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Industrialization, Dirigisme and Capitalists: Indian Big Business from Independence to Liberalization

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Abstract: This paper examines the interaction between the development and transformation of Indian big business, the trajectory of Indian industrialization and the course of the interventionist policy which provided its background between independence and the shift to a liberal economic policy regime in the early 1990s. Specifically it focuses on how the process of transformation impacted on and worked through diverse firms in different stages of the industrialization process. The paper shall reinforce the broad case that studying that period and the development of the Indian corporate world over it is critically important for developing a proper understanding of the historical origins of Indian liberalization and the subsequent trajectory of Indian capitalist development.

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Important gaps in the study of India's experience with import-substituting industrialization have both resulted from as well reinforced the impression that not much changed in the Indian corporate sector between independence and the initiation of 'economic reforms' in the early 1990s. The present paper is a modest effort in the direction of dispelling this perception of a private corporate sector virtually frozen in time till the advent of liberalization ushered in winds of change. Indian dirigisme and the import-substituting industrialization process that took place under its aegis provided the background to a historically significant transformation of Indian big business. There were many dimensions along which this change happened and in the process produced diverse firm histories — those of sustaining leading positions, as well as those of decline from and rise to such positions. Continuity and change in the composition of Indian big business was therefore one part of the story of transformation through which other dimensions of that change expressed themselves. If some firms retained their leading positions they did so only by changing themselves. Those that could not became a part of the change as its victims, while other firms climbed through that process into the category of leading firms. It is the story of this diversity of firm histories and their mutual interaction with each other and with the industrialization process that unfolded over four decades, in synoptic form, that this paper attempts to bring out.

The general evidence that the leading private sector firms in India at the end of the 1980s were far from being identical with those that dominated the corporate sector in the years immediately after independence (traditional large firms) has been presented elsewhere (Mazumdar 2011). In the same place it was also argued that this change was at odds with the dominant conception of how competition under dirigisme operated because that conception failed to take into account the full implications of the distinctive nature of rivalry between firms under the regime of controls. In other places (Mazumdar 2008 and 2012), other elements of the transformation of Indian big business — the change in its industrial spread and the market it catered to, the kind of technologies it handled, the closer correspondence between big business

and oligopolistic dominance, etc. — have also been highlighted along with those of continuity, like the persistence of the multi-company family controlled business group and technological dependence.

The historical account presented in this paper complements the analysis presented in these earlier writings. It demonstrates that the final outcome seen on the eve of liberalization bore the imprint of each stage of the import-substituting industrialization process and the twists and turns the process went through. Accordingly for this we divide the relevant period into its three generally recognized phases, with the mid-1960s and the end of the 1970s serving as the boundaries between them. It would of course not be possible to delve in detail into the individual histories of every firm that grew in, declined during, or survived, the period of over four decades. A sense of how the industrialization process impacted differently on different firms shall however be conveyed through the use of suitable illustrations.

From Independence to the Mid-1960s: The Corporate Sector in the First Phase of Industrialization

The rapid expansion of public investment which was characteristic of this period induced growth of both industrial as well as private corporate investment. Private corporate gross fixed capital formation (GFCF) increased at the rate of nearly 13% per annum.

Industrial growth was not, however, evenly spread across industries. Public investment was heavily concentrated in capital-intensive industries, and had little direct effect on the domestic market for mass consumption goods. The agricultural sector, from which was drawn the livelihood of most of India's populace, grew at rates barely above population growth rates. Industrial raw materials produced by the agricultural sector, like cotton and jute, were also in short supply. These circumstances were not conducive for the growth of some of the major traditional manufacturing industries that dominated the industrial sector at independence. Industries like textiles and food products experienced both domestic demand and supply constraints. These in turn combined

with the relatively low priority accorded to the textile industries in official policy to also render them incapable of meeting the mounting challenge that they faced in export markets from technological changes and new competitors. Traditional industries like textiles and food products were thus unable to participate in a major way in the industrial growth that took place in this period.

Unevenness in the pattern of industrial growth was accompanied by even greater unevenness in the pattern of industrial investment. At the aggregate level, four industry groups participated in the major structural shift in the Indian industrial sector during the first three plans (Mellor 1976). On the one hand were the food products and textile industries, which saw a dramatic decline in their relative share of the organized sector fixed capital from 44% to less than 15%. The basic metals (primarily steel) and power (electricity, gas and steam), major spheres of public investment, represented the other side of the shift increasing their combined share in industrial fixed capital from less than 20% in 1951 to nearly 55% in 1965.

It was not only public but also private investment which reflected the transformation that was underway in the industrial sector. This becomes visible if we exclude the public sector dominated basic metals and electricity, gas, and steam and examine the changes in the pattern of distribution of fixed capital of the remaining 17 industry groups. As shown in table 1, as many as 9 of these industry groups saw an increase in their share in fixed capital of all 17 industry groups, while the fixed capital of the food products and textile industry groups experienced an extremely sharp decline even relative to these industry groups. In other words, accompanying the movement of private investment in a big way into more modern industries was a virtual complete absence of the modernization of some of the older industries like textiles, or at least major parts of it.

Table 1: Distribution of Fixed Capital and its Increase amongst 17 Manufacturing Industries, 1951-1965 (Percentages)

Manufacturing Industry	% Share in Fixed Capital		% Share in Increase
	1951	1965	1951-65
Food products	22.76	11.62	7.61
Beverage	0.59	0.50	0.47
Tobacco	1.42	0.43	0.08
Textiles	32.23	20.30	16.02
Footwear, etc.	0.69	0.10	-0.11
Leather	0.29	0.16	0.12
Metal products	4.59	2.86	2.24
Other Miscellaneous	7.21	1.55	-0.48
Total of Above 8 industries	**69.78**	**37.54**	**25.96**
Wood	0.77	0.98	1.06
Paper, printing	6.61	6.87	6.96
Total of Above 2 industries	**7.38**	**7.85**	**8.02**
Rubber	0.56	1.48	1.81
Chemicals	6.17	14.52	17.52
Products of petroleum & coal	0.12	7.03	9.51
Non-metallic mineral products	3.80	6.22	7.09
Non-electrical Machinery	0.71	8.55	11.37
Electrical Machinery	4.81	5.65	5.95
Transport Equipment	3.31	10.28	12.78
Total of Above 7 industries	**19.49**	**53.72**	**66.01**
Total All 17 Industries	**100.00**	**100.00**	**100.00**

Source : Mellor (1976), Appendix Table 10 [citation from Uttam Dabholkar and Arthur Goldsmith: 'Changes in the Composition of Capital, Employment, Value Added and Production, by Industry Group, India, 1951-1965', Department of Agricultural Economics, Occasional Paper No. 84, Cornell University]

It was not that all traditional industries showed stagnation. Rather the stagnation was heavily concentrated in a few industries (Chandok 1990, Table 7.6). Food products like wheat flour, sugar, vanaspati, and

beverages and tobacco products like beer and cigarettes, saw significant increases in their installed capacity and production over the decade and a half (typically a doubling). Paper and cement saw even greater orders of increase. But the manufacturing industries in which had been concentrated the bulk of the fixed capital of these sectors, like the cotton and jute textile industries saw very little increase in capacity.

Some industry groups like chemicals, and electrical and non-electrical machinery included a very large number of individual industries that experienced capacity expansion or creation. If we further take into account that many food products, beverage and tobacco industries also saw significant expansion, it would be clear that organized sector industrial investment was extremely widely spread over a number of industries, and relatively absent only in a few but significant industries. However, while a large number of industries saw greater rates of expansion in this period, no single industry had managed to attain the size of the cotton textile industry by the end of the mid-1960s. In terms of gross output, traditional industries still accounted for more than half the industrial sector in the mid-1960s[1].

