India's Conglomerates are getting too Big for Comfort*

**C.P. Chandrasekhar is Senior Research Fellow,
Political Economy Research Institute, UMass Amherst**

Nothing, not even Hindenburg Research, seems to stop the advance of Indian big business. The Adani Group continues with its acquisitions, even if at a slower pace, and has been able to persuade financial markets to lend it more money, notwithstanding assessments that it is over-dependent on debt. Reliance Industries Limited has announced the demerger of its financial services arm to establish a new entity, which media speculation sees as a bid by the group to establish a dominant presence in the financial services industry. The demerger is being seen as a repeat of the strategy adopted by the group in areas stretching from telecommunications and the retail trade to the media and entertainment businesses. Other business groups such as the Tatas and the Aditya Birla empire seem to also be performing well. The biggest of India's big businesses seem to be thriving.

But this assessment is not true of all of business in India. It is not just that small- and medium-scale firms, not to mention the large mass of informal enterprises, are not doing well and are yet to recover their COVID-19-inflicted losses. Many established big business names do not share the good fortune of the big few. A former Reserve Bank of India Deputy Governor and his co-author report in a much-cited paper that the share of assets in the non-financial sectors owned by the Big-5 business groups has risen from 10% in 1991 to nearly 18% in 2021, whereas the share of the next five has fallen from 18% to less than 9%. While their claim that increased concentration is contributing to inflation has been challenged, the evidence they provide of significantly increased concentration has not.

Progression to state capture

The dangers of such a rapid rise in industrial concentration have been flagged in the past across the world. The process feeds on itself by using market power to stifle competition. It results in profit inflation or profiteering, through the manipulation of costs and prices. In the process it fosters extreme asset and income inequality. It triggers efforts to influence institutions of democracy and, through means such as the capture of the media, it dilutes the role that civil society can play as a countervailing power. In time, it leads to undue corporate influence over political processes and the formulation of policy, with tendencies bordering on state capture.

These fears were strengthened by the recognition that these tendencies are not stalled by competition in the 'market', but are a consequence of the functioning of markets. Given asset and income inequality, and therefore differential power among economic agents, the functioning of the 'market' favours, for multiple reasons, those who are asset-rich, leading to concentration and centralisation. That recognition led to the argument that it is not only necessary to regulate markets to address the malicious outcomes their functioning can give rise to, but that there is a need to physically prevent the growth of dominant businesses and excessively large conglomerates or even break up those that are seen as too big for comfort.

A promotion of big business

The difficulty is that while civil society voices can make a case for such action, in the final analysis it is the state that must implement the needed policies. And the nature of the state is not independent of the influence that the structures in society exert. Democracies have battled hard to force governments to maintain some distance from private capital in general and big business in particular. Those efforts have been partially successful in specific historical contexts, leading among other things to strong action against monopoly and trustification. Similar efforts were seen in India immediately after Independence, as a national state emerged from a freedom movement that was a broad alliance of diverse classes. But, over the years the distance between state and private capital has narrowed hugely, leading to the current situation in which the state promotes big business rather than regulate or curb the latter. Within that framework the decisions as to how many and which business groups to promote, and to what extent, is arbitrary.

Three trends have signalled this narrowing of political distance between the state and big business. First, the embrace of neoliberalism by powerful voices within and outside the state. This implied adoption of the view that the role of the state is not to regulate private capital, but to facilitate its growth as means to all round economic progress. In fact, advocates of neoliberalism have argued that the competition that would be fostered by a liberalised regime will counter concentration. The reverse has happened, despite early signs in some sectors that competition had increased. Even in areas such as telecommunications and civil aviation, the initial increase in the number of new players only triggered a process of churning, with associated social waste, that has finally left a few, with signs of collusion among them. The consumer will be the loser.

The second is the propagation of the view that the state must help strengthen domestic big business to not just hold its own against giant global competitors, but to step beyond Indian shores. State policy, diplomacy and public resources, including those channelled through public banks had to serve as instruments for the purpose. While liberalisation opened up Indian markets, and subjected much of Indian business to global competition, state intervention was modified to protect and promote sections of big business, not least through large-scale subsidies and transfers.

The money factor

Third is the refusal to reduce the influence of money in politics. In the event, closeness of political parties (and therefore the governments they may lead) to big business has turned out to be a prerequisite for garnering the resources needed to “manage” elections and win electoral support. Over time, policy has been changed to legitimise corporate donations to political parties, including through the infamous electoral bonds scheme.

What is frightening in the current situation is that these tendencies have coalesced into a strategy where in the name of strengthening Indian business as part of promoting the national interest, a very few business groups have been actively favoured by the state. Under normal circumstances, this should have led to widespread resentment and dissent. Not just among those in the lower segments of the asset and income pyramid, but among more powerful sections closer to the top who are being ignored. That would spell instability and also perhaps serve as corrective. But that has not happened in the new India, because again in the name of national interest, state power is being used to suppress any such dissent. The result is an almost relentless march to extreme concentration of wealth and economic power.

*** This article was originally published in [The Hindu] on July 17, 2023.**