

BUSINESS AND POLITY



DYNAMICS OF A
CHANGING
RELATIONSHIP

D.N. Ghosh



‘This is an in-depth and comprehensive study of the nature and evolution of the close relationship between business and polity over the last two millennia and a half. Ghosh’s lucid and fascinating account of this relation in different historical epochs and under diverse techno-economic and political set-ups, from Classical Greece to the modern-day United States, clearly brings out its crucial significance in making or marring fortunes of nations and provides an important perspective in understanding the ongoing interaction of business operations and government policies at both the national and the global level.’

— **Mihir Rakshit**

Director, Monetary Research Project at ICRA,
Calcutta
Editor-in-Chief,
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‘This book is a tour de force. In a lucid and engaging treatise, Dhruva Ghosh explores the nexus between business and politics, intertwined in history over a period that spans millennia rather than centuries, to argue that the nature of this relationship shaped the rise and fall of civilisations and empires. The discussion is remarkable in its range and depth. And the story that it unfolds is fascinating. The glimpses of world history highlight how the evolution of business–politics dynamics exercised an enormous influence on outcomes in economy and society, from the past to the present. If anything, the essential hypothesis is even more relevant in our lives and times. This book should be of interest to people in the worlds of business and politics. It should also be of interest to readers in academia, media and civil society.’

— **Deepak Nayyar**

Professor of Economics,
Jawaharlal Nehru University,
New Delhi
Distinguished University Professor of Economics,
New School for Social Research,
New York

‘This book is unique in many ways. There is no shortage of books on India’s historical and political legacy, or its future prospects as the world’s largest democracy. Similarly, the socio-political and socio-economic order, as it has evolved over centuries, is well documented. However, I can think of no other book which brings all these together, and gives a new perspective on India and challenges that it faces in political as well as economic fields.’

As the author puts it, “this book is an odyssey”, and an excursion to explore how the world has evolved through different epochs of history. I strongly recommend this book to all those who are interested in our country’s future. It is elegantly written and accessible to lay readers as well as academic researchers in different fields.’

—Bimal Jalan

Former Member of Parliament (Rajya Sabha)
Former Governor of the Reserve Bank of India

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and
POLITY

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*Dynamics of
a Changing Relationship*

D N Ghosh



www.sagepublications.com
Los Angeles • London • New Delhi • Singapore • Washington DC

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First published in 2011 by



SAGE Publications India Pvt Ltd
B1/I-1 Mohan Cooperative Industrial Area
Mathura Road, New Delhi 110 044, India
www.sagepub.in

SAGE Publications Inc
2455 Teller Road
Thousand Oaks, California 91320, USA

SAGE Publications Ltd
1 Oliver's Yard, 55 City Road
London EC1Y 1SP, United Kingdom

SAGE Publications Asia-Pacific Pte Ltd
33 Pekin Street
#02-01 Far East Square
Singapore 048763

Published by Vivek Mehra for SAGE Publications India Pvt Ltd, typeset in 11/16 Garamond by Tantla Composition Pvt Ltd, Chandigarh and printed at Chaman Enterprises, New Delhi.

Library of Congress Cataloging-in-Publication Data

Ghosh, Dhruba Narayan, 1928–
Business and polity: dynamics of a changing relationship/D.N. Ghosh.
p. cm.

Includes bibliographical references and index.

