

INDIA'S INFORMAL ECONOMY – FACING THE 21ST CENTURY¹

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1. Introduction

India's economy is roughly the size of Belgium's, but with 100 times the people. Eighty-eight per cent of them live in settlements with fewer than 200,000 population.² Their economy is dominated by agricultural- and food-related goods and services. In 1997, an average of something over 10% of total consumption expenditure in this part of the economy was estimated to be on the output of the corporate sector.³ The other 90% was spent on the output of the informal economy, in which most of the 88% 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 that state regulation officially prescribes. In the former sense it is also known as 'unregistered', and defined as consisting of firms with electricity but under 10 workers or without electricity and over 20 workers (very rare outside agriculture). Although this second definition 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 recent study of corporate capital put the proportion of unorganised labour in various corporations at between 40% and 85%.⁴ Moreover out of

1 This is a summary of part of my book *India Working*, forthcoming -2002 - Cambridge University Press.

2 From the 1991 census fewer than 12 % of the population lived in metropolitan cities. Over 74% were rural and a further 14% lived in towns under 2,00,000: a total of 88%.

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)

4 Davala, 1992, in Bhowmik, 1998.

India's labour force of over 390 million only 7 % are workers on regular wages and salaries - and of this small proportion, only half are unionised. And between 1989 and the mid-1990s the unregistered workforce *increased*, from 89% to 93%.

The informal economy was recently estimated as comprising 60% of net domestic product, 68% of income, 60 % of savings, 31% of agricultural exports and even 41% of manufactured exports.⁵ There is no evidence that the informal economy is shrinking and plenty 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, not least Nehru, and early development economists such as Myrdal, were well aware of the forms of social organisation that regulated the economy and considered them ‘ a tremendous force for inertia’ (Myrdal, 1968, p103) to be reduced by the rationalities of big business, the state and planned development.⁷ 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 would traditional social institutions also become increasingly irrelevant to its operation. The aim of this paper is to explore why these predictions are regularly disappointed.

We will use for this purpose the concept of social structures of accumulation developed by Gordon, Kotz, Reich and their colleagues in the USA. Their key insight was the central importance of the regulative environment to the creation and stability of productive wealth.⁹ Unlike them, however we are not proposing a thesis about the role of these structures in the

5 Sinha et al, 1999

6 See Ghose, 1999

7 Nehru, quoted in Madan, 1987

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

9 Gordon, Edwards and Reich, 1982 and Kotz, Mc Donough and Reich, 1994

historical evolution of India's economy, but instead use it as a framework for an analysis of the principal socio-economic relationships involved. Among other advantages, using this approach avoids the tendency of so many scholars to limit attention to legal-institutional structures established by or linked to the state. Although the state influences the social structures we will be chiefly concerned with, they lie overwhelmingly outside it.

The main arguments advanced here are that the larger part of the Indian economy is regulated in significant ways by social structures that are resistant or immune to change by means of macro-economic policy. In its regulation of this economy, the Indian state does not work as one would expect a modern state to work and as institutions like the World Bank do. The implication is that standard prescriptions for reform under structural adjustment and liberalisation fail to address Indian reality. They will produce, if not the opposite of what is expected, at least some complicated surprises, ones not necessarily beneficial to most Indians. For they are even likelier to reinforce these social institutions than to erode them.

To study the informal economy seriously means relying on innumerable more or less localised pieces of evidence, obtained for the most part from field research. Our generalisations are therefore to be taken as cautious and provisional. All-India-wide generalisations, however, including every aspect of macro-economic policy, are really subject to the same proviso. Anyone who doubts the wider significance of the claims made here about the social structures under review must be willing to provide a mass of 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.

2. The social regulation of the Indian economy

In this section we examine the ways in which religious plurality, 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, as well as being an issue of human rights.

2.1 Gender

Gender relations persist in being a pervasively important structure of accumulation in India. The informal economy is for the most part a matter of 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). 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. Tasks are divided between these men : 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 over 35 years ago, and this has changed little, if at all.¹⁰

Accumulation is therefore the result of an intensely male, concentrated and specialised set of relations of *co-operative control* for the production of the managerial labour. These managers also own the capital, sometimes in substantial conglomerates based on kinship networks. In turn, these affect allocative efficiency. Competition between firms (which are superficially independent entities) 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 S. 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 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.

Marriages and alliances are carefully controlled to create and protect the resource flows crucial to capital accumulation. There are "business families" as well as "family

10 Srinivas, 1966

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....(t)he 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 conduct of their women then has implications for business.