While the private corporate sector grew in aggregate size during the first phase of post-independence industrialization, the trend in company formation was surprisingly not in the same direction. The slow increase in the number of companies at work from independence till the enactment of the Companies Act of 1956 was succeeded by a trend of decline in the number of non-government companies that continued till 1961-62 before the number started slowly creeping up again. By 1965, the number of non-government companies stood at 26,038, still less than the 29,283 that were in existence in 1957. Though the decline in the number of companies was characteristic of both public limited and private limited companies, the more dramatic decline was of the former. The number of foreign companies doing business in India also increased only marginally, from 551 to 582, over the period 1957 to 1965.

The stagnation in company formation in the first three Plan periods most likely reflected the relatively restrictive character of the conditions of entry into the private corporate sector that prevailed in the initial

stages of the post-independence industrialization process. The structure of public sector term-lending institutions which was to eventually dominate industrial financing was still taking shape in this period. The state was also keen to promote the growth of newer more capital-intensive industries in a context where resources were scarce. Given the initial limited development of these industries, policy towards foreign investment and collaboration was relatively more permissive than it was to become after the mid-1960s. To that extent circumstances were somewhat conducive for the entry of new MNCs. However, as far as domestic firms were concerned, this context favoured the domination of the investment process by already established firms, including by virtue of the fact that their 'credentials' tended to count a lot with licensing authorities.

The operation of a selection bias in favour of large established firms in some key sectors involving large private sector projects is clearly established by the fact that their share in investment approved was considerably greater than in industrial licenses. Between 1956 and 1966, large firms, whose share in the paid-up-capital of all non-government companies in 1958-59 was 53.47% accounted for only 37.66% of all industrial licenses granted. However, their shares in Value of Proposed Investment on Machinery, Imports of Capital Goods Approved, and Total Assistance Sanctioned and Disbursed by Financial Institutions in the period 1956-66 were 62.44%, 66.03%, 56.3% and 57.1% respectively [ILPIC 1969, Ch. VII, Table II and Appendix III-A(2)].

It was thus not surprising that the ILPIC and MIC found that that industrialization had not eroded the dominance of traditional firms. What might have, however, escaped notice at that time was that some of the foundations for changes that were to fully express themselves later were also laid during this period. This was through the creation of a divide within corporate firms between those that established a base in the expanding non-traditional industries and those that remained mainly confined to the older and stagnating traditional industries. The former category included many smaller firms outside the set of traditional large firms who themselves appeared on both sides of this divide.

Though traditional big firms accounted for a lion's share of the private corporate investment in terms of value, the ILPIC's data on licenses approved indicates that a large number of individual investments were undertaken by other firms. A lot of the wide spread of private corporate investment over a large number of industries was therefore achieved through the agency of these firms. This is further corroborated by two things that can be deduced from the MIC Report data. One is the absence in the mid-1960s of traditional large groups in a number of industries. The other is that in many industries where these traditional groups were present, there was also a parallel presence of smaller firms, with dominance of these industries being often shared. Thus the investments undertaken by traditional large firms as a group were relatively more concentrated than those of by smaller firms and excluded a large number of small but growing industries.

All traditional large firms did not even participate in the expansion into newer industries in equal measure. Some that had a historically important base in the cotton and jute textiles industries (like Birla, Bajaj, Goenka, JK Singhania, Bangur, Khatau) expanded in other traditional industries like paper and also established an important presence in many new industries (like Aluminium, Electrical Machinery, Steel and Steel Products, Chemicals, Transport Equipment, and Cement). Other groups like Mafatlal, Nowrosjee Wadia and Kasturbhai Lalbhai also embarked on such a path of diversification, primarily into chemicals, but more slowly and were still heavily focused on textiles in the mid-1960s. The expansion opportunities were also taken advantage of for diversification by other traditional groups that already had an important background in non-traditional industries. Prominent among them were Tata (Commercial Vehicles, Electrical Goods), and Kirloskar (Electrical Machinery, Non-Electrical Machinery). Other groups like Mahindra (Commercial Vehicles, Jeeps, Tractors, Special and Alloy Steels), Escorts (Tractors, Cranes, etc.), Kilachand (Synthetic Rubber), TVS (Automobile components) and MRF (Automobile Tyres) also established themselves in non-traditional industries. But a number of traditional big business firms remained rooted in the traditional industries or even consolidated their positions within it. The most prominent example of

the latter was Soorajmull Nagarmull, which made major acquisitions in textiles and mining in this very period.

These differences within the traditional firms are starkly brought out in Table 2. It firstly shows that, amongst the 26 Indian groups that historically had textiles as an important part of their business, there was a sharp difference in the investment activity of those that were diversifying into new industries (Indian T-groups 1) and those who did not (Indian T-groups 2). Further, the latter, along with European groups and some other miscellaneous Indian groups, accounted for a share in investment that was lower than would be proportionate to their size share (indicated by their paid-up capital in 1958-59). The opposite was the case with the diversifying textiles based groups, Indian groups that had traditionally important non-textile interests (Indian NT groups), and MNC capital.

Table 2: Shares of 72 ILPIC Groups in Paid-Up Capital (1958-59) and in Approvals and Authorizations, 1956 to 1966

Category of Groups	No. of Groups	PUC (1958-59) (Rs.) Crores)	Number of:			Proposed Investment in Machinery (Rs. Crores)	Imports of Capital Goods Approved (Rs.Crores)
			Licenses	Rejections	Collaborations		
1.Indian T-Groups 1	14	130.51	881	675	274	730.25	199.52
2. Indian T-Groups 2	12	41.49	265	165	58	38.41	14.98
3. European Groups	14	80.53	220	41	106	66.54	11.46
4. MNC Groups	2	11.62	37	11	20	25.46	3.00
5. Indian NT Groups	18	166.88	671	246	295	553.92	129.09
6. Others	12	48.78	181	51	65	47.81	21.6
Total	72	479.81	2255	1189	818	1462.39	379.65
1+4+5	34	309.01	1589	932	589	1309.63	331.61
2+3+6	38	170.80	666	257	229	152.76	48.04
1+4+5 - (Tata & Birla)	32	169.51	1037	520	375	796.95	200.27

Source: Computed from ILPIC Report, Appendix III-A (3)

Even if one leaves out the two largest groups (Tata and Birla) from the latter set, it can be seen the remaining 32 groups had a similar aggregate size as the 38 groups in the former set, but the difference between them in investment levels was vast. This difference, seeing their respective ratios of licenses granted and rejected, does not appear to

have been the result of the vagaries of the licensing system. It reflected differences in their strategic choices.

The differences in the strategies pursued by the traditional large firms with a common background in the traditional industries were perhaps two alternative responses induced by the very same reality. Many of the available investment opportunities in fast growing non-traditional industries were very small relative to the still large traditional industries. The expanding industries also had little in common with the traditional industries. If the restraints on capacity expansion in the textile industry imposed by the state inhibited investment in that industry, they also acted as barriers to the entry of new firms in them. At the same time the presence of a large number of firms in these industries meant that there was considerable room for the growth of individual incumbents in them even if the industries in the aggregate grew slowly. In such circumstances, for old firms with a sizeable presence in the traditional industries, expansion into newer industries was only a diversification option and not an alternative to their survival in the traditional industries. The rapid growth of the new industries and stagnation in traditional ones did create pull and push forces towards such diversification. At the same time, the limited scale of investment options in many industries and their distance from traditional ones would have combined with difficulties faced in the traditional industries to also induce the firms operating in them to seek consolidation of their positions. These contradictory forces, depending on the specific circumstances of individual firms, could therefore generate tendencies towards both inward looking as well as outward looking strategies amongst traditional large firms. Within them, the general circumstances of the older European firms meant that in comparison with Indian firms they would have faced greater uncertainties with an outward looking strategy and that is what as a rule made them conservative in nature. Firms that were not so heavily dependent on the stagnating traditional industries however did not confront a similar dilemma. Neither did smaller firms, and for these firms the limited scales of investment

opportunities in many industries did not serve to make them unattractive options.