1. Economic history. 2. Economic policy—History. 3. Business and politics—History. 4. Commerce—History. I. Title.

HC21.G49 322'.3—dc22 2011 2011001400

ISBN: 978-81-321-0531-2 (HB)

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Deepti Saxena

For
Ranjan, Suparna and Annesha

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Foreword

I have known Mr D. N. Ghosh for several years. As Governor of the Reserve Bank of India, I sought his counsel on several intricate issues, and he has been very generous with his time and attention. Mr Ghosh has been of great help to Reserve Bank of India, especially in the area of non-banking financial companies' sector. Over the years, I have developed great respect for his intellect, insight, integrity and insistence on propriety while being pleasant, cheerful and firm. Mr Ghosh epitomises soft power. He is in many ways an innovator and an institution builder. I also heard of his work in the government, and read about his contributions to public policy during some of the turbulent times. His foray into academia may be news to the new generation, but both the compulsions that lead him there and his contributions are well known to us. His articles in the *Economic and Political Weekly* are constant reference materials. In this background, when Mr Ghosh suggested that I should write a foreword for this forthcoming book, I readily agreed in view of the honour involved.

I read the manuscript that he sent for the purpose and reread it. Then I studied it carefully and was simply amazed at the scholarship, the depth of understanding and the breadth of his enquiry. The articulation is informative, impressive and convincing. On occasions, I wondered whether I was equal to the task of writing a foreword to such an erudite and unique piece of writing. However, I have benefited immensely from reading the manuscript carefully and being provoked to take up the

complex challenge of writing a foreword. This process of careful reading helped me explore the contemporary relevance of this book, in addition to its lasting contribution to the literature on the history of political economy of the world.

In India, political economy has been a relatively unexplored area. More important, the relationship between business and government, as it evolved over the centuries is a somewhat neglected area of scholarship. In the hierarchy of the caste systems, the trader comes below the ruling caste as well as the priestly caste, but above the rest, viz., the Shudras. But the ruling class always had a close relationship with business. During the Independence movement also, there were observable links between indigenous business and politics. Till recently, politicians and businessmen were separate entities for most part of their avocations. The position seems to be changing rapidly in the recent years. First, many of the businessmen have joined active political life, while many politicians turned to business as an additional occupation. Some people comment that the regimes of gentlemen-politicians has been replaced by businessmen-politicians or politician-businessmen. There is a second more important factor after the onset of the process of economic reform. While there have been large elements of deregulation and liberalisation, the role of the government continues to be dominant in a significant way in the process of reform, particularly in the area of privatisation of public enterprises or disinvestment and public-private participation in physical infrastructure like highways, and possibly social infrastructure like education. More important, the public policy in India under the reform period seems to have created an atmosphere conducive for rapid growth by being business-friendly, but not necessarily market-friendly. The latter would involve rules of the game which would enhance competitive efficiency

and level playing fields based on respect for contracts rather than contacts. What would be the way forward in India? This book may provide clues to appreciating the dynamics of relationship between business and politics in India also. In any case I agree with the author that this dynamic is critical in understanding the current global financial crisis and in shaping the future of global economic and financial order.

It is quite evident that the global financial crisis, and indeed, the global economic crisis has clearly been a turning point in the history of the world. Till a mere 300 years ago, China and India accounted for about half of the world output. They suffered a decline in their fortunes during the colonial era. While the second half of the 20th century saw an end to colonisation and brought about division of the world into developed and developing economies; the developments in 21st century indicate a more diversified world. Different countries are at different levels of economic development and sophistication in the markets which seem to not only challenge the dominance of the United States, Europe and to some extent Japan, but also provide a spectrum of nation-states with diverse levels of economic development. As a consequence, it is possible that we will no longer have corner solutions (either this or that, but nothing else) but will increasingly have intermediate solutions to issues of economic policy.

Globally the corporate sector seems to have developed a larger-than-life identity of its own, and has become powerful, but the sector is not necessarily maintaining continuous individual identities as corporates. The mergers, amalgamations and takeovers of corporates have become common, and thus the corporate identities are fast changing. However, the corporate sector as a whole has developed a global domination and a global presence. Their influence over politics is now no longer

necessarily through one national government, but cuts across several countries. The managements of corporates, in particular in the financial sector, seem to have developed their own spheres of influence and interests that may not necessarily result in equitable distribution of surpluses among the stakeholders, in particular workers, shareholders and the management. In brief, in recent years the balance within the corporates between shareholders, board and management seems to have undergone significant change.

