

# Indian Models of Economy, Business and Management

# Course will cover

- **Ancient Indian Economy**
- **Indian Economy during British rule**
- **Indian Economy during Independence**
- **Economy of Permanence**
- **Indian Models of Economy, Business & Management**

# What does the world say about our country's economy?

*• "India's economy has been remarkably resilient to the deteriorating external environment, and strong macroeconomic fundamentals have placed it in good stead compared to other emerging market economies,"*

**- Auguste Tano-Kouame, World Bank's Country Director in India.**

*• "The success of India did not depend upon the government. It depended upon the energy, ingenuity & other qualifications of the Indian people and their quality to put ideas into practice. The people of India have been shaped by a unique set of social & behavioral systems driven by age old culture that mandates family life, hard work, savings orientation, entrepreneurship and a self dependent mindset. It is not the bookish theories or policy prescriptions based on outside experiments. Even the govt and state agencies seem to play only a limited role. The forces behind India's development seem to be more internal than external."*

**- John Kenneth Galbraith, Former US Ambassador to India & Economist**

*• "India's economy is a sleeping giant. Once it awakens, it will be a force to be reckoned with.*

**- Jack Ma, Chinese Business magnate & Philanthropist.**

**- And many more.....**

# No. 5 in 'Top 10 GDP countries in 2023'

S. No.	Country Name	Continent	Nominal GDP Count (USD)
1	United States	America	25,035,164
2	China	Asia	18,321,197
3	Japan	Asia	4,300,621
4	Germany	Europe	4,031,149
<b><u>5</u></b>	<b><u>India</u></b>	<b><u>Asia</u></b>	<b><u>3,468,566</u></b>
6	United Kingdom	Europe	3,198,470
7	France	Europe	2,778,090
8	Canada	America	2,200,352
9	Russia	Europe	2,133,092
10	Italy	Europe	1,996,934

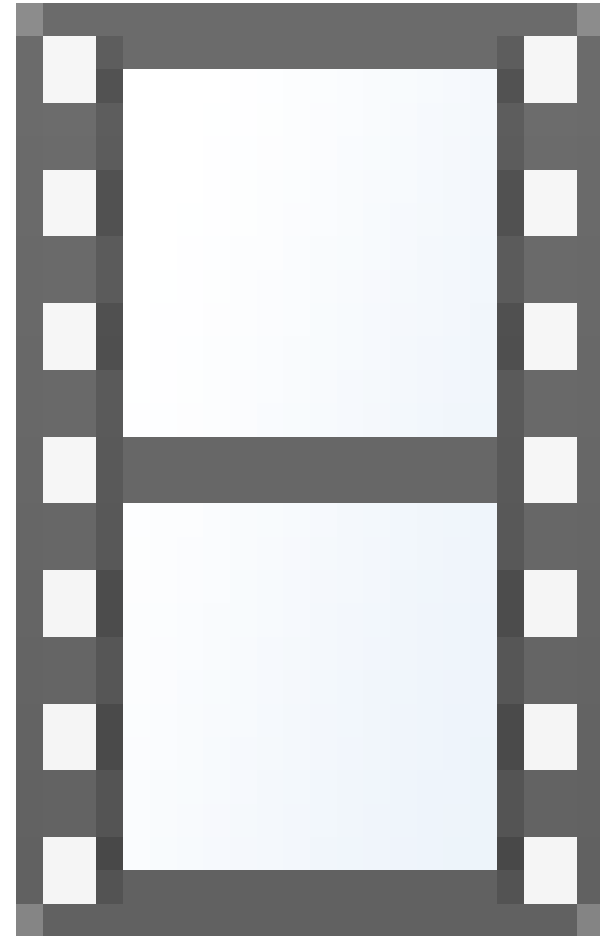
# Reasons?

- Is this performance a recent phenomenon?
- Is it because our country follows Western models? But then, don't the Western countries follow their models too? Then why are they failing?
- Is it because of our own unique 'Indian models of Economy, Business and Management' models?

*Let's take a look, chronologically, from ancient India till Independence to find out!*

# Ancient India: An Economic Superpower

- *At 0 CE, our country's GDP was \$ 33.75 billion*
- *Almost 33% of global GDP at that time. Thrice the total GDP of Western Europe*
- *Global highest by a single country*
- *We were an economic 'Superpower' for more than 1000 years*



What could be the reason(s)?

- Is it possible for our country to be such an economic giant globally with no base before 0 CE?
- What do you think?

# Impossible without:

- Strong foundations of social, political & economic, principles, models & practices laid at least a thousand years before 0 CE
- A strong education system laid centuries ago before 0 CE
- High level of skills & talent among citizens thanks to the well laid out Economic and Education facilities
- State of the art infrastructure that would have been built by such prosperity



# Ancient India

- What were the principles of ancient Indians & how did they retain such great prosperity for thousands of years?