Adding another dimension to the emerging duality in the organized industrial sector in this period was the pervasive presence of MNC capital. Neither collaboration of Indian firms with MNC firms nor their independent presence was a feature of the older industries. It was quite the opposite in the vast majority of expanding industries. Amongst the newer expanding industries, some – like automobile tyres, a number of chemical industries, a few machinery industries, and some food products – were virtually the exclusive preserves of MNCs. In the oil sector, Indian private investment was absent while MNC investment took place in collaboration with the State. In many industries, MNCs had both an independent presence as well as joint-ventures with Indian or traditional European controlled firms, while in others collaboration was the principal mode of presence.

The division between corporate firms that emerged during the first phase of industrialization proved to be of crucial long-term significance. Many of those traditional large firms that established a base in the expanding industries of this period were amongst the robust survivors up to the end of the 1980s. In many cases, the major industries that constituted the core of their businesses in 1990 were the ones in which they had already entered by the mid-1960s, though the relative weights of these industries were quite different at the two points of time. This was true for example of Tata, Birla, Kirloskar, Bajaj, Mahindra, Bangur, MRF, Escorts, etc. On the other hand, traditional firms that remained concentrated in the traditional industries almost as a rule were to subsequently experience a decline in their relative positions. In case of some smaller firms, the establishment of a dominant position or presence by some of them in this period in a number of industries was also the beginning of a trajectory of movement that was to eventually catapult them into the category of large firms. This can be illustrated with the examples highlighted in Table 3 of groups that were large by the end of the 1980s but had not belonged to that category in the mid-1960s.

It shows how significant by 1990 had become, for these groups, industries in which they had established their presence in the period from independence to 1965.

Table 3: Production Share and Rank in 1964, and Sales and Market Shares in 1990, of Selected 1964 Non-Large Groups (in industries where they were present in both years)

Group	Product/Industry	1964		1990	
		Production Share (%)	Rank	Turnover (Rs.)	Market Share (%)
Eicher	Tractors	7.5	4	167.00	12.3
Kelvinator	Refrigerators	8.1	3	146.9	29.3
Usha Martin	Wire Ropes	47.1	1	101.38	16.9
Amrit Banaspati	Vanaspati	5.3	4	196.56	8.6
Wipro		NA	NA	131.59	5.6
Facor	Ferro Manganese	34.1	1	150.01	38.7
HN Kapadia	Tin Containers	7.3	2	114.78	43.2
Atlas Cycles	Bicycles	23.8	1	96.53	26.8
Hero Cycles		NA	NA	141.87	39.4
Bharat Forge	Steel Forgings	NA	NA	106.97	9.7
Dharamsi Morarji	Sulphuric Acid	71.3	1	34.22	33.5
	Superphosphate	16.5	1	70.19	21.1
	Total			104.41	

Source: MIC Report and CMIE, Markets and Market Shares, February 1991

Of course it was true that traditional large firms that remained rooted in the traditional industries in principle could at a later point of time have followed the same path that their counterparts who had diversified into the non-traditional industries in this period did. It was also conceivable that since they were larger firms, they could also have subsequently entered non-traditional industries where many smaller firms established themselves in this period. After the mid-1960s, however, it was too late and the protracted crisis of industrialization that Indian capitalism slipped into from the mid-1960s made the effects of not diversifying in the first phase permanent in nature[2]. But because it was

a crisis, it also meant that even firms on the other side of the divide were not necessarily protected from its effects.

Crisis and Stagnation: The Mid-1960s to the Late 1970s

The crisis after the mid-1960s had both political and economic dimensions and their respective spheres were not completely separated from each other. What followed was a series of economic and political measures as the State tried to establish "order" on a situation that was perpetually threatening to slip out of control.

The slowing down of public investment growth was of course a part of the response of the State, but that was more a result of compulsion, forced by the severe inflationary pressures in the economy, than any deliberate strategy. Similar in nature were measures like price controls applied on products in short supply. They of course did not resolve the crisis. They at best contained to a limited extent one aspect of the crisis but only by deepening others. In particular they led to a collapse of investment in the organized manufacturing sector, which revivied somewhat only in the second half of the 1970s.

There were, however, other and more deliberate responses of the State to the crisis that, despite the derailing of the planning process, increased the involvement of the state in the economy. Apart from measures that increased regulation (like FERA and the MRTP Act), the public sector expanded through the nationalization of banks and the general insurance sector and of key infrastructure sectors – Coal, Iron & Steel, Copper, and Oil. Even in manufacturing, there was a spew of government takeovers of companies in industries more severely hit by the crisis, particularly in the engineering (railway related) and textile industries. Industries where economies of scale were not considered important were also progressively reserved for small-scale industry. A stronger preference was also given to the co-operative sector particularly in relation to agro industries like sugar. In addition to nationalization in many industries, the concept of the joint sector was promoted for major projects in the core and heavy industry sectors involving private capital.

Not through public investment, but through changes in the licensing and regulatory regimes an effort was made to induce private investment

in industry. Many industries, in general those not involving foreign exchange expenditure and smaller investments were delicensed. At the same time, in licensed industries, capacity expansions or endorsements of unlicensed capacity were made easier. The restrictions on investments by large firms in certain industries were liberalized in the 1970s. Licenses were also issued more freely in sectors facing shortages, like cement. However, access to foreign exchange and technology, and even entry of foreign capital, became more restricted, and were concentrated towards promoting growth of particular existing or new industries that had an import substituting or foreign exchange saving character. If delicensing made entry conditions easier in some industries, other measures worked towards reinforcing the dominant positions of incumbents while restrictions on foreign exchange availability often made the entry conditions in many industries more stringent.

In this phase, the private corporate sector witnessed a trend that was in some ways the exact opposite of the experience of the 1950-65 period. Real private corporate GFCF increased at a rate of just over 2% per annum and yet there was a more or less steady expansion of the number of companies at work. In the decade after 1965, the number of non-government companies increased by nearly 14,000 to reach a figure of 40,007 and by 1980 this number reached 55,668. Clearly large firms were not responsible for more than a fraction of this proliferation of companies and therefore this trend was indicative of some widening of the base of the private corporate sector.

Table 4 describes the distribution of fixed capital (at current prices) of the factory sector and the changes at constant prices for 20 industry groups that accounted for 95% of the fixed capital of the factory sector in 1980-81. It clearly shows that the collapse of investment in the industrial sector was widespread and not limited to the traditional industries, particularly up to the mid-1970s. The significant exceptions to this trend were chemicals and rubber products. The relative importance of the textile and food products industries in the fixed capital of the organized sector did of course still decline, with the significant exception of the sugar industry.

Table 4: Percentage Distribution of Fixed Capital (At Current Prices) Amongst Selected Industries in the Factory Sector and Percentage Increase in Fixed Capital (At Constant Prices), 1966-1980

Industry	Fixed Capital (Book Value) % shares			% Increase in Fixed Capital (At 1960 prices)		
	1966	1975	1980	1966-75	1975-80	1966-80
Chemicals	7.82	13.12	13.11	105.91	53.70	216.49
Cement	1.29	1.27	1.41	20.16	67.86	101.70
Iron and Steel	17.83	14.06	13.52	-4.02	46.31	40.43
Non-Ferrous Metals	1.74	2.58	1.64	81.64	3.27	87.58
Electric Light and Power	37.69	44.64	45.75	47.02	54.02	126.43
Non-electrical Machinery	4.97	3.58	2.80	-9.32	19.59	8.45
Electrical Machinery	3.53	3.02	2.50	7.28	26.08	35.26
Ship Building & Repairing	0.15	0.29	0.61	141.73	221.41	676.93
Rail Road Equipment	1.74	0.66	2.25	-52.78	432.05	151.21
Motor Vehicles	2.42	1.64	1.52	-14.09	39.33	19.70
Repair of Motor Vehicles	0.40	0.38	0.32	17.74	27.76	50.42
Metal products	1.34	0.97	0.96	-9.19	48.12	34.51
Rubber	0.64	0.73	0.87	46.22	74.49	155.14
Petroleum Refinery Products	2.63	1.34	0.96	-34.55	10.20	-27.88
Structural Clay Products	0.42	0.34	0.29	-34.48	101.80	32.22
Pulp & Paper Products	2.19	1.90	2.35	8.47	84.35	99.96
Miscellaneous Food products	1.84	1.18	0.99	-19.79	26.63	1.57
Tobacco	0.22	0.22	0.15	30.51	2.55	33.84
Textiles	8.99	5.93	5.85	-18.98	48.61	20.40
Sugar Factories & Refineries	2.15	2.17	2.15	24.89	50.89	88.44
Total Above Industries	100.00	100.00	100.00	23.13	51.58	86.64