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 to the recruitment of professional managers.

A number of consequences for both the efficiency of the economy and the welfare of women follow. To keep strong family control over young male property owners, they are often 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 is ambivalent. 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.

The reinforcement of patriarchal relations in the class controlling local capital also has contradictory effects on the welfare of women. They 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 extremest impact is on life itself. Economic explanations

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

focus on the consequences of what Ester Boserup called ‘productive deprivation’ 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 S. India where the relative status of women has been high confirms what Satish Agnihotri found, India-wide, in 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. Further, 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 those of petty property for inheritance by men.

In the end however the relatively low and deteriorating life chances for women in the families of business elites has to be accounted for by a male supremacist culture. For though gender bias can be explained by low relative female status arising from lack of earned income, the costs of dowry and 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 dowry per daughter to 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 wealth creation and property accumulation benefit men disproportionately.

p354-5).

12 Agnihotri, 2000, especially chs 1 and 2.

13 Harriss-White, 1999

14 Athreya, 2001

2.2 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 of their respective forms of social organisation. Religions supply 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 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 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 their share in India’s population (0.4%). 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 *baniyas* 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. Money is lent but not borrowed outside the religion.

In the few instances where they have been studied (e.g. Baniyas by Fox, Jains by Laidlaw and Ellis, Marwaris by Timberg, and Muslims by Mines and Wright and Kaikkoolar merchants by Mines), and depending on the relative size and power of the minorities locally, transactions between economic actors belonging to different religions have been observed to be more exploitative than within-group ones.¹⁵ Other things being equal the co-existence of economic groups based on religion stabilises as well as sustains rates of return.

15 Mines, 1972, Dasgupta, 1992

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, conversely, other forces also limit competition and protect rents, as we have already seen. 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, commonly and sometimes exclusively aligned with religious sub-castes and sects. Satish Saberwal, following Marx, refers to it as India's social 'cellularity' (1996, p39) onto which are mapped many 'communities of accumulation'. The consequences 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 leather and recycling industries and the *bidi* 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 based on religion and occupation have long been contested and are dissolving, there is nevertheless a surprising 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 'constitutionally' 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 (such as educational

16 Mines, 1972, p 93-118

facilities) to open 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.

It is also important that the Indian state 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 tessellation of the economy, apparently neutral development policy will be filtered through, and have differential impacts on, people of different religions. Further, in not acknowledging the relation between the private sphere (to which 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.

2.3 *Caste*

Andre Beteille writes of metropolitan India: 'Caste is no longer an important agent of social placement or control' (1996, p450). But in small town 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 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% of the labour force. Backward Castes are gaining ground as owners, but Forward Castes dominate the concentration of capital. A third of all firms use family labour alone while a

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 Muslim pavement sellers while paid riot makers wrecked the large Muslim cloth shops.

further 15% 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. 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.

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 regulation. 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, portage, sweeping and even

18 Beall, 1997

certain raw materials), and last but not least collective security.¹⁹

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 business 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 only to be managed by owners in the interests of the owners' accumulative strategies.²¹

2.4 *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, 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

19 Basile and Harriss-White, 1999

20 Gramsci, 1971.

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

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 in almost every urban settlement - gold ornament crafting along with pawnbroking is one such example and foodgrains processing another. The character of each cluster varies, it can be hypothesised, according to local structures of property ownership and agrarian accumulation, and 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 accumulation 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 environmental hazards such as the contamination of underground water.

In most regions the local agrarian structure stratifies rural society sufficiently to let a range of technologies of transformation co-exist, each with different labour and factor requirements, creating a finely-differentiated range of products for markets which are socially and geographically segmented.²² It 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 it 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 changes.

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

22 This is a true for rice as it is for cotton, groundnut and mustard oil and tobacco (Harriss-White, 1996a).

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 so 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 and trade in 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 secularising solvent for this clustered economy, it is undoubtedly the state, 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 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 leather cluster) only prove the general rule.²⁵

