definition of class, being essentially defined by occupying a 'contradictory class location', in between workers and capitalists proper.[32] They have the strength of numbers. In 1980 P.S. Jha's estimate came to 30 million with 8-10 dependants apiece – i.e. a total of some 250 million or about one third of the entire population. In relation to big business they appear small and dispersed, but in relation to labour they present a mighty front; they are the 'masters of the countryside'.33

These classes have conflicts of interest with labour as well as with corporate capital. They are in tension with labour over their control of the supply and prices of essential wage goods in which workers have a vital interest. However, although, they may align themselves politically with corporate capital, they do not do this consistently because they reap direct opportunistic returns from the control of scarcity and from rents, whereas corporate returns

30Omvedt, 1993, Gooptu, 2001
31 See the photo essay by Breman and Shah, 2004
32 Kalecki. 1971; Ahmed, 1996
32 To adopt E.O. Wright's term
33 The phrase is Lenin's in relation to Russia a century ago

are mediated by managers and by shareholder interests. Intermediate classes are able to control scarcities by mark-up price formation, through oligopolistic collusion in markets and through structures of regulation shaped through partial state intervention which remain little touched by liberalisation. In sectors where they compete head on with big business, intermediate firms may undercut big business by using family labour, by depriving wage labour of costly rights and by operating smaller-scale technology with lower fixed costs at higher capacity utilisation. And big business, despite its notorious delinquence, is still easier to tax than are the intermediate classes.

Evidence from long term field research on agricultural merchants in West Bengal and Tamil Nadu together with that from a long term study of the economy of a town in Tamil Nadu reveals that while markets look crowded, much initiative is used to take the edge off competition, by means of which market shares are defended.34 Exclusive, repeated network transactions are a common ploy. Oligopolies co-exist with petty traders. The latter often depend on the former for information, contacts, and access to transport and credit. The vertical integration of a joint firm may be disguised by being divided up into apparently independent components. Wherever their activities have been examined in detail, agro-processing and trading firms have been found to tend towards uniqueness, complexity and diversity in the business activities they comprise and combine. [2] Not only does this endow the entire system with plasticity in the face of shocks, at the level of the individual firm, it also is a form of 'branding' and an invitation to loyalty.

The mode of accumulation of the intermediate classes depends centrally on politics, though local capital does not have to enter party politics directly to ensure its power. Intermediate classes connive with local officials to secure the protection both of the rents they create in markets and of the state's resources and rents that they capture. They seek state subsidies but, more importantly, they secure concessions by influencing policy in its implementation rather than its formulation. Nowhere are the concessions and collusion more important than in the evasion of tax. Tax evasion is the biggest disguised subsidy such classes have received and it defrauds the state, with serious consequences for the state's capacity and legitimacy.

The intermediate classes have survived and are surviving an unprecedented threat from several quarters: from MNCs, from the dismantling of some of the structure of state regulation, and the abandonment of its developmental mandate (which began in the 1980s with the erosion of fiscal discipline and the havoc caused to public sector capital expenditure by interest payments, debt and exposure to foreign exchange markets, and continued after 1991 under the reforms);35 and the rise of a new middle class with a stake, through insurance and share ownership, in the corporate economy. The means of their survival are threefold. First, the productive investment of resources hitherto tucked away in the black economy.

34See Harriss, 1993 for West Bengal, Harriss-White 1996a for Tamil Nadu and Harriss, 1991 and Basile and Harriss-White, 2000 for the long term study of the market town; see McCartney and Harriss-White, 2000 for a detailed critical analysis of the survival capacities of Intermediate Classes.

[2] Harriss-White, 1995

[35] A reform which directly threatens the intermediate classes is presumptive taxation; see McCartney and Harriss-White, 2000.