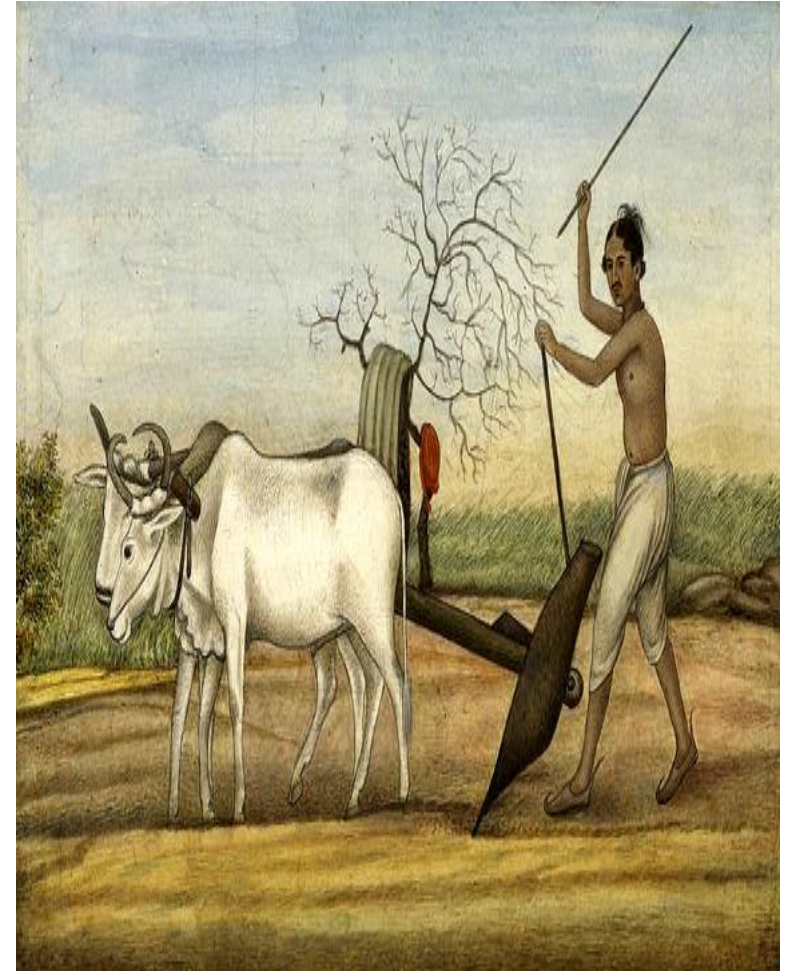
*Let's take a look!*

# Food Production in Ancient India

- *By 6000 BCE, Mehrgarh, one of our country's most ancient settlements, had a solidly established veritable agricultural economy.*
- *We cultivated wheat, barley, peas, date palms, cotton, rice, cereals, fruits & vegetables, etc. more than 4500 years ago.*
- *Our farmers used compost & organic manure which ensured continuous farming on the same land for more than 2000 years without a drop in yields.*

# The Drill Plough

- *“The Hindoos have been long in possession of one of the most useful inventions in agriculture. Its first introduction in England was only in 1730.”*
- **1821, Major Gen Alexander Walker (East India Company)**
- *“It accordingly confirmed that famine has never visited India and that there has never been a general scarcity in the supply of nourishing food.”*
- **Diodorous Siculus (1 CE – 60 CE)**



# Water Management System

***“The whole of South India is dotted with tanks. And they were so inter-related that the British found it impossible to add one more or take away one from this system.”***

***- British experts in 1850***

# More production, Maximum productivity

- ***About 2000 localities of Chengalpattu region of Chennai in the year 1760, had per capita production of food grains nearly a ton per year covering 45000 households.***
- **5 times the production per capita in our country today.**

# 34 Govt Departments in Arthashastra

- The **Arthashastra** discusses the role of government in setting up mines and factories, gold and precious stone workshops, commodities, forest produce, armory, standards for balances and weight measures, standards for length and time measures, customs, agriculture, liquor, abattoirs and courtesans, shipping, domesticated animals such as cattle, horses and elephants along with animal welfare when they are injured or too old, pasture land, military preparedness and intelligence gathering operations of the state.

## Relative Shares Of World Manufacturing Output 1750-1900

(In percentage)

	<b>1750</b>	<b>1800</b>	<b>1830</b>	<b>1860</b>	<b>1880</b>	<b>1900</b>
<b>(Europe as a whole)</b>	<b>23.2</b>	<b>28.1</b>	<b>34.2</b>	<b>53.2</b>	<b>61.3</b>	<b>62.0</b>
<b>United Kingdom</b>	<b>1.9</b>	<b>4.3</b>	<b>9.5</b>	<b>19.9</b>	<b>22.9</b>	<b>18.5</b>
<b>Habsburg Empire</b>	<b>2.9</b>	<b>3.2</b>	<b>3.2</b>	<b>4.2</b>	<b>4.4</b>	<b>4.7</b>
<b>France</b>	<b>4.0</b>	<b>4.2</b>	<b>5.2</b>	<b>7.9</b>	<b>7.8</b>	<b>6.8</b>
<b>German States/  Germany</b>	<b>2.9</b>	<b>3.5</b>	<b>3.5</b>	<b>4.9</b>	<b>8.5</b>	<b>13.2</b>
<b>Italian States/ Italy</b>	<b>2.4</b>	<b>2.5</b>	<b>2.3</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>
<b>Russia</b>	<b>5.0</b>	<b>5.6</b>	<b>5.6</b>	<b>7.0</b>	<b>7.6</b>	<b>8.8</b>
<b>United States</b>	<b>0.1</b>	<b>0.8</b>	<b>2.4</b>	<b>7.2</b>	<b>14.7</b>	<b>23.6</b>
<b>Japan</b>	<b>3.8</b>	<b>3.5</b>	<b>2.8</b>	<b>2.6</b>	<b>2.4</b>	<b>2.4</b>
<b>Third World</b>	<b>73.0</b>	<b>67.7</b>	<b>60.5</b>	<b>36.6</b>	<b>20.9</b>	<b>11.0</b>
<b>China</b>	<b>32.8</b>	<b>33.3</b>	<b>29.8</b>	<b>19.7</b>	<b>12.5</b>	<b>6.2</b>
<b>India/ Pakistan</b>	<b>24.5</b>	<b>19.7</b>	<b>17.6</b>	<b>8.6</b>	<b>2.8</b>	<b>1.7</b>

