Finance capital and the nature of capitalism in India today

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A distinctive feature of the current phase of capitalism is the growing role of finance capital as an instrument to establish capitalist hegemony and facilitate the appropriation of surplus. In the developed countries this transition towards financial hegemony was the result of the inflationary crisis and stagnation that affected the OECD countries after the late 1960s. The contractionary fiscal and monetary policy response to inflation intensified the deceleration in real growth. This together with the low real interest rates on bank deposits adversely affected banking business and profits. These developments triggered a process of deregulation and liberalisation in the financial sector, ostensibly to allow banks the freedom to reduce losses and find new means to profit.

The deregulation led to an expansion and diversification of the financial sector. With the burgeoning of finance, involving the emergence of new markets and transformation of old ones, creation of new non-bank financial institutions, and the "manufacture" of new financial products, the financial sector was able to increase the volume of its surplus. Securitisation, by making credit assets tradable, allowing for the transfer of risk, and freeing the creators of credit of the underlying risk encouraged a massive expansion in the volume of credit provided. This required expansion of the universe of borrowers, who being driven to borrow, often became willing victims of the drive to transfer surpluses from their incomes directly to financial firms.

Available figures do point to galloping growth in the global operations of financial firms. One obvious form this has taken since the international lending boom of the late 1970s is the expansion of operations of international banks in less developed countries, especially the so-called "emerging markets". At the time of the East Asian crisis (mid-1997), the international asset position of banks resident in 23 countries reporting to the Bank of International Settlements stood at $9.95 trillion, involving $8.6 trillion in external assets after adjusting for local assets in international currencies. By June 2007, before the global financial crisis that precipitated the Great Recession, when 40 countries were reporting, this had risen to $33.71 trillion, with external assets totalling $29.98 trillion. This trend characterised countries that reported on both dates as well. For example, the international assets of UK-based banks had increased from $1.5 trillion to $6.1 trillion, and that of US banks from $0.74 trillion to $2.8 trillion.

One consequence of the post-1970s expansion of liquidity in the international financial system was the need on the part of international finance capital to find new avenues to lend and invest. Having to keep money moving to earn returns, and running out of options within the developed world, private international finance that had excluded most developing countries from its ambit because they were perceived to be too risky both economically and politically, chose to target some developing countries that were soon identified as emerging markets. Suddenly, flows of private financial capital to developing countries, which till then had access

to foreign capital only in the form of limited flows of foreign direct investment and "aid' from the bilateral and multilateral development aid network, became a possibility, with an implicit message that this was available on demand.

To exploit this option, developing countries needed to dilute controls that had been imposed on flows of foreign capital, especially foreign financial capital wanting to enter their equity, debt and insurance markets. With hindsight we know that almost all developing countries chose to exploit this option at different points of time starting in the 1970s in the Southern Cone countries of Latin America. The reasons differed across countries. To fathom the explanation for those differences, we need to turn to the dissimilar developmental strategies that were adopted by developing countries in the aftermath of the period that saw two World Wars, an agricultural depression, the Great Depression, and decolonisation. In some countries the wars and the movement against colonialism led to the institution of governments led by socialist forces that opted for development within the framework of central planning. But most countries, including India, came under governments that opted for a capitalist path of development, starting from a situation where their societies were characterised by substantial semi-feudal remnants.

Among those that opted for a capitalist path, most countries, on the basis of their experience with being predominantly agricultural producers and exporters of primary products, chose to adopt a strategy of import substituting industrialisation. Pursuing import-substituting industrialisation required the strengthening of indigenous industry, not just with protection, but by control and regulation that restricted the role of large and predatory foreign capital and disciplined domestic business to behave in ways that served national development. The degree to which this was done varied across countries. For historical reasons, though the Indian State represented an alliance of the domestic bourgeoisie and landlords, the Indian government adopted a development strategy that involved substantial state intervention. This included, besides controls on cross-border flows of capital and domestic regulation of capacity creation, production and prices, wide public ownership and an emphasis on "planning" for successful economic development, along lines being pursued at that time in the Soviet Union.

Thus, even among underdeveloped countries launching on development after World War II, India was in many senses unique. In terms of choice of the mix of emphasis on industrialisation based on the domestic market and that driven or facilitated by exports it was focused almost wholly on an internally oriented growth strategy. This did seem warranted for a number of reasons. At independence in 1947, India was a country that showed much promise as a potential candidate for successful industrial development. It already had considerable experience with factory production, with the first successful factory established within the country dated to 1854. In the event, after the Second World War, India was among the more industrialised of the underdeveloped countries, especially those that had had just come out of colonial domination. This historical legacy did favour India when the development experiments of the post-War, decolonisation years began.