Second, the still hardly reformed state regulation of much of the "prominent heights" of the economy (food, electricity, kerosene, fertiliser, liquor), some involving large subsidies to business, much involving bribery, which protects market-based rents and tax evasion. Third, the intermediate classes have been regenerated by a new, dispersed wave of accumulation on the part of the lower agrarian castes. The process involves disorderly relations not only with suppliers of marketed surplus but also with consumers, labour and the state. A sharp struggle over the surplus is under way, since, at 10.24 over the decade of the 1990s, the rate of agricultural growth has been mediocre and less than that of population.35

IV. State regulation and the informal economy: a contradiction in terms?

How does the state fit into this socially regulated economy? Although the Indian state is a significant actor in the informal economy, much of the latter lies beyond the state's direct control, either because its units (small firms) are under the size threshold for regulation, or because the state neglects to regulate it - or is actively prevented from regulating it.

Just as the informalised markets in which the intermediate classes operate create their own institutions to regulate and protect them, so the state by its interventions tolerates the development of many informal, socially-regulated markets. For instance, the public distribution system of food grains, extremely resistant to de-regulation, has long created price margins which draw in unlicensed and non-state-regulated processing and trade. Leakages from its stores and lorries still supply parallel markets for stolen grain. There are even standard prices for the exercise of influence, and markets in bureaucratic postings.[36]

At the same time as the state shapes socially regulated informal markets, it is shaped reflexively by non-state social structures of accumulation. It is the ambivalent agent of gender empowerment - a far more progressive employer in this respect than private enterprise. It is a formal initiator of development projects to empower women and an implementer of reforms to expand female representation and political participation. At the same time, by making it very difficult for women to qualify for licences or development credit, the state effectively reinforces male property rights. It does little to counter a prevailing anti-female bias in education and has not proved able or willing to resist the alarming deterioration in the relative status of girls.

As we saw, it is also a distinctly ambivalent agent of secularisation in the economy. Acts of Hindu religious observance have long been incorporated into state office routines and state development expenditure is still being channelled through NGOs and trusts which are 'fronts' for religious organisations. Through the policy of job reservations the state is at the frontline of social transformation as the important yet flawed champion of the social and economic emancipation of oppressed castes and tribes. Yet the international lending institutions see the state only as a technique of governance. They have called for it to downsize employment. As a result competition between castes has been reinforced, and an

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35 Shariff et al, 2002

36 Mooij, 1999, Wade, 1984, Guhan and Paul, 1997

informal system of job reservations has been developed through patronage practised by all castes. At the local level it is deeply permeated by private status. Its effective capacity depends on the social identities of the officials who happen to be in post - landed, male, upper-caste officials are better tax gatherers for instance - as well as by private interest (officials use their powers of discretion both to extract rents for themselves and to protect the rents of others). A 'shadow state' is created - a penumbra of people living from intermediation and corruption, with a strong interest in its perpetuation. The state seems to have become less and less able to regulate, redistribute or subsidise accumulation, the further it is from capital cities. Its monopoly of coercion, never complete, is being challenged by the proliferation of new mafia forces and private protection services.

V. Real unorthodox structural adjustment

For the international development agencies, structural adjustment and liberalisation consist of rafts of policies to remove distortions caused by protection and by domestic subsidies, in effect to adjust the domestic price structure to that of the world market, to let the structure of production reorganise itself and to extract the economy from politics. The state is no longer itself to be a structure of accumulation. It is true that the results of planned development differ from those produced by market forces, as the politically-determined locations of steel plants and heavy industry in India clearly show. Liberalisation ought therefore to generate spatial dislocations as it replaces non-market allocations by those of markets. Indeed this is predicted, unintentionally, by the advocates of liberalisation, who maintain that liberalisation is capable of reversing regional disparities, which have been in part the unintended consequence of the Indian Finance and Planning Commission's bureaucratic controls over production, investment and trade. If markets respond to relative factor scarcities with greater allocative efficiency, if regions with lower capital-labour ratios have a higher marginal productivity of capital and, therefore, offer higher rates of return to capital, then regional disparities ought to be reversed by deregulation and replaced by regional convergence. But, what appears to be happening is the opposite: an accentuation not only of regional disparities but also of disparities within regions.[37] In general accumulation is increasingly specialised and spatially clustered and is driving intensified regional as well as social and labour market differentiation. Whereas Kanbur and Jhabvala argue (2004) that this is due to technology, we contend that this is also due to the social regulation of the economy.