# Favorable balance of Trade

*“Ammonites (from Jordan), Nabataens (Arab tribes) and Himyars also had their share in Indian trade. Commercial relations existed between India, Rome and Greece. And the balance of trade was in favor of India from the very beginning as a result of which Roman gold poured into India.”*

➤ *“Commercial cities like Harappa and Mohenjodaro were founded in the fourth and third millennium BC.*

**- Trade historian P.N Agarwala (A History of Indian Business from 3000 BCE – 2000 CE)**



# Maximise Exports, Minimize Imports

- **Kautilya's Arthashastra:** *2300 years ago, states that there was a crucial injunction regarding trade with foreign countries which was given to chief controller of state trading which said "Generate profit, and avoid losses."*
- *The idea of India was to maximize our exports even in the earliest periods.*

# Ancient Indian Education

- **Takshashila University:** *World's first university was in existence India , since more than 2700 years.*
- **Nalanda:** *Asia's best university and people from China, Japan, all other countries came to learn.*
- More than 60 different subjects were taught *Like mathematics, medicine, astronomy, warfare, music that were being taught.*

# Famous Personalities say

- *“ We owe a lot to the Indians, who taught us how to count, without which no worthwhile scientific contribution could have been made.”*  
- **Albert Einstein**
- *“A thousand years ahead of Europeans, Indian savants knew that the zero and infinity were mutually inverse notions...”*  
- **Georges Ifrah (Mathematician)**
- *“India invented modern numerals (known to the world as ‘Arabic’ numerals because the West got them from the Arabs, who learned them from Indians.”*  
- **D. Teresi (renowned author of Science & Technology books)**

# Ancient Indian Business

***"The Rig Veda makes reference to the 'pani' (akin to a partnership amongst traders for trade caravans) and the Mahabharata to the 'sreni' (Modern Corporations)... if one uses the most recent dating for the earliest written materials (1500 BC to 1000 BC) then by 1000 BC to 800 BC the sreni and pani were known to Indians. The sreni predates the earliest Roman prototype corporations by centuries' and it is 'considerably more complex and detailed than the Roman entities"***

***- Prof. Vikramaditya S. Khanna (THE ECONOMIC HISTORY OF THE CORPORATE FORM IN ANCIENT INDIA)***

<b>Characteristics</b>	<b>Modern US corporation</b>	<b>Ancient Indian <i>sreni</i></b>
Separate entity	Yes	Yes
Centralized management	Yes	Yes
Transferability of interest	Yes	Probably Yes
Limited liability	Yes (though recently)	Probably Not
Agent has power to bind entity?	Yes	Yes
Management elected?	Yes	Yes (though at times appears hereditary)
Can management be removed?	Yes	Yes
Liability insulation	Yes	Yes (less detailed than the US)
Formation is easy	Yes	Yes
Register with the state	Yes	Yes
State approval needed	Yes (though weak)	Yes
Entry is easy	Yes	Some conditions, but no caste bars
Sharing of assets and liabilities	Terms of agreement	Terms of agreement with additional rules
Exit is easy	Yes	Yes, but with obligations potentially
Board/Committee independence	Yes	Probably Yes
Other board qualifications	Yes	Yes (less detailed than the US)
Open debate in meetings and shareholder resolutions	Yes, with some limits	Yes, with some limits (but less than in the US)
Transparency is valuable and disclosure encouraged	Yes	Probably yes (less detailed than the US)

Source: Khanna Vikramaditya, S., *The Economic History of Corporate Form in Ancient India*, 1997, p. 26.

# Indian Economic Ethics

- **Thiruvalluvar** in his work '**Tirukkural**': *Cautions people to avoid making wealth through wrongful methods & underlined that earning wealth without human principles is a disgrace.*
- **Jainese texts:** *Community men to follow truthful and peaceful means of earning wealth. Merchant should not hoard grain as it could be destroyed by worm but may store such goods as cotton, yarn, cloths, coral, pear madder, areca nuts, etc. which could be kept in godowns for a period without the fear of physical loss. Merchants to remain calm and peaceful in provocative circumstances, and points out that heroism must not be shown by a merchant, even though he is heroic.*

