Book Review

India’s new capitalists: Caste, business and industry in a modern nation

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Much of India’s high economic growth has been due to private sector-driven capitalist market development. The social origins of India’s capitalist class lie in the institution of caste. Damodaran shows the different ways by which caste and community have contributed to India’s dynamic private sector, capturing in seven chapters the rise of Indian business firms in specific industries and locations. Historically sensitive, he traces business communities, beginning with the old mercantile families and communities (Chapter 2) that had links with Arab merchants, Central and Southeast Asians and later Europeans before and during colonialism. Next, he examines the evolution of the upper priestly and warrior castes (Brahmins and Khatris) in the North (Chapter 3), the landowning lower castes of Kammas, Reddys and Rajus in the South (Chapter 4), two other groups of Southern business communities (Naidus and Gounders) (Chapter 5), and Nadars and Ezhavas (Chapter 6). In Chapter 7, he discusses the rise of capitalists in the West (the Patidars and Marathas), who emerged from cooperative farming, and in Chapter 8 he tries to answer why the Northern farming capitalists could not transform themselves into industrial capitalists as successfully as those from the landowning communities in the South. In Chapter 9, he discusses the scheduled castes (Dalits) and Muslims, two groups that have been less successful among India’s rising capitalist classes.

There are three major pathways by which industrial capitalists (factory owners) have emerged: from bazaar to factory (the old mercantile families), from office to factory (upper literati castes) and from farm to factory (landowners of various castes). Non-trading castes entered business through social relations, networks and extended families, which supported subsequent expansion. Whereas upper castes leveraged their social standing to gain access to capital, lower castes relied on kinship and social networks to promote their caste-based communities and families. Trust, cemented by a common caste background, allowed mercantile families to prosper and also allowed international
money transfers through the *hundi* system, an old trust-based money-transfer system organized by India’s trading diaspora. Merchants were also involved with imperial business and trade. For example, Marwaris from the West moved up during colonial rule largely by monopolizing internal trade while supporting the trade of English merchants. Under the British, the Parsis (not a caste but a long-established ethnic community from West Asia, whose most famous business today is Tata) engaged in opium trade with China and like other business communities also benefited as suppliers to the British in the two world wars.

The evolution of caste- and community-based Indian businesses was incremental: from humble beginnings, they exploited opportunities created by state spending and relied on extensive social networks for expansion and strategic diversification. In the North, Mohan Singh Oberoi, an upper-caste Khatri Sikh, worked in a shoe factory in pre-partition Lahore, became a hotel clerk in Shimla, and later purchased the hotel from its British owner. Today, Oberoi’s is a leading international luxury hotel chain. Other businesses found their fortunes abroad. Take Mittal Arcelor, based in Europe with the world’s largest steel company. Laxmi Mittal had a humble beginning as a scrap dealer, but now appears in the Forbes list of the world’s richest individuals. Reliance Industries is a classic story of happenstance, political connections and shrewd business sense. With a privileged licence to import synthetic yarn, the Ambani family moved to strategically manufacturing textiles and then integrated backwards to raw materials in petroleum products. The family found opportunities to diversify into telecommunications and mining. The business exceeds US$30 billion today. But the use of social networks is best seen in the global diamond industry. Except for mining, the industry is controlled by the Palanpur Gujratis, an ethnic community from Western India. Some unusual sources of capitalist dynamics can be gleaned from Patidar and Maratha communities in Gujarat and Maharashtra, who emerged from milk and sugarcane cooperatives, a necessary institutional arrangement to compete with dominant trading groups and increase economies of scale.

In the late 1970s, many new entrepreneurs and businesses emerged. After partition in 1947, Delhi’s Punjabi refugee community had found new business opportunities. Being close to the centre of political power had its own advantages, as they could influence policies in their favour. With the ousting of IBM in 1977 for refusing to dilute its ownership, many new IT firms were formed. Similarly, the partnership between the government and Suzuki Motors in the early 1980s also incubated many entrepreneurs from established business communities – in the National Capital Region, the auto parts and components industries, (D’Costa, 2005) and in the South dealerships, gas stations and repair centres.