The adjustment of structures of prices and production is also accompanied by adjustments in social structures and in ideas and practices of accountability. If Indian capitalism is a social solvent38, it works sluggishly (to say the least) at the local level that has been our focus. In fact, if anything the reverse seems true: because capital accumulation relies on social structures of accumulation (which liberalisation does not address at all), the effect of liberalisation is not to abolish or transform those in which markets are embedded but to encourage them to re-work themselves as economic institutions and to persist. In the era of

[37] For the case see Bhagwati, 1993; for data on regional inequality see Mohan and Thottan, 1992 and Meher, 1999.
[38] The view of scholars such as Lal, 1988 and Panini, 1996

liberalisation and globalisation, the structural adjustment that is taking place is not only the replacement of state-planned development, and ‘custom’, by market and contract. It is also the intensification of the relations between markets and the ‘non-market’ institutions without which markets cannot operate. Gender relations are the most resistant to change, and operate to advantage men quite disproportionately to women in the class which accumulates; there is no reason to see liberalisation as capable of transforming them. Caste and religion are much more flexible. They are emerging as structures that may generate exclusive, networked forms of accumulation and corporatist forms of economic regulation and that tend to operate to control labour to the advantage of capital. In practice, moreover, far from dissolving religious bonds liberalisation has been associated with an upsurge in religiosity. The real fluidity lies not in the solvent force but in the speed with which such collective identities are intensified. Though never theorised in this way, Hindutva itself might be explored as an attempt to carve and consolidate a moral space for Hindu accumulation at the expense of accumulation by adherents of other religions.

Instead of a drastic reduction in the premium for political power predicted by the theory of liberalisation we see a new phase of mass political assertion for this power. Meanwhile the state structures aimed at promoting the livelihoods for and upward mobility of lower castes are completely at loggerheads with the objectives of liberalisation; but, even if they are constrained, their abolition is not an option. The state cannot avoid its role for low and sceduled caste aspiration.

And as we noted earlier, in the economy in which 88 per cent of Indians live, the state is so riddled with fraud and corruption that an enormous 'shadow' has grown up around it which depends on it and feeds off it. Long ago Myrdal called the Indian state a ‘soft’ state. If anything it has become softer - Weber’s ‘steel cage’ has rusted - while the social structures around it have hardened. It looks less and less like the instrument ensuring market rationality that the advocates of liberalisation envisage.

Reforms - however liberalising in intent - that depend on the formal legal infrastructure thus face three contradictions. First, while development requires the rule of law, in India regulative law is often unimportant - since much of the economy is not regulated by law and since locally influential and respectable people frequently appear to be convinced that they are entitled to be above the law.[39] Law is at best compromised by a mass of unintended and unforeseen consequences; at worst it is a mere base for extortion, formally counterproductive but informally very productive - for legislators, bureaucrats and powerful ‘clients’. Second, any attempt to ‘downsize’ or even shed inappropriate laws means a capitulation to those already breaking them, which delegitimises the state. Third, attempts to shed laws that are inappropriate because impossible to implement results in looser law which is easily abused.[40] And what is true for the law is likely to be true more widely for the institutions that implement the law.

39 Of course, this practice is by no means confined to India; see Joly,2001, on this phenomenon in France.
40 McBarnet and Whelan, 1991; see the adverse impact on corporate governance of voluntary codes in Banaji and Mody, 2000.

In this paper, it has been argued that another kind of unorthodox structural adjustment, and one long preceding that of the World Bank and the IMF, is that caused by under-funding the state. The leaching of taxable resources into the rapidly expanding black economy deprives the state of resources. Black wealth is laundered abroad, or stored in real estate, finance, (retail) inventory and a relatively small amount in the form of gold. According to one careful estimate this leakage is some 20 times greater than leakages due to corruption.41 The state responds to this famine of resources by protecting salaries at the expense of equipment and investment,42 producing for example the phenomenon of a fire brigade with firemen but without water or diesel fuel, whose functioning is completely dependent on a local private economic patron. Freezes on staff recruitment play havoc with lines of reporting accountability, enforcement capacity and therefore on the time taken to achieve objectives and the quality of goods and services.43 Low quality provision encourages informal private or black alternatives. The loss of legitimacy resulting from this kind of structural adjustment is then self-reinforcing.