# Indian Economic Ethics

- ***Kautilya's Arthashastra:** It is unique in emphasising the imperative of economic growth and welfare of all. His goal was to integrate ethics and economics.*
- *He believed that ethical values pave the way to heaven as well as to prosperity on the earth, that is, have an intrinsic value as well as an instrumental value. He extended the conceptual framework to deal with conflict of interest situations arising from the emerging capitalism.*
- *It is argued that the level of integration between economics and ethics is significantly higher in Kautilya's Arthashastra than that in **Adam Smith's Wealth of Nations** or for that matter in the writings of **Plato and Aristotle**.*

# *Greek, Arab, Turk, Central Asian invasions since 3<sup>rd</sup> CE*

*“In Iran and Turan, where only one treasurer is appointed, the accounts are in a confused state; but here in India, the amount of the revenues is so great, and the business so multifarious that 12 treasuries are necessary for storing the money, nine for the different kinds of cash-payments, and three for precious stones, gold, and inlaid jewellery. The extent of the treasuries is too great to admit of my giving a proper description with other matters before me.”*

- *Mughal Historian Abul Fazl*

*The drain of wealth originally started with the Islamic invaders who carted off prodigious quantities of wealth to their Arab, Persian, Turkic and Central Asian homelands for a longer period than the British in India.*

*“Money and resources, extracted from the sweat and toil of non-Muslim subjects of India, used to be siphoned to the treasuries of the Islamic Caliphate in Damascus, Baghdad, Cairo or Tashkent, to the Islamic holy cities of Mecca and Medina, and to the pockets of the Muslim holy men throughout the Islamic world. At the same time, the infidels of India were being reduced to awful misery,”*

- *M.A. Khan in ‘Islamic Jihad: A Legacy of Forced Conversion, Imperialism and Slavery’.*



# Colonialism

- *For the very first time, India & entire Asia encountered a totally alien concept called 'Colonialism'.*
- *Foreign merchants/traders using physical force & unethical means to expand their businesses.*
- *Fully supported by their distant government in all their efforts.*

# British domination of Industries

- ***Only one private bank*** was in Indian hands. The Indian industrialists had to depend on conventional sources of finance such as family and community networks and indigenous bankers.
- ***End of 19th century***, the only industry in which the Indian entrepreneurship had expressed itself was cotton textiles, where European presence was extremely limited.
- *Jute textiles, coal mining, steam shipping, inland navigation, and tea and coffee plantations remained almost **European preserves.***

# British destruction of Industries

- *The British used duty system to destroy Indian industries. Even raw produce was not free from unequal duties in the English market.*
- *By mid 19<sup>th</sup> Century, Indian textiles were wiped out from international markets.*

*“British goods were extremely inferior to Indian goods and so they were destroyed as England strove for commercial supremacy at all costs.”*

**- German economist Frederick List in 1844**

# Destruction of Indian Education System

- ***Will Durant** said “When the British came there was, throughout India, a system of community schools, managed by the village communities and was free with teachers & students from all varna & jaati.”*
- ***Macaulay** ridiculed the Indian traditional system of providing free education without any charges.*
- ***Agents of EIC** destroyed these village communities and took no steps to replace the schools.*
- **In 19th century**, the education system in England was very bad. There were no common education facilities available to everybody. There was education facility available only to the richer sections of the society. That too, during the earlier periods, only in Sunday schools, during weekend courses. That too, many of the courses were dealing only with the Bible. There was no mathematics, no science etc.
- The popular education system that was introduced later in England was **borrowed from the Indian system.**

# Decay of Indian Agriculture under British

- **Angus Maddison:** *“The main objectives of the company were to enrich its officials and finance its exports from the tax revenues of the province instead of shipping bullion to India.”*
- *The colonial govt. modified traditional institutional arrangements of Indian agriculture since it was self dependent and the existing arrangements would not lead to unprecedented extraction of revenue/taxes which led to precipitous decline of cultivation and productivity.*
- **Madras:** *Land tax was half of the gross produce of the land and was also fluctuating & uncertain many a times. In Bengal the land tax was fixed at over 90% and in North India it was over 80% from 1793 to 1822. This was not reduced even in times of great calamities (**letters of Warren Hastings**).*
- *Destruction of industries forced people to move to rural areas and depend on agriculture for livelihood. This disrupted economic balance totally & forced increase of ruralization and poverty.*
- **England:** *Land tax was between 5 & 20% of the rental. It is true that the British Govt. only followed the precedent of the previous Mahomedan rulers, who also claimed an enormous land tax but were not able to realize it fully, and by the time the British came they had given up resistance of centuries with hardly any energy left.*

# Indian loot funded West's Industrial Revolution

- *Dadabhai Naoroji* calculated the average total of Economic drain from India to Britain between 1835 to 1872 was £103,525,000 and was never returned.
- *Macaulay* suggested long ago, that it was the stolen wealth from India which supplied England with free capital for the development of mechanical inventions, and so made possible the Industrial revolution.
- **Arthur Gunder Frank**, another noted historian, economic historian: “Industrial Revolution is attributed to England. But England was a very late entry to the club of wealthy nations. The European nations and the U.S. entered the map of the world economy only from the sixteenth century onwards. That these nations were able to do it even then were not due to their increased production, but to colonialism, plunder and loot of the innocent native population in different parts of the world.”