2.5 *Classes*

23 Mines, 1994

24 Nadv, 1999; Schmitz, 1999

25 Kennedy, 1999

2.5.1 Labour

Most of the Indian workforce have no formal written contracts with their employers. Their livelihoods come from (casual) wage labour (30% of the workforce) and from self employment - dispersed and fragmented petty production and trade (56% of all livelihoods).²⁶ Only about 3% of the workforce is unionised and even this degree of labour organisation 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% of workers are hardly regulated by the state, lack enforceable rights at work and rights to social security. The Indian labour force is regulated not only through the compulsions of assetlessness, of clientelage, of beck-and-call contracts and debt-mediated labour attachment, but also through the social structures of gender, religion, caste and the local corporatist occupation-based organisations. Migration notwithstanding, labour markets tend to be small-scale and fragmented. 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% 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% of the population) makes a person twice as likely as otherwise to be a casual labourer, in agriculture and poor.²⁹ In the same way, caste screens-out recruits for entry into jobs in the 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 Tirupur (Tamil Nadu)) labourers often emphasise their solidarity with

26 Ghose, 1999

27 Mukherjee Reed, 2001

28 Ghose, 1999 for 1994.

29 Nagaraj, 1999; Jayaraj and Subramanian, 1999

employers, thereby ensuring the exclusion of other caste groups. Caste also provides an idiom in which many sections of the labouring poor organise themselves politically, though not always in the context of work or labour relations. 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. 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 their needs.

2.5.2 *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 Ahmed calls 'non-polar classes'.³¹ rich peasants, 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 sabotage. 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

30 Omvedt, 1993, Gooptu, 2001

31 Kalecki. 1971; Ahmed, 1996

‘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 piece – 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 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 and of 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 at higher capacity utilisation. And big business, despite its notorious delinquency, is still easier to tax than are the intermediate classes.

While markets look crowded, much initiative is used to take the edge off competition. 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. Not only does this endow the entire system with plasticity in the face of shocks, 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

32 To adopt E.O. Wright’s term

33 The phrase is Lenin’s in relation to Russia a century ago

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 that they capture. They seek state subsidies but, more importantly, they secure concessions by influencing policy in its implementation rather than its formulation.

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 and foreign exchange markets, and continued after 1991 under the reforms),³⁴ 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. Second, unreformed state regulation, involving bribery, which protects market-based rents and tax evasion. 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. 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 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.³⁵

3. State regulation

How does the state fit into this socially regulated economy? Although the Indian state is a significant actor in the informal economy, much of it 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.

34 A reform which directly threatens the intermediate classes is presumptive taxation.

35 Srinivasan, 2002

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 creates many informal socially-regulated markets. For instance, the public distribution system of food grains, extremely resistant to de-regulation, creates 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 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 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

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

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.

4. Real 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 differentiation. We have seen that this is due in good measure to social structures of accumulation.

37 For the case see Bhagawati, 1993; for data on regional inequality see Mohan and

The adjustment of structures of prices and production is also accompanied by adjustments in social structures of accumulation and in ideas and practices of accountability. If Indian capitalism is a *social solvent*,³⁸ 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, 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 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 even be seen as an attempt to carve 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 of this power. Meantime 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.

And as we noted earlier, in the economy in which 88% of Indians live, the state is so riddled with fraud and corruption that an enormous 'shadow' has grown up around it which depends

Thottan, 1992 and Meher , 1999.

38 The view of commentators such as Lal, 1988 and Panini, 1996

on it and feeds off it. Long ago Myrdal called the Indian state a 'soft' state. If anything it has become weaker - Weber's 'steel cage' has rusted - while the social structures around it have hardened. It looks less and less like the instrument of 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 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 and bureaucrats. 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.

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.

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

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

41 Roy, 1996

42 Capital expenditure as a percentage of GDP declined from 2.8% in 1990-1 to 1.5% in 2000-1, Srinivasan, 2002

lines of reporting accountability, enforcement capacity, the time taken to achieve objectives, 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 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 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 casualisation of labour and transferring the risks of unstable livelihoods to the workforce.

5. The Implications for development policy of the real structural adjustments

‘Policy’ is then best understood as the outcome of the way political resources have been

43 Kjellborg and Banik, 2001

44 Harriss-White, 1996 b

45 Refer to McCartney and Harriss-White, 2000 for details

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 what exists 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 social structures of accumulation 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 now shorn of much 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 decades⁴⁶ - 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 also needs to be renegotiated.

If a point of leverage for change exists at all, it lies in mechanisms which might make capital more accountable to the state, and the state to other 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 policy options and sequences that are the stock-in-trade of conventional development policy. These questions are at a considerable remove from the World Bank's adoption of, at best, a narrowly electoral and formal concept of democracy,

together with the abstract and unreal conceptions of economy and polity that currently prevail in mainstream economics and in much of the other social sciences.