Likewise, corruption is not reduced when the sites for the corrupt privatisation of public goods and services are removed by state compression or privatisation. Quite the opposite appears to have happened. The reasons are not hard to find. Partial changes in ownership may decentralise and multiply sites for corruption by complicating accountability and diluting enforcement capacity. Some business interests may use bribes to dilute enforcement, or to maintain privileged access to resources or to exemptions while other interests will bribe to enforce deregulation. Officials may seek bribes against promises of future economic rents, given that their tenure outlives that of their political masters.44

Although liberalisation invites a change in the character of the control of the economy, not a release from it, still there is considerable continuity in the structure of regulation nurturing the intermediate classes. The largest subsidies - for fertilisers, food, agricultural electricity and to a lesser extent credit, have proved extremely hard to reduce. [45] The intermediate classes remain potent players. The capacity to accumulate has now spread from castes and classes which have hitherto resisted paying tax to lower agrarian castes which have never before been required to pay them - at least not directly. A new wave of small capital is reinforcing and expanding the informal and black economy, intensifying the brutal casualisation of labour and transferring the risks of unstable livelihoods to the workforce.

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41 Roy, 1996
42 Capital exenditure as a percentage of GDP declined from 2.8 per cent in 1990-1 to 1.5 per cent in 2000-1 , Shariff et al , 2002
43 Kjellborg and Banik, 2000
44 Harriss-White, 1996 b
45 Refer to McCartney and Harriss-White, 2000; and Ferro, 2004 for details.

VI. The Implications for development policy of the real unorthodox structural adjustments

'Policy' is then best understood as the outcome of the way political resources have been deployed in the struggles for rents that take place at all stages - discursive, procedural and allocative - of the so-called 'policy-making process'. Liberalisation does not destroy these rents but simply intensifies the struggle for them.

To ask, as students of Indian development are so often invited to do, whether the economy is 'inefficient', implies that some alternative set of social structures of accumulation is imaginable with which those that actually exist in India might be compared. Nothing in the relationships and trends we can currently observe seems to suggest that this is possible. India's structures of social regulation are deeply entrenched.

The relations between the formal state, the formal economy, the shadow state and the informal economy are the outcomes of political struggles. The state's convection system of taxation and distribution is shorn of civic egalitarianism. Unless and until there is a strong public mandate for tax compliance and against corruption - both of which are essential first steps towards accountability, and have been invoked as 'solutions' for decades[46] - the prospects for the intermediate classes still look good. Fraud and tax evasion are part and parcel of Indian capitalism; in order for both non-compliance with the state and the flouting of the constitutional entitlements of labour to be so widespread and persistent, people's moral world - the units of accountability - must be immediate or restricted to levels well below the nation - or even the local state. Countering this socially-regulated, but fundamentally anti-social economy calls for the emergence of a much more robust and active culture of collective accountability in which the legitimacy of the state would also need to be renegotiated.

If points of leverage for change exist at all, they lie in institutional mechanisms which might make capital more accountable to the state, and the state to <u>other</u> parts of civil society. These are urgent questions of development policy which are prior to exercises of technical choice and prior to the listing and evaluation of "de-regulative" policy options and sequences that are the stock-in-trade of conventional development policy. The questions provoked by this critical review of India's socially regulated economy are at a considerable remove from the narrowly electoral and formal concept of democracy deployed by international agencies for finance and aid. The abstract and unreal conceptions of economy and polity that currently prevail in mainstream economics and in much of the other social sciences are at a considerable remove from the concept of the socially instituted economy envisioned by Prof Mukherjee.

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[46] See Myrdal, 1973 for instance

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