Source: CSO, Principal Characteristics

The crisis years witnessed important changes in the distribution of organized industry fixed capital between the public, co-operative, and private corporate, sectors. In industries such as mining, electricity, the basic metal industries, the petroleum sector, ship-building, and rail-road equipment, which together accounted for a very large part of the fixed capital in the factory sector, the public sector dominated by the end of this period more than it had in the mid-1960s[3]. It also acquired a significant presence in the textile industries. Even in chemicals public sector investment played a leading role in the rapidly growing petrochemicals and fertilizer industries. In the case of the sugar industry, the expansion was mainly on account of the growth of the co-operative

sugar factories sector[4], and that sector also played an important role in fertilizers. The shift of textile production to the decentralized sector also received a great fillip in this period.

Thus, despite the absence of significant private corporate investment, the structural shifts in the industries of operation of private corporate capital broadly moved in the same direction as in the first phase. The greater part of the limited private corporate investment and expansion was in non-traditional industries like chemicals and rubber products, or in industries like cement and paper, while it ran dry in traditional industries like textiles, sugar, and mining, and others like the railway related industries and electricity (all sectors which passed increasingly out of the hands of private corporate firms).

However, the shift in the centre of gravity of private corporate activity was not as narrowly based as might be suggested by the trends in the distribution of fixed capital formation. Manufacturing industries like chemicals and rubber products on the one hand, and textiles on the other, represented the two extreme sides of the same thing, namely a broad correlation between trends in output, capacity and fixed capital. Chemical and rubber products industries were the fastest growing, particularly the former. Starting from a point where the chemicals industry in terms of both output and fixed capital was half the size of the iron and steel industry in the mid-1960s, by the mid-1970s the two industries were matched in size. It also however became more diversified through the growth of the petrochemicals and fertilizer industries that were in their infancy in the mid-1960s. At the other end, while the textile industry was most severely affected by the crisis it also experienced a major structural change whereby one segment of it, man-made fibre textiles, grew rapidly and this played a part in inducing the growth of the petrochemicals industry. With a gradual expansion of a higher-income segment within the domestic market and the green revolution in some regions acting as the drivers, a number of other industries like cement, some food and beverage industries, iron and steel, petroleum products, electrical and non-electrical machinery, and transport equipment industries also experienced some expansion of capacity and output even before the mid-1970s (Table 5).

Table 5: Increase in Capacity and Output of Selected Industries, 1965-66 to 1974-75 and 1965-66 to 1979-80 (Percentages)

Industry group	Industry	% Increase in Installed Capacity		% Increase in Production	
		1966-75	1966-80	1966-75	1966-80
Food & Beverages	Sugar Refined	33.21	77.62	35.73	55.56
	Vanaspati	116.46	123.57	0.70	48.48
	Beer	389.66	628.74	229.77	734.04
Textiles	Cotton Yarn	17.54	30.11	7.22	1.38
	Cotton Cloth (Mills)	0.00	0.49	-5.93	-30.11
	Jute Manufactures	-	-	-29.12	-13.92
Paper, etc.	Paper and Paperboard	51.52	107.39	55.87	95.05
Chemicals	Caustic Soda	88.11	173.39	100.76	163.70
	Sulphuric Acid	106.56	224.86	109.20	230.51
	Nirogenous Fertilizers	416.97	918.80	363.33	838.33
	Phosphatic Fertilizers	241.46	651.22	145.16	515.32
	Synthetic Detergents	948.12	1813.96	905.00	1726.56
	Viscose Staple Fibre	215.38	242.31	108.17	147.18
	Polyester Filament Yarn@	150.83	919.44	1828.99	13531.88
	Polyester Staple Fibre	1165.00	1270.00	597.36	2030.26
Non-Metallic Mineral, Rubber & Petroleum	Cement	69.11	106.00	42.13	73.04
	Asbestos Cement Sheets	1248.56	1527.40	-1.33	81.52
	Graphite Electrodes & Anodes	$100.93	392.59	189.38	452.15
	Automobile Tyres	153.57	238.27	129.09	197.24
	Petroleum Refinery Products	$10.81	71.89	18.49	62.33
Basic Metal Industries	Finished Steel	-	-	7.57	35.92
	Steel Castings	89.23	103.78	14.04	25.78
	Steel Pipes and Tubes	333.70	560.07	37.71	164.83
	Wire Ropes	103.02	110.62	109.89	133.21
	Aluminium Ingots	208.82	372.06	109.33	244.12
	Aluminium Rolled Products	105.98	105.98	93.81	94.79
Machinery & Transport Equipment	Tractors	336.36	459.09	360.36	852.07
	Diesel Engines(Stationery)	321.87	346.53	22.57	64.57
	Power & Distribution Transformers	854.72	1080.19	187.30	349.95
	Electric Motors	352.29	396.30	88.24	188.24
	Winding Wires	222.21	294.36	80.06	112.50
	Drycell Batteries	342.49	321.07	110.08	186.33
	Storage Batteries	185.74	313.08	77.05	124.16
	Domestic Refrigerators	603.20	1229.60	227.29	571.31
	Electric Fans	96.78	106.58	60.80	156.73
	TV Receivers$	1000.00	1700.00	1972.99	5922.20
	Wrist Watches	144.63	482.09	203.52	2345.73
	Motor-Cycles, Scooters, Mopeds	*7.47	99.81	256.82	546.82

@-1968-69 instead of 1965-66 for capacity and production; $- 1969-70 instead of 1965-66 for capacity and production; *1973-74 instead of 1965-66 for capacity

Note: Output for vanaspati in 1974-75 and sugar for 1979-80 are taken to be the average for the previous and next years respectively since exceptionally low actual outputs in these years would give a distorted picture.

Source: Computed from Chandokh (1990), Table 7.6

In other words, the stagnation of private corporate investment in the crisis phase was indicative of the absence of too many large investments by private corporate firms, but incremental expansions in capacity and output did take place in many industries. Linked to that was a larger pattern of change that encompassed two parallel and overlapping processes. The first of these was a clearer marking out an intermediate space for large private corporate capital that lay between the highly capital intensive infrastructure industries where the public sector became increasingly prominent and labour-intensive activites where smaller unorganized firms came to dominate. The second was a clear tendency in many manufacturing industries of proliferation of units and fragmentation of the industry through the growth of small units in both the organized and unorganized sectors.

The latter trend expressed itself within the organized sector in a range of industries that saw capacity expansion take the form of creation of many new units. Much of the initial growth of man-made fibre textiles was driven by smaller organized sector units other than the traditional textile mills. Small-scale units mainly drove the expansion of capacity in the paper industry from the mid-1970s (Subramaniam 1987). The number of units also increased rapidly in the wheat flour, vanaspati and other edible oils, oxygen, acetylene gas, steel pipes and tubes, steel castings and forgings, machine tools, and pharmaceuticals industries. In the steel industry too, the 1970s saw a rapid growth of mini-steel plants (electric arc furnace units). In new industries like televisions too, small units dominated. There were of course many industries that did not exhibit this trend of proliferation of units[5]. In these, however, capacity expansion by incumbent firms was also incremental in nature. Thus not only was private investment growth in the industrial sector slow during the decade and a half after the mid-1960s; it was also a highly fragmented investment.

Traditional large firms certainly did not collectively dominate this phase as they had done the first. In different degrees across different categories of the traditional large firms, elimination of some firms and the onset of a process of terminal decline of some others was a feature.