Further, despite the low level of its per capita income in India at that time, the sheer size of the country as defined by its geographical area and its population meant that it had a reasonably large sized market for manufactures. Moreover, the substantially unequal distribution of income ensured that there existed a significant number of people with income levels that implied a rather diversified demand for manufactures. Even though this section

was proportionately small, the large size of the population made their numbers significant. These factors provided the foundation for a reasonably large and diversified domestic market.

However, growth based on the domestic or home market was not easy to realise and had been achieved in practice by very few countries since the Industrial Revolution. A prerequisite for sustained growth was the growth of the mass market for manufactures. This required land reform that broke down semi-feudal relations in the agricultural sector, so as to accelerate productivity and output growth by providing the actual cultivators – whether tenants or peasants – with the means and incentive to invest and by distributing more equally the benefits of that growth so that those benefits could translate into demand for manufactured goods that have a mass market that can support industrialisation.

Ensuring these prerequisites was an extremely difficult proposition, given the alliance between the capitalists and landlords. Not surprisingly, many countries, often after initial attempts at import substituting industrialisation, soon turned to the export market as a potential alternative stimulus to growth. A few sought to do this on the basis of investment by indigenous capitalists (Republic of Korea and Taiwan) supported by developed country governments, while others attempted it by attracting foreign investment that would use local labour reserves and establish capacities aimed at production for the international market. Among these the only underdeveloped country of reasonable size among the delayed late-industrialisers that managed to achieve developed country status was South Korea. Some, like the newly industrialising countries of Southeast Asia in the 1980s and after, experienced rapid growth for significantly long periods and registered a rise in the share of manufacturing production and in per capita incomes. But those years of 'miracle growth' did not last beyond the 1990s and were unable to deliver a South Korea-type transition.

All countries that adopted export-led strategies, despite their different growth trajectories and degrees of success, remained dependent upon and subordinate to foreign capital. In the case of those that had experienced export success, this was partly because they were under pressure to open their financial borders as a quid pro quo for continued access to markets in the developed capitalist countries on which they were dependent. In others, dependence on foreign capital with control over international markets was needed for export success. As a result, in course of time those choosing export-oriented strategies had to open their international economic borders by diluting or dismantling capital controls to allow for inflows of foreign investors seeking new investment avenues in the Age of Finance.

Thus, development that strengthened the political independence gained by countries after World War II by ensuring independence from predatory foreign capital was only possible in countries that ensure successful growth based on the domestic market. So it was significant that at independence India saw the accession to power of a government that had the social sanction needed to formulate and implement a domestic market-oriented national development strategy. Its emergence out of a national movement against colonial rule gave it that sanction.

However, assessed merely in terms of rates of growth, the success of India's post-independence development strategy is partial at best. The initial dynamism, especially of industry, displayed during the decade and a half after 1951, gave way to a period of secular stagnation that stretched between 1965 and the late 1970s. The most obvious indicators of poor economic performance are the inadequate diversification of India's production structure away from agriculture to manufacturing, and the rather premature and rapid diversification

into services that has occurred in recent decades. The share of manufacturing in GDP did rise from around 9 per cent in 1950-51 to 13 per cent in 1966-67. But it did not cross the 14 per cent mark for a little more than a decade after that, and touched 16.4 per cent at its peak in 1996-97. The contribution of manufacturing to employment was even more dismal.

India's experience was in fact worse than that in other similarly placed developing countries. In 1960, industry contributed 37 per cent of GDP in Brazil, 45 per cent in China, 19 per cent in India, 19 per cent in Indonesia, around 25 per cent in South Korea, 19 per cent in Malaysia and 19 per cent in Thailand. By 1985, the figures were 45 per cent in Brazil, 43 per cent in China, 26 per cent in India, 36 per cent in Indonesia, 39 per cent in South Korea, 39 per cent in Malaysia, and 32 per cent in Thailand. Thus, the 1960 to 1985 period was one in which in most developing countries rapid diversification in favour of manufacturing was occurring, but India had not shown the same tendency. The long-term, slow growth and subsequent near-stagnation of the share of industry in GDP in India was more the exception than the rule among developing countries.