The state also influenced the rise of Indian business. For example, securing contracts in public transportation systems and government spending on
infrastructure such as construction of dams and irrigation was the first step to diversifying business and transforming Southern farmers in Andhra Pradesh into entrepreneurs. As a result, the Kammas specialized in food processing, the Reddys in pharmaceuticals and hotels, and the Rajus in IT. Later, state policy in favour of alternative energy had similar beneficial impact for companies such as Suzlon, which diversified from textiles to wind power. Other Southern caste groups – the Naidus and Gounders – also prospered. Many engineer-turned-entrepreneurs in Coimbatore tinkered with technologies and came to dominate textiles, engineering and agri-business. Tirupur, another Southern city, famous for its flexible specialization in textiles, rose in the 1980s with nearly half of India’s knitwear exports. The Gounders controlled the entire sub-contracting chain through ethnic links. Tirupur also grew because of lobbying by the Tirupur exporters association, who succeeded in obtaining water for the textile factories.

In the South, there has been also upward mobility of lower-middle castes such as Nadars and Ezhavas (toddy tappers and tanners). However, the reasons for their economic and social progress are multiple. The first was land ownership, which they leveraged to create an economic surplus. Another supportive factor for the rise of lower castes was Christianity (which under European missionaries encouraged education), clerical work, emigration to Southeast Asian plantations and labour contractors. These opportunities allowed many lower-middle castes to pursue diverse economic activities. Today, a prominent Nadar is the founder of HCL, one of India’s largest IT companies. Many others diversified their ‘commodity basket’ into higher-value crops. This bazaar-to-factory movement among Nadars is witnessed in Sivakasi’s match industry, known to be one of the world’s largest employers of children.

Although a variety of castes from different regions have become industrial capitalists, two minority groups that have not moved up the social and economic ladder are the Dalits (formerly known as untouchables) and Muslims. Wipro, a large IT firm, and Cipla, the company that forced MNCs to reduce prices for anti-HIV/AIDS drugs, were both founded by Muslim families. With many of Kerala’s Muslims working in West Asia, remittance income is fostering Muslim entrepreneurship. The Dalits, however, remain marginalized in the world of business, despite their political empowerment through the democratic system and the legally mandated quotas reserved for them in government employment and admissions to universities.

Through the description of India’s business castes and families, Damodaran attempts to answer why industrial capitalism has been more successful in the South than the North and in the West than the East. Better access to education, especially English education, and weaker control of merchants in the South have contributed to greater capitalist dynamics. In the East, the domination of British capital was far stronger than in the West. Morally, both Western and
Southern firms in India were flexible in pursuing a variety of vocations within the caste system, compared with the Northern business communities. Port cities also had an influence in the evolution of entrepreneurial activities. Job reservation for non-Brahmins facilitated upward mobility and wider scope in the pursuit of professions.

Damodaran’s details on Indian business are mind-boggling, but this is also the book’s major weakness. We are bombarded with names of castes and communities, businesses and firms, regions and cities. The book’s readability could have been enhanced by charts and tables, describing these basic business and social attributes (there is just one table in 341 pages!). Some minor omissions include failure to elaborate the concept of ‘co-operative kieretsu [sic]’ (p. 231) or include Rudolph and Rudolph’s (1987) seminal work on Jats as ‘bullock capitalists’. A glaring issue not addressed is the costs, explicit and hidden, associated with social networks and ethnic bonds that tend to exclude non-members and are subject to nepotism, corruption, undemocratic behaviour and incompetence. That said, the book is a fine addition to understanding the evolution of business and in the future could serve as a stepping stone to theorize not one but a ‘variety of Indian capitalisms’ and appreciate the multiple paths to wealth creation.

References


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