For the surviving old European Managing Agency Houses this was universally a period of decline. The large devaluation of the rupee in 1966; the abolition of the managing agency system; emaciation of their assets by nationalization in coal mining and copper industries; the difficulties in industries where they had a substantial presence – like jute and railway related industries; and the enactment of the FERA which compelled a reduction in foreign holdings: all of these combined to eliminate the remaining incentives that had kept them going even after the end of colonial rule. Between the late 1960s and the mid 1970s most of them ceased to exist in their earlier forms as a result of their splintering and the Indianization of their major companies[6]. Only in the tea industry did the old European capital still survive to an extent, though the sterling companies had to convert themselves into rupee companies. Other than the tea companies, the only significant group that survived the process of Indianization was Shaw Wallace. But its foreign character too underwent a transformation as it's originally European, Malaysia based, holding company's ownership had been Asianized by the late 70s.

Less affected was the other segment of foreign capital. Nationalization in the petroleum sector eliminated the MNC presence in it. Towards the end of this phase there was also withdrawal from India of some MNCs unwilling to dilute their holdings in their Indian subsidiaries, like Coke and IBM. But such withdrawal of MNCs from their Indian ventures was by no means the rule. Many were able to retain control over their affiliates despite FERA and continued their operations.

More significant than their actual withdrawal was another consequence of the reining in of MNCs in this phase. This was that it created the conditions for the erosion of their dominance in some important industries and the emergence of a significant Indian presence in them albeit often involving foreign collaboration. Two important examples of this phenomenon were the automobile tyres and pharmaceutical industries[7]. Four MNCs – Dunlop, Firestone, Goodyear and Ceat – dominated the tyre industry till the 1970s. In that decade, not only did the one Indian controlled company set up before the mid-

1960s, MRF, grow faster, four Indian firms – Modi Tyres, JK Tyres, Vikrant Tyres and Apollo Tyres – also entered the industry. In 1981, Firestone and Ceat also came under Indian control and Dunlop also eventually exited by the second half of the 1980s by transferring control. In the pharmaceuticals industry till then dominated by MNCs, following the Indian Patents Act, 1970 there was rapid growth of the industry led primarily by Indian firms. Similarly, the withdrawal of Coke and IBM in the late 1970s created a space for Indian capital to grow in the soft drinks industry and the newly emerging information technology industry. In Synthetic Fibre Manufacture, despite the presence in India of a host of MNCs that were global manufacturers of synthetics, it was mainly Indian firms that expanded the industry. The same was also true of the fertilizer industry.

Traditional large firms were however not universal beneficiaries of the tendencies of this period that worked against foreign capital. The withdrawal of foreign capital of course created some acquisition opportunities for Indian firms[8]. At the same time, nationalization and the industrial crisis also produced lasting adverse effects on many. Major Indian groups such as Thapar, Sahu Jain and Soorajmull Nagarmull lost assets to nationalization in industries like coal. The third largest group in the mid-1960s, Martin Burn, was virtually in one stroke wiped out by government takeover of the Indian Iron and Steel Company in 1972[9]. In the cotton textiles industry, the part which bore the brunt of the crisis, the composite mill segment, had been dominated by traditional large Indian firms. Even in spinning, the proliferation of mills (many in the co-operative sector) and capacity exceeded that of demand, and the new mills eroded the markets of older ones. The spinning mill sector got increasingly concentrated in Tamil Nadu (with Coimbatore being the largest centre), while Bombay and Ahmedabad experienced a decline. The decline of the jute textile industry had a lesser effect on Indian capital because it had a significant presence of European firms. Yet it had been a major industry for some large Indian firms like Birla, Bangur, Soorajmull Nagarmull, Sahu Jain, Goenka, and JK Singhania[10].

Traditional large groups that had failed to diversify their activities in the first phase fared the worst of the crisis. Even as this phase saw

their difficulties in the traditional industries mounting, the scope for diversification also shrank. Many in fact responded to the crisis by turning towards the siphoning out of the maximum resources from their firms, or selling off high value assets, rather than investing in them. Thus by bleeding and abandoning their firms, capitalists further contributed to the process of their demise or decline[11]. Diversification away from traditional industries did not, however, necessarily protect traditional groups from the crisis in the textile industries. On the contrary, textiles based groups were often forced out of other industries by their difficulties in these industries[12].

The process of the decline of many traditional Indian big firms – like Ruia, Thackersey, Thiagaraja, Jaipuria, Mangaldas Parekh, Podar and Rohit, Kamani, and some large independent textile companies thus received a big push in this phase[13]. Among the largest Indian firms of the mid-1960s, Soorajmull Nagarmull and Sahu Jain were amongst those that experienced a drastic decline in their relative position. For the former, the crisis in both jute and textiles provided the context for a reversal of the growth that it had experienced through acquisitions, a large part of the group eventually ending up under government control. Sahu Jain suffered not only on account of jute but also the erosion of its dominant positions in cement and paper.

The decline of groups like Soorajmull Nagarmull and Sahu Jain was one side of the process that enabled some other large Indian firms to sustain themselves. Groups like JK Singhania, Bangur and Goenka were in the mid-1960s very similar to Soorajmull Nagarmull and Sahu Jain in terms of both size and their common presence in a number of traditional industries[14]. Both JK Singhania and Bangur joined others like Birla and India Cements in upstaging Sahu Jain in cement and in paper, in both of which the latter had a larger presence to begin with. These, along with their diversifications in chemicals (Bangur and JK) and Tyres (JK) saved them from sharing the fate of Soorajmull Nagarmull and Sahu Jain. The Goenka group on the other hand had to heavily depend on a spate of acquisitions, first in the 1970s and the more important ones in the 1980s, for retaining its position amongst the largest groups[15].

Traditional large firms with an important presence in industries which expanded and had significant entry barriers fared much better than many of their counterparts. Examples were the Tata (Commercial Vehicles), Birla (Automobiles, Aluminium and Viscose Yarn and Fibre), Walchand (Automobiles) Mahindra (Commercial Vehicles, Jeeps and Tractors), Escorts (Tractors), and Godrej (Soaps and Refrigerators) groups. Such an incumbency advantage was also enjoyed by firms other than traditional large ones like – Facor (Ferro-Alloys), Eicher (Tractors), and Kelvinator (Refrigerators) being examples – to fortify further their positions acquired before the mid-1960s.

Many traditional large firms, however, also lost out to other firms in the process of redistribution that took place in many industries. In some cases, like the two-wheeler industry where the Bajaj group decisively displaced Automobile Products of India as the leading firm, traditional large firms were the gainers. In others like Cement, the beneficiaries also included others, the industry particularly in Southern India saw the entry of new firms like Raasi, Nagarjuna, and Priyadarshini even as some existing smaller ones like Ramco (Madras Cements) expanded. In the bicycle industry, firms based in the North-west (with Ludhiana being the main centre), none of whom were amongst the large firms of the mid-1960s, came to dominate the industry while those in Eastern India particularly lost out. The most prominent example of rise was of the Hero Cycles group, which overtook traditionally dominant firms like TI Cycles of the Murugappa group and Sen-Raleigh to become the largest cycle manufacturer in the country by 1975. Hero Cycles also joined other traditional groups like TVS and Firodia in entering the newly emerging moped industry in the 1970s.

The tendency towards fragmentation of many industries also contributed to the erosion of the share of traditional large firms in them. That same pattern of growth also however provided the basis for growth of other firms. In the early 1970s, the Jindal group moved into steel production from a background in pipes, Bharat Forge from forgings, and Usha Martin from wire ropes. Oswal and TCI-Bhoruka also entered steel production, but from completely unrelated backgrounds. New firms like Nagarjuna, Rathi, Steel Strips, Lloyds, and Nava Bharat began their histories in the 1970s from steel and related industries. Some like Raunaq Singh (Steel tubes) and Partap

(Steel) with a prior presence in these industries also took advantage of their growth. A similar trend characterized some edible oils based firms like Amrit Banaspati and Wipro. Groups like Oswal and Jain Shudh charted a growth that encompassed an assortment of traditional and non-traditional industries like textiles, paper, edible oils, steel and pipes and tubes.