# Rise of nationalistic aspirations

- **Tripathi and Jumanani note:** *"The growing sense of identity in Indian business interests, particularly the industrialists, and the rising nationalist tendencies in society as a whole provided a great deal of impetus to the idea of swadeshi economic autonomy."*
- **Final decades of nineteenth century:** *Chambers of commerce representing the native businesses at local levels came into being*

# Indian Economy at the time of Independence

- *Poor & under-developed.*
- *About 45% of the people below poverty line.*
- *18% literacy rate.*
- *Thirty two years average age of life.*
- *80% of economic activities hovering around agriculture and allied activities.*
- *The business and industrial sectors were very weak*



# Rejection of Traditional Models at the time of Independence

- **Mark Tully notes:**

*“India has followed western economic thinking too. When Socialism was in fashion, Nehru rejected Mahatma Gandhi’s plea for development from the villages upward & concentrated on trying to create an industrialized nation through centralized planning. Now that the West has rejected socialism, the Indian elite talk of liberalizing the economy, making consumerism the engine of growth and allowing the created wealth to trickle down to the poor. The irony is that, during the years when Rajiv Gandhi was liberalizing the economy, the growth in employment declined – and that’s the growth rate that matters most in India.”*

# How to Hide An Empire - The USA cover-up

- In 1820, it accounted for under 2 percent of global GDP. Today, the country makes up nearly a quarter of the world's economy.
- It still holds territories/colonies all over the world. In 20th century, acquired Puerto Rico, the Philippines, Guam, American Samoa, Hawaii, Wake, etc. were acquired.
- Theodore Roosevelt and Woodrow Wilson unabashedly called them, "colonies". In 1914, a gentler term was used "territories".
- It also maintains roughly 800 overseas military bases around the world.

# Russian Empire

- **Russian Tzardom:** Prior to becoming the Russian Empire in 1721, it was the Russian Tzardom since 1547.
- **RUSSIAN empire** - Before the October “revolution” in 1917, the Russian empire was massive & included all of Russia, parts of Eastern Europe, the US state of Alaska (which was sold off to USA in 1867), much of modern day Mongolia & some of the current Central Asian countries.
- **Soviet Imperialism:** Soviet invasion of Poland in 1939, annexation of Belarus & Ukraine, Baltic republics, Russian Civil War conquests, & WWII conquests.
- **The Warsaw Pact (1955)** was a collective defence treaty established by the Soviet Union and seven other Soviet satellite states in Central and Eastern Europe: Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland and Romania (Albania withdrew in 1968).
- A **satellite state** or **dependent state** is a country that is formally independent in the world but under heavy political, economic, and military influence or control from another country

# Nobel Prize Winning Economists – Failed!

- In 1997, 3 American professors got the Nobel Prize for the **Black-Scholes Model**.
- They left teaching and joined 'Long Term Capital Management (LPCM)' as full time advisors.
- It was expected that they would get huge returns
- First year results came out in 1998/1999, the company lost several times of its investment. Wall Street started collapsing and the Federal Reserve Bank had to intervene to stop decline in prices. These professors went back to teaching.
- Nobel Laureates, who propounded these models, who altered these models, they were not able to put into practice their own theories.
- You can put anything in theory, but when it comes to practice it was very very difficult.
- Unfortunately, even today, Finance students are being taught this failed Black-Scholes Model.
- And most of the theories, have no roots in India.

# Western Models' Limitations

- *Standard of living is measured by the amount of annual consumption (assuming all the time that a man who consumes more is 'better off than a man who consumes less).*
- **Noted economist E.F. Schumacher** warns *“Economic thinking based on the primacy of the market takes the sacredness out of life. Everything is equated with everything else. Everything is interchangeable & has a price. There is nothing sacred in something that has a price.”*
- **David C. Korten**, well known activist economist says: *“Our economic system has failed in every dimension: financial, environmental and social. Spending trillions of dollars in an effort to restore the system is a reckless waste of resources. The more intelligent course is to acknowledge the failure and to set about redesigning our economic system from the bottom up to align with the realities and opportunities of the 21st century.”*
- Noted economist **Paul Krugman** who won Nobel Prize for economics in 2008, noted: *“Much of the past thirty years of macro economics was spectacularly useless at best and positively harmful at worst.”*  
*This sums up the position of the modern western economic model.*
- Both communism and capitalism, the two economic ideologies that have become very popular in the last 200 years have failed to provide solutions to the problem of their people even in their own birthplaces. Both of them do not seem to have a holistic view of life. In fact, there are two sides of the same coin. There is no place for society, culture, tradition, belief systems of people.
- No Western theory has survived for more than 100-150 years beginning from feudalism. *They are not Universal & timeless. They are opportunistic & come with a heavy price.*

# Indian Models of Economy kept Independent India going for decades

- **Economist Deepak Nayyar notes;**

*“The economic growth begun in the early 1950’s and not in the 1980’s as believed by many. The proportionate change in growth rates, both aggregate and sectoral, was much larger circa 1950 than in circa 1980. Obviously this growth was impressive with reference to the near stagnation during the colonial era. It was also much better than the performance of the now industrialized countries at comparable stages of their development. It becomes clear that the economic growth started right after independence, keeping the policy makers & elite sections of society unaware of what was happening. But at the same time it is important for us to realize that India would have achieved better performances, had the policymakers understood the Indian native systems, and not curtailed them through unsuitable policies.”*