The technological developments are constraining the capacity of the individual nation-state to exercise their power of intervention in the economic activity of individuals or corporates as they were able to do in the 20th century. Technological developments have a tendency to make cross-border movements very economical and hence can undermine the instruments of intervention available for the nation-states. At the same time, the consequences of cross-border movements on a nation's population have to be managed by the state. As Governor Mervyn King is reported to have said, 'Banks are global in life and national in death'. Is it possible that globalisation of business, especially finance, was premature relative to globalisation of public policy or globalised governance? It is not clear whether history provides clues on this, though Mr Ghosh alludes to premature globalisation of finance relative to globalisation of its regulation.

Within the corporate world, finance as a sector has emerged as a force by itself and has begun to acquire the character of ends than means. As it evolved in human history, finance was critical to both political matters and economic life, but it was viewed as a powerful ally of politics for most part, and often as a facilitator of wars and of promoting growth in output, whereby employment was created. In recent years, the financial sector has

acquired a life of its own, with greater capacity to influence the politics not only at a national level but also in terms of relations between the nations. Further, finance increased its hold over real sector. A possible disconnect in the growth of real sector relative to that in the financial sector is emerging. This is illustrated by the fact that at the current stage of crisis management (March 2010), the financial markets seem to have rebounded globally and thrived, but employment and growth appear to be lagging behind, particularly in developed countries. It is not clear whether the booming financial markets are in anticipation of a definitive surge in real output and employment globally. In this regard, it is instructive to note from the book that, historically politics tended to have very diverse links with finance, its relationship ranging from antagonism to dependence, and from surrender to support; but for the most part collusive. Thus, finance had a dominant role in what Mr Ghosh calls the fiscal-military phase and in the more recent phase of US hegemony in the context of dollar as the global reserve currency.

Recent debates on public policy consequent upon the global financial crisis focus on the relationship between the state and the market. It is often argued that the ongoing financial crisis reflects excessive belief in the efficiency and self-correcting mechanisms of markets. It is, therefore, argued that the state should be empowered so that the balance between the state and the market is restored with appropriate roles to each. Various initiatives are being considered for strengthening financial regulation and establishing a new global economic order as well as appropriate international financial institutions that could provide public goods, conducive to global growth, welfare and stability. These are essentially in the nature of creating a strengthened role for state, broadly defined to include intervention in the functioning of markets by the public policy.

However, it is possible to argue that the recent financial crisis represents the failure of both the market and the state within and across nation-states. The apparatus of the state, in particular the independent central banks and regulators in the financial sector seem to have failed to discharge the duties assigned and deliver the outcomes that they had assured. There are sufficient grounds to believe that the crisis is a result of the capture of the government by the markets, especially by the financial institutions and financial markets. In other words, it can be argued that the crisis was not caused by a mere failure of regulators but a capture of the regulators and the governments by the financial markets. This plausible explanation of the crisis warrants an entirely different dimension to the traditional debate on state versus market. Consequently, the debate will have to concentrate a lot more on the relationship between the state and the market in each country on one hand, and the relationship between the nation-states, national markets and international markets, on the other. This book touches on this aspect while presenting the dynamics of economic change in different historical periods. It explains the interaction of two forces: the techno-economic structure in any society that is controlled by business, and the polity that is controlled by their ruling regime. It recognises that the two forces are distinct but coexist.