The changes in the textile industry too impacted different firms differently. Organized sector weaving units belonging to firms unencumbered by a past presence in the crisis ridden cotton textiles industry, like Reliance, Orkay, Garden Silk, and Bhilwara, took the lead in the synthetic fabrics sector. In cotton and MMF spinning too, in the growth of the sector outside the two traditional centres of Bombay and Ahmedabad, groups like Oswal and some Coimbatore based groups like Elgi and Ramco were amongst the successful firms.

Smaller or newer firms also played a prominent part in the erosion of MNC dominance in some industries. In tyres, two of the new Indian firms that entered the industry, Apollo Tyres (Raunaq Singh) and Vikrant Tyres, were not traditional large firms. The same was the case with the two Indian firms that established themselves in the dry cell batteries, one of whom (The Obul Reddy-Jiwarajka combine) also entered the fledgling television industry. In pharmaceuticals, more often than not, firms outside the domain of traditional large firms led the Indian charge in these industries, with some like Ranbaxy being amongst the most prominent.

Between the exit of some MNCs, the demise of older European houses, and the decline of many traditional Indian firms, the larger story of the Indian corporate sector during the crisis years was an undermining of the pattern of dominance that had existed in the first phase of industrialization. A number of the dominant firms were caught on the wrong side of the crisis though many did manage to escape its worst effects. On the other hand, a number of firms outside the set of the traditional dominant ones rode on virtually every tendency that was characteristic of this period to close the distance between themselves and traditional large firms. These included those already on such a path before the mid-1960s as well as many new ones. In other words, a decisive shift took place in the Indian corporate sector during this period

even if limited growth prevented this shift from fully revealing itself before the 1980s.

Liberalization, Industrial Change and Expansion: The 1980s

The rapid growth of public expenditure, the emergence of persistent of foodgrain stocks, the sharp reduction in oil imports after 1982 and capital goods import-liberalization set up in combination the conditions for the industrial growth revival of the 1980s. Table 6, which includes a representative sample of industries, reveals the pattern of growth in the decade. For the traditional industries that had faced the brunt of the crisis in the previous period, there was no real turnaround in the 1980s. Only sugar, as earlier, beat the general trend of stagnation or contraction characteristic of these industries. In case of textile fabrics, the organized sector experienced a further contraction as the decentralized sector grew at its expense. On the other hand, industries catering to upper income segments, like consumer durable industries, and those providing current inputs to agriculture grew, and sometimes at a phenomenal rate.

Growth of industrial output was accompanied and enabled by that of investment. Heavy investments in mining and electricity meant that despite the fact that the share in fixed capital of some basic industries in the manufacturing sector – like iron and steel, fertilizers and basic chemicals – did decline somewhat, the capital-intensive basic industries still dominated industrial investment in the 1980s.

Table 6: Increase in Production of Selected Industries, (1980-81 to 1989-90) (%)

Industry	Increase	Industry	Increase
Finished Steel	90.62	Petroleum Refinery Products	102.07
Steel Castings	236.62	Synthetic Filament Yarn	529.03
Aluminium	114.62	Synthetic Staple Fibre Yarn	361.76
All Fertilizers	184.29	Cloth (Mill)	-36.01
Cement	146.24	Spun Yarn (All)	27.27
Cars, jeeps, etc	355.87	Jute Textiles	-6.32
Motor Cycles, Scooters	292.17	Vanaspati	24.70
Automobile Tyres	138.39	Tea	23.24
Domestic Refrigerators	283.04	Paper & Paper Board	58.66
TV Receivers	964.13	Sugar	113.46

Source: GOI, Economic Survey; and CSO, Statistical Abstract of India

The decline in the share of basic industries in the manufacturing sector must also be seen in perspective. It took place in a background where some initially relatively smaller consumer goods and intermediate goods industries experienced extremely large capacity expansions. As is shown by Table 7, the larger basic industries in manufacturing too achieved significant capacity expansion and their share in gross output in fact increased. It was only that their capacity increases were of a lower order than in some of the rapidly growing consumer durable and intermediate goods industries.

Table 7: Increase in Capacity of Selected Industries, 1980-81 to 1989-90 (%)

	Industry	**% Increase in Capacity, 1980-81 to 1989-90**
Selected Basic Industries	Nirogenous Fertilizers	86.97
	Phosphatic Fertilizers	119.47
	Cement	135.17
	Finished Steel	85.29
	Aluminium	90.03
Selected Other Chemical and Consumer Goods Industries	PFY	1548.50
	DMT/PTA	879.17
	PSF	666.42
	Motor-Cycles, Scooters, Mopeds	382.46
	Passenger Cars	258.49
	Domestic Refrigerators	253.57
	Automobile Tyres	173.35

Source: Chandokh (1990), Table 7.4 and Handbook of Industrial Statistics, 1992

The growth of private investment in the 1980s was not directed merely towards an expansion of capacity in existing industries. It was also for producing newer products or changing features of existing products, as well as towards modernizing capital equipment in a range of industries. The technological changes taking place globally that had been relatively slow to enter into the production system in India in the earlier phase now came in a bigger rush. An important part of the demand for capital goods thus created was absorbed by imports. Capital goods industries therefore did not participate in the rapid growth of output and investment.

Import-liberalization not only enabled Indian industry to take advantage of the demand trends, it in turn reinforced them by enabling a process of relative cheapening of the manufactured commodities which benefited from technological modernization[16]. Thus the rise in incomes in some segments of the population and the cheapening of manufactured commodities worked in tandem to expand the market for industry even if slowing down of employment growth in industry had the opposite effect. In some instances the effect was greater – cheapening of synthetic fibres relative to cotton initiated their penetration into the mass market for textiles.

The 1980s produced a dramatic expansion of the private corporate sector in many senses. There was a fourfold increase in the number of non-government companies and their paid-up capital and the declining trend in its significance in the economy was arrested. Private corporate investment expanded rapidly, with the sector's real GFCF registering a growth of over 7% per annum. The 1980s in fact witnessed a distinct shift towards corporatization of the capital accumulation process in the economy. Joint-Stock companies in the private sector, whose share in the Net Fixed Capital Stock of the economy was not even 7% in 1981, accounted for as much as 23.42% of the total increase in the economy's capital stock during the decade.

The rapid growth of private corporate investment and that in the number of companies at work were however not so closely linked. Unlike the fragmented character it had in the previous period, private corporate investment in the 1980s was highly concentrated. This is borne out by evidence from both the RBI's studies on corporate finances as well as ASI data[17]. Indeed, the relative "bigness" of enterprise and scale of production was actually a very prominent characteristic of many of the industries that grew rapidly. It is not that these industries did not see the entry of new firms – many of them actually did. Nor is it that the scales of production were very large by international standards – in fact they remained significantly smaller. But a combination of technological as well as market factors nevertheless made for most of the rapidly expanding industries being relatively concentrated. The high levels of aggregate private corporate investment were thus made up

mainly of a relatively smaller number of large individual investments. The firms that were the instruments for these investments were even smaller in number.

The big growth of this period was largely monopolized by existing firms. Incumbency in any industry was certainly less decisive in determining the ability of a firm to take advantage of the expansion opportunities that it offered and could even be a liability. High growth industries did in fact attract new entrants who sometimes did better than the incumbent firms. In some cases, this even went to the extent of squeezing out of incumbent firms[18]. Nor was there necessarily a strong correlation between the extent of participation in the growth of the 1980s, in the aggregate or in any industry, and relative size coming into it. But the very 'bigness' of the potential growth opportunities meant that it was difficult for completely new firms to suddenly step in and take advantage of them at the expense of existing firms. In other words, some past history was an important factor, in enabling firms to cash in on the opportunities that this decade offered.