- *During the 1950’s to 1980’s rate of growth of India’s economy was 3.5% while per capita growth was 1.3%. The GDP growth rate was 4.02% compared to growth rate 4.27% for Europe. It was higher than the growth rate 3.46% for the USA.*

# Questions to ponder upon:

- *How come we were outdoing Europe & USA even in 1950's when we were just grappling with independence and not yet set up a proper economic framework?*
- *Was it the 'Indian Models of Economy, Business & Management' which should be given credit for this?*
- *What do you think was the reason for this?*

# The need for an 'Economy of Permanence'

- ***Celebrated Economist E.F. Schumacher, in the 1970's, had underlined this:***

*“From an economic point of view, the central concept of wisdom is permanence. We must study the economics of permanence. Nothing makes economic sense unless its continuance for a long time can be projected without running into absurdities.”*

- *It's interesting to note that, **Gandhian economist Joseph C. Kumarappa** had already written a book way back in 1945 titled “Economy of Permanence” based on India's traditional higher ideals of economics.*



# What is an 'Economy of Permanence'?

- *"The old civilizations of Egypt, Babylon Greece and Rome are no more to tell their tale. They have vanished after a few centuries of brief, glamorous splendor because the standards on which they were built were predominantly self-centered and transient, their whole organization and system were poisoned by the institution of slavery and extortion of tributes from subject races... Their civilization is no longer a living force. In striking contrast to these, the equally old or even older civilizations of China and India, which were founded on altruistic and objective values testify even to this day, their vitality and other attributes of permanence and non-violence in their civilization. Modern worldly wiseacres may throw cheap gibes at the other worldliness and the religious trends of the orient There is nothing to be apologetic in this, which after all distinguished a progressive human being from a prowling beast The enduring qualities of these civilizations are pointers to the great farsighted standards of value our forefathers had made use of in laying the foundations of a lasting society." India and China, for the most part of the earlier two millennia, were the most prosperous economies, with a sustainability that cannot be captured by the modern mind.*
- *In this context **Kumarappa noted** that if India wanted to build a similar economy of permanence, then it must be on the same principles:*

*"If we are to continue to build on their lines of permanence and non-violence, our standards too must be altruistic and objective and not those that serve merely the needs o moment. Especially at the present juncture, while political organizations are in the melting pot and so much thought is being put into the plans for the future, we have to be on our guard."*

# Features of Indian Economic and Business Models

- Family base
- High levels of savings
- Self-employment as the base
- Highly entrepreneurial nature
- Non-corporate sector as the core of the economy
- Faith and trust relationships playing a critical role in economic affairs
- Indian economy basically is society driven and not State dependent
- Economic activities are guided by norms and values

# Family – The Base for ‘Social Capital’

- Corporate sector contributes about 14% to 15%. Government sector contributes about 20%. About two-thirds from the non-corporate sector. Non-corporate sector is completely dominated by families. Even in the corporate sector, all of us may be knowing, in India more than 90-95% of the corporate sector again is dominated by families.
- Industrial & business centers, most of the initial capital was supplied through own savings & family contributions.
- Even a wealthy industrialist normally consults his wife/husband, parents & children, whenever necessary, before making important economic decisions for the family.
- Patel & Rutten on their success in England, describe the participation of family members in business.
- It is the family set up that provides the foundation for what the economists now call ‘*social capital*’. Social capital is the tendency to move with others and share with others freely.

# High levels of Savings

- More than 90% of Indians saved money. They may not save money in nationalized banks or in the mainstream banking system. They would be saving in co-operative banks, in our own indigenous methods. Some of them give the money to the village leaders, or their own close relatives, friends, some respectable people and some of them saved money even in their own families.
- During the 2008 Economic crisis, savings rate for FY 2009-10 was 33.7% of GDP. That helped us survive.
- Since independence, household sector has been saving around 2/3rd of the total savings in the country.
- Bank deposit & Life Insurance remain the most dominant saving avenue. Recently, it has crossed 100 lakh crore.
- Gold savings is also one of the largest here.
- Coimbatore flower market, every year, ladies were saving 7 lakh thirty thousand rupees approximately. One market, one place, so called uneducated elderly ladies, selling flowers, they were saving so much money. If you calculate the money that is saved in other flower markets, it will run into several crore. That is how in India people save money.
- Leads to solid base for capital formation in the private as well as government sectors & FDI & FII play only a small role in this.
- Once we start studying this, our respect for Indian economy, respect for India, respect for our traditions and culture will increase many times.

# Self-Employment

- *Vidura Neeti* states that self-employment is the best status in life.
- Contributes around 30% to GDP
- NSSO report (2005-06) : 57% males & 62% females in rural areas are self employed Vs urban India with 42% males & 44% females.
- It is a form of capitalism that cannot dominate and control markets to the disadvantage of society.
- It is a form of socialism where everyone is employed and there are no chances of exploitation.
- Public and private sector combined (2008) employed just 8% of working population. 1999 report shows 53% of working population was self employed as compared to USA 6.6%.
- Hero Motors makes more than 25 lakh of motorcycles every year. But when the promoter of that company, Mr. Munjal started the business some seventy years back, he started as a cycle repair shop in Ludhiana. That is how from small businesses companies evolve into big corporate.
- A few decades back, betel leaves were going from a nearby town Salem. So it was being taken to far off states like Maharashtra and other places. So these betel leaves were carried by bullock carts in those days. One of them thought why don't we buy a modern vehicle and do it. So he started a lorry and then started transporting leaves. His own circle of relatives, friends thought this can be a good business. So they started. They did not stop at taking the betel leaves from villages to railway stations. They started taking it for other activities also to different centers. As a result today, Namakkal is a big transport center at the national level. Sanghagiri is a big transport center. At one point of time, Namakkal lorry owners, owned 70% of the tanks and lorries that were plying in India.
- This is the same case with regard to all other clusters, industrial business clusters. It is the society that has been driving the economic development of the states.