The common elements in the narration of events that lead to the current financial crisis indicate that there has been close cooperation between the financial conglomerates and the ruling elite, that there has been competition for resources among these constituents within each country and that these forces ensured contagion in different degrees to different countries. Thus, as the world was led into the crisis, there have been different strategic elements of cooperation, competition and coordination

between state and market, nations and supranations, financial and non-financial corporates. As a reaction to the efforts made to reduce the big government which led to the crisis, there now appears to be an effort to reduce the big business, in the financial sector, namely in big banks. The outcome of the current thinking is not obvious as of now since both desirability and feasibility are being discussed. In my view, the critical issue is not merely the bigness of the state or a corporate or a bank, but the quality of governance in both the state and the market. These obviously are products of several factors: cultural, institutional, technological and social. Often, it is recognised that cultural factors influence the behaviour of economic agents in the markets, but the markets also tend to influence the cultural factors. While these are not explicitly addressed in the book, the description of the events and the analysis of structure and dynamics of relationships between business and polity in the book do provide valuable clues to a better understanding of the current dilemmas.

In terms of dominant values, the recent decades represent the height of respectability to market forces to an extent that is perhaps unprecedented in history. Historically, trade and finance were viewed with suspicion in general, though their useful role and indeed their attractiveness were not in doubt in most cultures, particularly in societies that valued material success. The recent heightened respectability to markets which was followed by the crisis now, has also resulted in, among other things, two sets of realisations. The first realisation is that economists and policy-analysts had underestimated the greed in human character. The second realisation has been that there has been a fundamental change in the human values globally which elevated markets to the status of God replacing traditional religion.

The chapter on Fiscal Revolution and Grip of Financiers referring to 16th and 17th centuries is of great contemporary relevance in the context of the crisis management.

Mr Ghosh in reflecting on that period of history mentions: 'The fiscal apparatus within the state became little more than a front behind which the financiers carried on their affairs with studied indifference towards the damage they did to the government and contempt for the suffering of the taxpaying elements of the population.' My question in the context of the current debates on public debt incurred in managing the crisis is: Will the surging public debt of many countries place the sovereigns at the mercy of financial markets that were bailed out by the sovereign in the first place?

The chapter on 'Pillars of US hegemony' explains with great clarity the centrality of Washington in the support of world liquidity. That this has to change is recognised, but there is no clarity or consensus on the path towards change and destination of change. Mr Ghosh makes a brilliant summary of the masterly exposition made in the earlier chapters of the book in the chapter titled 'Epilogue' and the sections titled 'Recapitulating' and 'Five Revolutions' in the Epilogue deserve special mention here. He describes the globalisation of recent years as the Fifth Revolution 'driven primarily by American hegemonic power, which is an amalgam of state and business power'. His contention is that there are clear signs that the United States is no longer in a position to offer 'public good' to global economy as it used to, mainly 'through its failure to manage the global financial centre as a stable and responsible distributor of global liquidity'. Mr Ghosh sees need for change and speculates on signs of change. For a successful journey towards global stability, and by implication the process of global rebalancing, according to Mr Ghosh

certain prerequisites have to be met by the United States. These include increasing productivity, acceptance that the margin of economic advantage that it enjoyed before is shrinking and willingness to concede that its capacity to use military power for political advantage is getting smaller.

We need to speculate: Will that meeting of prerequisites in the United States happen and how will it happen? The narration of links between business and politics in the book gives several clues but understandably no answers. However, personally I found that the most common reason for collapse of civilisations as explained in the book was intolerable inequalities in wealth and income. Hence, in my view, it is necessary, particularly for the United States to recognise the need to contain and curb high inequalities in income and wealth as the most critical step for overall rebalancing that the world is in need of.

A pertinent issue is the responsibilities of the major economies in the world, in facilitating, incentivising and persuading the United States to adopt the prerequisites mentioned by Mr Ghosh. These economies include the Euro area, Japan, China and India. A relevant issue is the sharing of burdens among these in the transition to a possible new global economic order, and here those economies which contributed more to imbalances so far have a harder task ahead.

The history of nexus between business and politics analysed brilliantly in this book and the more recent apparent capture of public policy by financial sector shows that the path towards a new global economic order is not only a political process but one in which business, big business, especially the financial sector, will play a major role. I am afraid the ongoing public debates on new global financial architecture are yet to focus on the criticality of national and global businesses in this process.