Overall, a number of features of India's post-independence growth strategy structurally limited the potential of the system. To start with, despite talk of land reform, of providing "land-to-the-tiller" and of curbing the concentration of economic power, little was done to attack and redress rural asset and income inequality. And while the worst forms of monopolistic practices were curbed, asset concentration in the industrial sector was never really challenged. Rather, India's big business groups were able to use state intervention as a device to consolidate and expand their monopolistic positions. One consequence of the persistence of asset and income inequality was that there were definite limits to the expansion of the market for mass consumption goods in the country. The large mass of peasantry, faced with insecure conditions of tenure and often obtaining a small share in the outputs they produced, had neither the means not the incentive to invest. The prospect of increasing productivity and incomes in rural India, which was home to the majority of its population, in order to stimulate domestic demand was therefore limited.

Under these circumstances, a continuous growth in state spending was essential for the growth of the market. In the event, the stimulus to growth during the early post-independence years came from the state itself. It provided domestic capitalists with a large once-for-all market for manufactures by widening and intensifying protection and displacing imported goods from the domestic market. It sought to expand that market through its current and capital expenditures and it supported the domestic capitalist class by investing in crucial infrastructural sectors. This strategy did pay dividends during the decade-and-a-half immediately following independence when rates of industrial growth were creditable by international standards and India built up a diversified industrial base, and the public sector expanded rapidly to provide crucial infrastructural services, industrial raw materials and capital goods to sustain industrial growth even when the foreign exchange available to import these commodities was limited.

This growth was stalled because of the second of the contradictions characterising the process of development. The State within the post-independence economic policy regime had to simultaneously fulfil two different roles that were incompatible in the long-run. On the one hand it had to maintain growing expenditures, in particular investment expenditure, in order to keep the domestic market expanding. At the same time, however, the State was being exploited as an instrument for the "primary accumulation of capital". Through tax avoidance and evasion, subsidies and transfers, and through State-contracts, private fortunes were

being built up at the expense of the State exchequer. By the mid-1960s, not only was the once-for-all stimulus offered by import substitution exhausted, but the ability of the State to continue to provide the stimulus to growth was also undermined. In the event growth decelerated leading to the "secular stagnation" of the late-1960s and 1970s. Rather than reversing this by undertaking the absent structural and fiscal initiatives that were responsible for the secular stagnation, Indian big business and the State began to look for an opportunity to exit from this strategy and shift to one in which exports would provide the stimulus to growth.

The easy way to pursue that alternative was to imitate the East Asian, second tier industrialisers and attract foreign investment that used the country concerned as a location for production for the world market. But since such investment was dependent on the decisions made by foreign investors, a strategic adoption of export led development had to be supported also by measures to restructure the capacities of domestic agents and make them internationally competitive. This required substantial liberalisation of trade and foreign investment policies, that would immediately lead to an increase in imports, not least because potential exporters would choose to import the technology, capital goods, intermediates and components needed for export production. In practice, a policy of trade liberalisation was adopted on the grounds that the competition it would unleash would help restructure domestic economic activity, render firms and other economic agents in India internationally competitive, and put the country on an outward-oriented, export-led growth trajectory. Even if this does prove to be the "ultimate" result of such trade liberalisation (which it normally is not), this cannot be its immediate fall-out. Restructuring domestic capacity takes time as does the process of finding customers and building 'goodwill' in global markets. On the other hand, post-liberalisation, the pent-up demand, especially of the rich, for imported goods that had thus far been curbed with protection would be immediately released. This would lead to a widening of the trade and current account deficit in the balance of payments of the liberalising economy, with foreign exchange expenditures rising much faster than foreign exchange earnings. So access to foreign capital to finance that deficit is a prerequisite for "successful" liberalisation that is not aborted by a balance of payments crisis.

Thus, the transition to a liberalised, open economic regime could be stalled by the actual and potential balance of payments difficulties associated with that experiment. It was in this context that the access to foreign capital ensured by the rise to dominance of finance was seen as an opportunity. Ensuring access to foreign capital flows resulting from the accumulated liquidity in the international market required in the first instance relaxation of controls on capital inflows, including inflows of purely financial capital into debt and equity markets. But attracting such inflows also requires attracting the carriers of such capital, viz., large financial firms such as banks, institutional investors, pension funds and insurance companies. This required relaxation of the terms of entry into and operation in domestic markets of such firms. It also required changing the regulatory framework in keeping with international norms and guidelines, such as those formulated by the Basel Committee. A shift from the "structural regulation" of the financial sector and financial institutions, to market mediated regulation was the result.