# Highly Entrepreneurial Nature

- **Babson College, USA & London Business School, UK** project 'Global Entrepreneurship Monitor' in 2002 noted that India was 2<sup>nd</sup> most entrepreneurially active nation even in Start Ups.
- Entry of one person into business or industry influences others in the families to join, and the local communities to follow them.
- **Economic census 1998** reveals that 44.8% of unorganized enterprises are owned by SC/ST/OBC encompassing manufacturing, construction, trade, hotel/restaurant, transport, finance & other services.
- **Small Scale Industries** are more than 56.2% of total units are owned by communities categorized under ST/SC/OBC with women having around 9% share.
- **Dharavi**, known as largest slum, has an annual turnover from its different businesses anywhere between 1500 crores to 3000 crores. It has 4902 industrial units including textiles, pottery, leather, plastic processing and **Zari** stitching.

# Some Case Studies

- **Karur**: Very famous for handloom textiles. About, 40-50 years ago, the locals entered into this non-corporate finance in a big way & now Karur Vysya Bank, and Laxmi Vilas Bank have their operations throughout the country promoted by the very people of Karur. In 2002 itself Karur exports were 2400 crore, and are now one of the major export centers of India.
- **Gujarat**: In 2002, Gujarat Kite Manufacturing Industry had a turnover of around Rs 35 Crore. Throughout the year they were making kites, but were selling only on important occasions, like Janmashtamai, Uttarayan, Sankranti etc. It was supported by Families and Relationships only. The Govt then included it in category of 'Cottage Industry' and built warehouses and by 2014 their turnover was Rs 800 Crore!
- **Rajkot**: An engineering center, there are wide variety of engineering activities from small pins to big products. Most mother machines in India, are made in Rajkot. They supply parts even to Indian defense forces.
- **Tiruppur**: Exports more than 80% of the knitted garments; people own different types of ancillary industries involving various processes. For making banyans, T-shirts, innerwear they don't go outside.

# Non Corporate Sector at the Core

- 'Unorganized' or 'informal' or 'Residual' sector.
- Non-corporate entities in the private as well as public sector belonging to non agricultural & non governmental activities.
- Cooperative form of organizations.
- Partnership/proprietorship forms of organizations & other self employed persons.
- Non Corporate sector has the largest share in our national income, manufacturing activities, services, savings, investment, both direct & indirect taxes, credit market, employment and forex earnings.
- Between 2002-03, the share of the unorganized segment in the net domestic product of the country was almost 57%.
- Largest share in National income with nearly 38% followed by agricultural & govt sectors. The Corporate sector only contributes 14%.



# Society-driven, not State Dependent Economy

- Local business units, industrial units in most cases, do not depend on institutional finance.
- The share of institutional finance, bank finance and institutional financial arrangements is very less in the initial period of setup. Society supplies the funds.
- At macro level, Credit - GDP ratio of the banking sector is very less compared to countries such as the US. Credit-GDP ratio in 2006 of the banking sector was just 33.5% compared to 138.6% in China and 216.1% in USA.
- Well known economist in Tamil Nadu, **Prof. Neelakanthan** studied the **Karur** textile industry a few decades back & noticed that there was no govt support.
- Instead of supporting in fact the bureaucracy, or State was disturbing Karur.
- State, many times does not know what is happening at the ground level and our bureaucratic system troubles our people & local entrepreneurs.
- Whenever serious problems happen at the macroeconomic level; it will not affect the local economies.

# Community driven Social Capital

- At the basic level, each family owns its members and takes responsibility to maintain them and provide necessary support.
- As a result, burden of the govt in maintaining society is greatly reduced as compared to many developed nations.
- The noted German sociologist, **Durkheim** mentions:  
“A nation can be maintained only if between the state and the individual there is interposed a whole series of secondary groups near enough to the individuals.”
- The noted management expert, **Gurucharan Das** notes:  
“I have come to believe that being endowed by commercial caste is a source of advantage in the global economy.”  
The noted western scholar by the name of Joel, he has shown as to how Palanpuri Jains from Gujarat have wrested half of the global market for uncut diamonds from Jews through caste and family networks. Even our own studies in different parts of the country show that there are major influences through castes in different business and industrial activities.
- During the earlier times businesses and trade were more in the hands of Bania communities. For example, Marwaris in a large scale. But the recent decades witness people from different castes, especially from the agricultural background entering and dominating businesses, throughout the country, whether it is Patels, or Reddys of Andhra, or Gondas of Tamil Nadu.
- In different states, it is the agricultural communities that are entering into businesses and emerging successful through this social capital, created out of this community orientation. That all kinds of relationships positive relationships result in trust and this trust helps in business and economic activities.

