

Economy and Organization: Indian Institutions Under the Neoliberal Regime

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E*conomy and Organization: Indian Institutions Under the Neoliberal Regime* is a welcome addition to

the study of industry in India. Industrial organisation, theoretical or applied, has received less than its due share of attention in India. Under the system of licensing that prevailed and the importance accorded to Public Sector Units (PSUs), industrial development was expected to proceed along the lines dictated by policy makers. Discussions on industry performance were relegated to the pages of plan documents and government policy papers. The industries outside the purview of licensing, the informal sector and small and medium scale industries, were seen merely as means of generating employment. From time to time there was much hand wringing at their dismal performance and new schemes were launched to help them, but without much success. That the policies of the past had unintended consequences, either in terms of stifling industrial development or distorting it, is now clear. Liberalisation in the form of a gradual dismantling of the licensing system is intended to correct past mistakes. The feeling is that once industry is freed from the shackles of rules and regulations we would witness a resurgence of western style capitalism. Yet capitalism is a strange beast with its nature varying from country to country. Japanese and German styles of capitalism are very different from the Anglo-American style. These differences stem from the structure of institutions in these countries and it would be silly to expect capitalism in India to develop along Anglo-American lines. It is therefore important to examine the institutional settings under which firms in India operate and to study the early effects of liberalisation.

The book consists of ten chapters with an introduction by Bagchi and a chapter on industrial organisation theory from the perspective of developing countries. The rest of the chapters use empirical data and anecdotal evidence to study industrial clusters, business organisation and interfirm linkages and the effect of liberalisation on family firms, conglomerates and MNCs.

The introductory chapter provides the institutional setting for the study of capitalism in India. Bagchi coins the term Bungalow-Chawl-Haveli (BCH) to indicate the distinction between capitalism in India with that in other countries. The bungalow was the typical abode of the foreign capitalist and could be used to symbolise the managerial staff of the organised sector at present. The haveli was where the Indian merchants lived and could symbolise small manufacturers and traders. The chawl, of course, is where the workers lived and still do. There is a wide divergence in terms of power and practices between these three categories. The culture and business practices of the managerial staff in the organised sector differ markedly from those of small manufacturers and traders. Both are quite far removed from the cares and concerns of the working class. Within this setting Bagchi goes on to discuss each of the contributions and to place them within the proper perspective.

The second chapter by Dilip Mookherjee provides an introduction to industrial organisation theory. He discusses the standard Structure-Conduct-Performance (SCP) approach of Bain and also the more recent game-theoretic approaches. He concludes that a lot of the literature is relevant for developing countries but wishes more research could be focused on issues pertinent to India. He highlights family control of firms, product diversification, vertical integration and internal efficiency as some of the concerns that should exercise the minds of researchers. The third chapter by Padmini Swaminathan and J Jeyarajan and the fourth by Uttam Kumar Bhattacharaya study industrial clustering in the knitwear industry in Tiruppur. Their interest in Tiruppur is derived from the level of sophistication achieved by small firms in industrial clusters in Italy and the consequent standards of living achieved by workers in these firms. Another attractive facet of these clusters is the path to advancement available to workers. It is possible to join a firm as an unskilled worker at low pay and then through training and experience, achieve higher skill levels and pay. Indeed it is possible to become an entrepreneur through this experience. It would be of interest to find out if the same is true of Tiruppur. While some of the characteristics are common, the authors note that Tiruppur has some way to go before it can match the industrial clusters in Italy and then only probably with outside intervention. The fifth chapter by Nirmala Banerjee and Millie Nihila studies business organisation in the leather industries of Calcutta and Chennai. In some ways the situation in Chennai is less precarious than in Calcutta. However, institutional factors like caste and community and unavailability of funds are common and hamper progress for an industry with good prospects.

Debashis Roy Chowdhury concentrates on subcontracting in Durgapur and Jamshedpur. It is notable that the success of the Japanese automobile industry was in part due to the practice of subcontracting work to a large number of small firms. There was a symbiotic relationship between the large automobile majors and the subcontractors who received a lot of help from the former. Thus the achievements of the automobile sector filtered down to these smaller firms and their workers. Unfortunately the experience has not been repeated in India. Durgapur has suffered partly because the process industries located there did not provide the scope for much subcontracting. The woes of subcontractors were also due to the fact that most big firms located in Durgapur are PSUs with a fairly haphazard style of functioning. Institutional factors also played a role in that most of the entrepreneurs in Durgapur are not very entrepreneurial, seldom invest in new technologies and are given to conspicuous consumption. This is contrasted with the experience in Jamshedpur, which is considerably better. However, with industries in Jamshedpur under a lot of competitive pressures, they have become less sympathetic towards subcontractors. The oligopolistic structure of Indian industry in the pre-liberalisation period and the effect of the dismantling of controls is analysed by C P Chandrasekhar in Chapter 7. He also provides us with two cases, on Reliance and DCM, to illustrate the strategies of new entrants versus that of old firms. The eighth chapter by Nasir Tyabji studies the effect of deregulation through five case studies. These illustrate the attempts at restructuring and the formation of joint ventures with foreign firms as a response to a changed business environment. Malabika Roy looks at mergers and takeovers in the 1990s. She discusses the standard theories of mergers and takeovers and then shows that most of the activity taking place can be viewed as either a correction of the distortions produced by the regime of controls or as an effort towards increasing dominance. The tenth chapter by Parthasarathi Banerjee and Santanu Roy looks at the performance of CSIR.

It is difficult to be critical of the choices of topics that were included in this volume given the wide scope of the subject. However, there is entirely too much material on industrial clusters, provided without an adequate theoretical perspective. Indeed, one of the charges that could be brought against the whole volume is that theory seems to take a back seat. Other than that, most of the chapters are interesting and can be understood by a layman with some background in economics. The same is not true of the last chapter, which is written in a language not intelligible to the reviewer. Given these lacunae the volume nevertheless provides us with a wealth of information which would be useful to students of Indian industry.

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