Traditional Indian large firms of course had such a past history. Those amongst them who had survived the worst effects of the previous phase were very active in taking advantage of the expansion opportunities in a variety of industries. With the exception of the electronics and pharmaceuticals industries, traditional Indian large firms – like Birla, Tata, Bajaj, JK Singhania, Bangur, Mahindra, M.A. Chidambaram, United Breweries, Modi, L & T, India Cements, Godrej, Thapar, TVS, Escorts, Nowrosjee Wadia, and Shri Ram – were amongst the leading participants in the rapid growth of many industries of the 1980s. But in almost all of them – for example cement, scooters and motorcycles, automobile tyres and tubes, fertilizers, petrochemicals and synthetic fibres, paints and varnishes, steel and steel related industries – they were joined by and pitted against Indian firms that were outside that set. The large majority of them – for example Reliance, Hero Cycles, Lohia Machines, Jindal, Nagarjuna, Lloyd Steel, Raasi, Madras Cements, Raunaq Singh, Vikrant Tyres, Eicher, Kelvinator – emerged from the upwardly mobile smaller firms of the previous periods. In some industries they were incumbent firms, and even on occasions were

amongst the dominant ones, and into others they diversified. They carried into this phase the momentum of growth achieved in that previous one to leapfrog into the category of large firms.

Even some traditional industries like edible oils and vanaspati and sugar were characterized by such cohabitation of traditional and new large firms. Though all of these industries did not record the pace of growth that many other industries experienced, they were fairly large industries, having a larger market than most industrial products[19]. Somewhat like the textile industries in the past, these were industries that had a large number of firms including cooperatives, but yet by the end of the 1980s many private firms had fairly large businesses in them.

In a few industries like electronics and pharmaceuticals, firms other than traditional large groups played a dominant role in driving growth. The electronics industry in particular was the route through which many new large firms emerged. Being a relatively underdeveloped industry before liberalization, it had no dominant firms in it. Entry into this industry was in addition made easier by the fact that the availability of CKD and SKD kits reduced the sunk costs associated with entry. Groups like Videocon, Onida, and BPL (Televisions), Samtel (TV picture tubes), and HCL and Wipro (Computers) emerged as large firms in the electronics sector through a growth that was virtually entirely in the second half of the decade.

Groups like Videocon and Onida were amongst the few Indian firms that grew rapidly in this period without having any prior manufacturing history. The other set of 'new' firms came in the form of NRI firms. These either established themselves entirely through acquisitions (like Manu Chhabria-Shaw Wallace and Hinduja-Ashok Leyland) or extended their manufacturing operations to India (like the Ispat group and Sunflag Iron).

The rapid growth of the newer large firms and that of many traditional large ones stamped a finality on the decline of the old textile based traditional firms that continued to remain laggard during this phase. The organised textile industry did experience some limited revival in this phase but this did not alter the overall scenario of crisis. Rather the

declining significance of the textile industries for Indian big business firms was sharply reemphasized by the difficulties that continued to plague the textile concerns of even the relatively more successful traditional large firms[20].

The story of the textile industries was not a peculiar one in the 1980s. In many industries rapid growth, technological change, and sometimes excessive investments, hurt incumbent firms. By the end of the 1980s there were a number of sick firms in a range of industries. If the 1980s enabled some of the smaller firms that had thrived in the earlier period to rise up from the ranks, many of their counterparts in that earlier period fell by the wayside. For example, in the steel industry many of the mini-steel plants that had proliferated in the 1970s ran into trouble. Similarly in the television industry, a number of small B & W television manufacturing units that had established the industry remained prominent till the mid-1980s. But in the second half of the decade, they were left behind as newer entrants took advantage of the advent of colour televisions and the explosive growth of the industry. The paper industry too was afflicted by a number of units being sick.

Partly on account of the above reasons, the investments by different firms and their turnover growth during this period, and their relative positions at the end of the decade, did not fully reflect the shifts in private corporate capital during the 1980s. Just as the previous two phases had long-term effects on the trajectory of firms that did not fully reveal themselves till subsequent new contexts emerged, so too was the case with the 1980s.

For MNC firms, the decade of the 1980s had a rather mixed character. The environment in this decade was relatively more conducive for them than the previous one had been. The nature of the growth in this decade was also such that foreign collaborations were a crucial ingredient. Yet in comparison to the rapid growth of private corporate investment, the new inflow of foreign investment was relatively minor. The little foreign investment there was typically was in joint ventures with Indian firms, and in many industries technical collaboration was more predominant. Some withdrawal of MNCs from some longstanding

joint-ventures was accompanied by relatively few fresh cases of establishment of independent presence. The overall significance of foreign capital in the private corporate sector did not therefore show any increase.

MNC controlled firms did grow during this phase on account of their presence in many high-growth industries. Hindustan Lever, Proctor and Gamble, Colgate-Palmolive, Nestle, Glaxo, HMM, and Cadbury dominated in many consumer goods consumed by higher-income groups. ICI was amongst the leading firms in Paints, Philips in consumer electronics, MICO in automobile components, and Indal in Aluminium. Firms like Bayer, BASF, and Colour-Chem occupied specialized niches in the chemical industries. ITC, apart from dominating in tobacco products, also benefited from its diversification into areas different from its own and its parent's core business like edible oils, paper and paperboard, and hotels. In many capital goods industries, however, the opening up of imports and foreign collaborations eroded the competitive advantage of local presence for MNC firms.

The one industry where there was some significant new entry of foreign capital was the automobiles industry. But these as a rule were through joint ventures and there were a number of them – Maruti Udyog and its ancillary units, Kinetic-Honda, Hero-Honda, TVS-Suzuki, LML-Piaggio, Escorts-Yamaha, etc. There were some joint-ventures even in consumer electronics – BPL-Sanyo, Kalyani-Sharp and Indo-Matsushita. Foreign investment and collaboration in both these industries most reflected a new feature of foreign capital presence in India – namely, the increased penetration of Japanese capital. At the time that most MNCs had entered India, before independence or till the mid-1960s, Japanese firms were not typically dominant in any industry internationally. Consequently Japanese firms had very little presence in India before the 1980s[21]. But the situation was very different in the 1980s particularly in some of the high growth industries of that decade, and Japan accounted for the maximum degree of increase in holding of foreign equity capital in the Indian corporate sector[22].

The absence of any substantial independent entry of MNC capital in this period may be attributed to three specific causes. The first of

these was that the policy towards foreign investment still remained rather restrictive and the liberalization was also relatively late in the phase. Second, despite the growth of industry in this period, the Indian market still remained a narrow one and the economy was still characterized by infrastructure constraints. It was therefore perhaps less attractive as a destination of foreign investment than many other countries. The third factor was that the global and Indian circumstances during this period were more conducive to inducing new entry in India of Japanese MNC capital. For such capital, apart from the first two factors was the added effect of an absence, as a group, of a historical experience of operating in India. This may have made collaboration rather than independent presence a preferred strategy for them.

Conclusion

Given the rapid industrial growth of the 1980s, and that of the private corporate sector, it was natural that the relative positions of firms at the end of that decade to a great extent reflected their respective trajectories during it. Yet what emerges from the account presented here is that actually each of the three phases in Indian industrialization before the 1990s liberalization played their part in the transformation of Indian large capital and its composition. Of them, more than the phases of relatively rapid industrial growth that preceded it and followed it, it was perhaps the crisis period from the mid 1960s to the late 1970s that had the greatest influence on the changes in the composition of large firms clearly observable by 1990.

The roots of the decline of many traditional large firms, the robust survival of others, and the emergence of some new large firms can be traced to their different responses to the diversification of the industrial sector in the first phase. It was, however, the onset of crisis in the mid-1960s that cemented the decline of many traditional large firms. The fact that this was a period of crisis, and not merely characterized by a continuation of the trend of industrial change, was of great significance in this regard. Firms that had remained rooted in the first phase to the traditional industries which exhibited a long-term trend of decline were

unable to escape that trap because of the crisis. The crisis also meant that even some traditional large firms who had moved into other industries did not escape unscathed.