# Faith and Relationship in Economic and Business Affairs

- Easy, fast and reduce transaction costs.
- **McKinsey special edition 2005:** 'Just 40% Indian households signed up as borrowers/depositors with banks'.
- Banking habits of Indians remain low even when consistently higher savings rate because of their traditional faith based modes of savings and borrowings.
- In certain areas of Gujarat, whenever a Patel of good nature and integrity expresses requirement for funds to promote a new venture, all those who believe and trust him would contribute towards initial capital.
- A study of the unorganized finance sector in textile cluster of Karur showed that almost all financial transactions were taking place only on faith & goodwill. The financiers normally did not demand documents or pledge of assets before giving funds. Funds were given only on the reputation of the borrower or recommender.

# Norms and values in Indian system

- **Arthashastra**, clearly defined the principles of fair trading: “Goods shall be sold only for public benefit”.
- Unaccounted surplus stocks shall be sold as per the system for public.
- Even large profits should be foregone if it is likely to harm the public.
- No artificial scarcity shall be created by accumulation of commodities constantly in demand.
- **Tiruppur** export cluster, we see people from different states of India doing business. But the norms and values are the same.
- In **Kanpur** industry, the two large religious communities in India, namely Hindus and Muslims participate in all leather businesses but for each and everybody the rules and systems are same.
- If a new person enters into the businesses in that particular cluster even he will be treated as an equal to the senior most person.

# Case Study #1: Jain Irrigation Systems Ltd. (JISL)

- *1960: With two degrees and an appointment letter as Deputy Collector, the young Bhavarlal Hiralal Jain from rural Maharashtra, decided to enter business. With Rs 7000, the family's total savings of three generations from agriculture as capital, he purchased empty drums and started selling kerosene door to door.*
- *The very next day after he started his business, the Central Government announced a hike in kerosene prices. On learning this, Mr. Jain placed a board outside his shop informing his customers that kerosene would continue to be sold at the old rates until existing stocks were sold out.*
- *What was started as Jain Brothers in 1963 became a more than Rs 3000 crore conglomerate in the name of Jain Irrigation Systems Ltd. (JISL). JISL's core activities revolve around agriculture. The company is into diverse activities, from making refined papain to processed foods on the one hand and PVC pipes to micro irrigation systems on the other. It has established units in different parts of the world such as the US, Switzerland and Israel.*
- *573 acre Chairman's Office campus is smoke-free, liquor-free and vegetarian. Even tea and coffee are not taken by him or any of his associates. But Kichidy is provided to all, free of cost, during lunch time.*
- *His management approaches are based on his experiences and learning, and not text book oriented. He strongly feels that companies should function as 'socially committed organizations'. All his four sons have joint responsibility in all the activities of the company. Hierarchy in the administrative system is minimum. Any employee of the company can meet the Chairman any time without an appointment. There have been no strikes and there are no unions. At the family level, all his sons with their families live under one roof with the senior Jain.*
- *Most of Mr. Jain's activities and experiments are centred around Jalgoan, a rain shadow region of the Deccan Plateau.*
- *The Anubhuti residential school provides education through the 'experimental learning method'.*
- *He devotes a lot of time and resources for promoting alternative energies, wasteland development, planting trees, providing amenities to rural areas, naturopathy and helping the deserving people.*

# Case Study #2: Habasit AG

- *Habasit lakoka is a well-known textile accessory manufacturing company with headquarters in Coimbatore. Originally promoted as lakoka Syntrans by two cousins and two of their friends, it imports and markets power transmission belts, conveyor belts, timing belts, etc. Currently, it is the largest manufacturer of synthetic sandwich spindle tapes in the world. The company is now part of the Habasit AG, Switzerland, the leading player in the field at the international level.*
- *There are about 270 employees working in the company at Coimbatore with about 40 per cent of them being ladies. With Shri N. Subramaniam as the Managing Director and his team, groomed in the higher traditions of rural India, the management adopts innovative methods to encourage family values. The company gives an additional monthly salary to those employees who keep their elderly parents with them. The women employees who live with their parents-in-law get a still higher addition in their salary. The employees are thus encouraged to respect and take care of their parents and parents-in-law.*
- *The company organizes a 'family day' every year to which the families of employees are invited to participate in daylong recreational and educational programmes. Further the management conducts periodic meetings with all the employees, during which the performance of the company, including its financial performance, is shared. This is not an obligation, yet this is practised to involve the employees in the development of the company. The company was given a special award of appreciation for adopting the best management practices by Habasit AG for the first time in its history, thus recognizing the Indian approaches to management.*

# Conclusion

- *There are no universal models as such for all the countries in the world. The western models do not seem to be suitable for all the countries. India, being a unique country with different priorities and a universal outlook, has her own functioning models evolved through historical and cultural experiences.*
- *While the western models are facing serious difficulties, many of the Indian models are performing better. As a result, experts have come to recognize the superiority of the Indian models. In fact, the Indian models are expected to show the way for a better economic, business and management systems.*
- *It is imperative that the performing models of India are recognized and allowed to function, wherever they are doing well, for the overall economic development of the country. Moreover, the Indian models could be considered as alternatives to the western models which are facing a crisis.*