The crisis period undermined greatly the dominance of traditional large capital over the private corporate sector, which had been preserved in the first phase. The narrowing down of the private corporate sector's sphere to manufacturing activity, the establishment of public sector preeminence in the financial sector, and fragmented growth that provided the background to a considerable widening of the base of private firms in the industrial sector, were the crucial factors in this regard. Through the crippling effect it had on many traditional large firms and by the creation of a group of upwardly mobile firms at the lower end of the size spectrum the crisis period of Indian capitalism produced a decisive shift in the centre of momentum in the private corporate sector.

The growth of the private corporate sector in this period was too slow for this shift to fully express itself. It laid the foundations for the separation, of those who were to be active participants in the rapid growth of the 1980s and those who were to be left behind by it. The 1980s growth did not, however, merely put the finishing touches on the story of Indian large capitalism's journey over four decades. It also added another chapter to it by inducing its own shifts within private corporate capital. Seen in terms of momentum of growth and occupation of leading positions in industries growing in importance, the relative significance of traditional Indian large capital and new capital at the end of the 1980s was less skewed in favour of the former than would be indicated simply by their share amongst large firms.

The decade of the 1980s thus served to not only complete the process of transformation of Indian big business, through it was also revealed albeit not fully the changes in its composition that was the accompaniment of that transformation. It was this transformed class of big capitalists, different from that which had existed at independence despite the continuity in identity of many of its constituents, that came to confront from the early 1990s a dramatically new context, embrace it and grow more rapidly than ever before within and outside the Indian economy.

Notes :

[1] Amongst the 17 industry groups, the share of food products and textiles in gross output was 48.78% in 1965.

[2] A prime example of the significance of diversification in this period is the Mangaldas Jeysinghbhai group. It was mainly a textiles group in the mid-1960s and diversified into steel tube manufacture at the very end of the first phase of industrialization through Gujarat Steel Tubes. By 1990, its textiles business had been wiped out and it was Gujarat Steel Tubes that barely maintained it within the category of large firms.

[3] The increase in the public sector's share in national production between 1968-69 and 1980-81 in different industries was: Coal - 17.7% to 88.6%; Petroleum (Crude) - 51.1 to 99.6%; Saleable Steel - 55.8% to 75.6%; Aluminium - 0 to 14.9%; Copper - 0 to 100%; Zinc - 80 to 97.9%; Cotton Fabrics - 0 to 22.4%; Cotton Yarn - 0 to 16.1%. [Public Enterprises Survey, 1980-81].

[4] From the mid 1960s to the end of the 1970s, virtually the entire increase in number of factories, capacity and sugar production, was accounted for by the co-operative sector.

[5] Examples being the automobile industries, leather and rubber footwear, paints and varnishes, soap, toothpaste, polyethylene (LD & HD), PVC resins, VFY & VSF, asbestos sheets, spun pipes, wire ropes, aluminium and products, forged hand tools, razor blades, diesel engines (stationery), domestic refrigerators, cement machinery, power driven pumps, electric motors, storage batteries.

[6] See Jones (1992), Ch. 5. The Government of India acquired the Andrew Yule and Balmer-Lawrie groups of companies. Gillanders Arbuthnot took in an Indian partner, the GD Kothari group (to whom the foreign stake was however fully divested only in 1988) even before it lost its major company, the Indian Copper Corporation, to nationalization. In Jardine Henderson and Macneill and Barry, the existing Indian partners acquired a more decisive role. The Inchcape group of Macneill and Barry also divested its holdings in the erstwhile Binny group companies mainly to public sector financial institutions. EID Parry too became an Indian company in 1975 with the financial institutions acquiring a major stake. Eventually, the Murugappa group acquired it in 1981. A & F Harvey had been acquired by the MNC J & P Coats in 1964 itself. The Killick group of concerns other than the electricity companies were taken over by the Kapadias and there was a

further change of management in 1982. The Tatas acquired some of the Bird concerns and the Bird Organisation in which its employees and executives had acquired a controlling stake in 1965 was eventually taken over by the Government in 1974. The Wallace group came under the control of Nowrosjee Wadia while the Goenkas took over the BN Elias companies.

[7] A third interesting example was that of dry cell batteries that had been dominated by Union Carbide. In the 1970s, two Japanese companies, Matsushita and Toshiba, entered through collaborations with Indian companies, in each case with two separate companies. Matsushita had a 40% stake in both its ventures, Indo-National and Lakhanpal National, while both the Toshiba collaborations, Punjab Anand and Toshiba Anand, were with companies belonging to the same group (CL Anand).

[8] Only the Murugappa acquisition of EID Parry, which in fact happened only in 1981, and that of the Wallace companies by Nowrosjee Wadia, could be said to have resulted in a quantum leap in the size of the acquiring groups. The GD Kothari group's part acquisition of Gillanders in 1967 was somewhat similar in its effect but only temporarily till the nationalization of Indian Copper Corporation. The acquisition by SP Sinha of Jenson and Nicholson was not a large acquisition in itself. But it did significantly enhance the size of what was otherwise a relatively small enterprise and enabled it to be amongst the large firms in 1990.

[9] The management was taken over in that year and ownership was acquired in 1976. The Government also took over Burn and Co. and Indian Standard Co. of the group, while the licenses held by many of the group's companies in electricity distribution expired and State Electricity Boards took over. Thus virtually the whole group passed into Government hands.

[10] And smaller groups like B Kanoria and RK Kanoria (for whom jute constituted a major part of their business).

[11] The rampant malpractices resorted to in this process, the unrest that it induced amongst workers who became its victims, and accumulation of large liabilities to public sector financial institutions, often were the proximate factors behind government takeover.

[12] For example, the Ruia group had diversified into chemicals through joint ventures with other groups in the first phase and had even acquired foreign controlled company (Raptakos Brett & Co.) in 1967. But it eventually quit from the joint ventures. The Jaipuria group was one of the earliest to diversify into the polyester fibre industry, as early as 1969, through Swadeshi Polytex.

But the controlling stake in this company was held by a group textile company whose assets, including that controlling stake, were taken over by the government in the 1980s. .

[13] While the first three of these were to survive as large firms up to 1990 but at the margins, all the others were eliminated from that category.

[14]

Assets and Turnover of Selected Large Groups in 1964 (Rs. Lakhs)

Group	Assets	Turnover	Turnover From:					
			Textiles	Jute	Plantation	Sugar	Paper	Cement
Bangur	7791	6529	2044	1624	26	136	916	618
JK Singhania	5920	5443	2111	798	209	453		
Sahu jain	6769	6106	1182		380	1016	1877	
Soorajmull	8114	7388	2141	2106	420	992		
Nagarmull								
Goenka	4695	4356	1050	1447	496			

Source: MIC Report (Note: Soorajmull Nagarmull includes BIC)

[15] Over 2/3 of the Goenka group's turnover in 1990 came from companies acquired after the mid-1960s. But the group was an exception, having specialised in acquisitions over a long period of its history.

[16] Manufactured commodity prices grew more slowly than other prices in the economy and productivity growth in manufacturing was more rapid than in any previous phase.

[17] Thus, for instance, though the companies in the RBI sample for public limited companies were a very small and continuously declining proportion of total non-government companies, these sample companies accounted for an extremely large share of private corporate investment every year [Reserve Bank of India, Private Corporate Business].

[18] Scooters and Motorcycles, Synthetic Fibres, Televisions, Cement being prominent examples.

[19] In terms of gross output, the sugar and edible oil industries together were larger than the organized cotton textile industry in 1990.

[20] In the 1980s, groups like Goenka, Bangur and Birla sold off their jute interests. Others like Tata, JK, Shri Ram, and Sarabhai also had their textile interests circumscribed. A large number of textile companies of large firms were amongst the list of sick companies by the end of the decade.

[21] The Asahi Glass venture in the 1950s and the joint-ventures in batteries in the 1970s being the only significant ones.

[22] Japan accounted for only 1.32% of the equity shares of private sector companies held abroad in 1980-81, but its share in the increase of such foreign holding over the next decade was nearly 23% [Reserve Bank of India (1985, 1999]. The actual share would have been greater since this does not include the investment by Suzuki in Maruti Udyog, which was a government company.

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