The transformation brought about by the new financial framework had many features. To start with, banks extended their activity beyond conventional commercial banking into merchant banking and insurance. Second, within banking, there was a gradual shift in focus from generating incomes from net interest margins (or the difference between deposit and lending rates) to obtaining them in the form of fees and commissions charged for various financial

services. Third, related to this was a change in the focus of banking activity as well. While banks did provide credit and create assets that promised a stream of incomes into the future, they did not hold those assets till maturity any more, as they used in the past in the so-called “originate-and-hold” model. Rather they bundled them into pools, attached those bundles to particular securities eligible for the stream of incomes due from the underlying assets, and sold these securities for a fee to institutional investors and portfolio managers. Banks transferred the risk for a fee, and those who bought into the risk looked to the returns they would earn in the long term. This was the “originate and distribute” model of banking. It meant that those who originated the credit assets tended to understate or discount the risks associated with them. Moreover, since many of the securities created on the basis of these credit assets were complex derivatives, the risk associated with them was difficult to assess. The role of assessing risk was given to private rating agencies, which were paid to grade these instruments according to their level of risk and monitor them regularly for changes in risk profile. Fourth, the ability of the banking system to “produce” credit assets or financial products meant that the ultimate limit to credit was the state of liquidity in the system and the willingness of those with access to that liquidity to buy these assets off the banks. Within a structure of this kind periods of easy money and low interest rates increased the pressure to create credit assets and proliferate risk. Finally, financial liberalisation increased the number of layers in an increasingly universalised financial system, with the extent of regulation varying across the layers. Where regulation was light, as in the case of investment banks, hedge funds and private equity firms, financial companies could borrow huge amounts based on a small amount of own capital and undertake leveraged investments to create complex products that were often traded over the counter rather than through exchanges. Credit risk transfer neither meant that the risk disappeared nor that some segments were absolved from exposure to such risk.

These changes made the financial sector an important site for profit appropriation. There are a number of stylised facts that support that argument. The first is the sheer size of the financial sector and the growing importance of finance in the growth of national income. The second is evidence of financial over-development with the ratio of financial assets to GDP and of financial assets to real wealth rising sharply. And a third is the rising share of financial profits in total corporate profits. All these are indicators of an accelerated expansion of financial activity as the principal site for surplus appropriation.

There have been other significant consequences associated with the rise of finance. One is a change in the mode of appropriation of surplus by finance itself. In the past finance acquired a share of the surplus generated in the sphere of production of goods and services. Through investments in or loans provided to these activities, finance received a dividend, a capital gain when it exited from ownership and interest on credit provided, which after taking out of its costs determined its net profit. In fact, a lot of financial ‘investment’ was in equity that afforded it control or influence over corporations engaged in production and/or service provision. Dividend incomes rather than capital gains were the main source of return to financial interests that wanted to retain control of profitable real assets. Matters have changed in recent decades. Further, an expansion in the volume of financial transactions allows for periods or episodes of asset price inflation, which when ‘marked to market’ (or valued at prevailing market prices) in their books seem to deliver profits and enhance wealth. Not being the result of the sharing or direct appropriation of surpluses generated in the sectors producing commodities and services, this profit and the wealth increase is, at one level, notional. But so long as financial assets are liquid in the sense that they can be easily

encashed and the value of money is protected, this wealth amounts to purchasing power and a means of command over real resources.

A second consequence is a tendency for economic activity outside the financial sector to be shaped by finance. Which sectors turn out to be the sunrise sectors in the economy, which firms flourish and which survive and grow, which shut down or are merged or amalgamated with others, and which 'technologies' tend to get showcased are shaped, often unbeknownst to us, by finance. One illustration of this is the growing importance of 'start-ups' in India's 'new' capitalism. Certain firms experimenting with certain technologies are chosen as the target for financial bets. Few of these survive, even if they are extremely well funded with venture capital in their early years. The international experience shows that even those that survive and deliver huge returns to shareholders and generate fortunes for their promoters, like Netscape, AOL and Yahoo did, fade away, unlike a few others like Google and Apple, which survived and became leading firms. Many others of varying sizes merge or are the subject of takeover. But the gains made from the few successes are more than enough to wipe out the losses associated with the many failures.

A third consequence is our perception of technology itself has changed. Technology in the era prior to the Age of Finance was largely a combination of 'hardware' and 'software' that used a certain set of specified capital goods, intermediates and components to undertake a planned production routine to yield a product with a specific design, technical characteristics and use value within a defined organisational framework, like the factory. This allowed us to breakdown technology into segments such as materials technology, manufacturing technology, design technology, and managerial technology. The last was clearly far less of a technology than the others. But technological change could involve improvements in any of these. A feature of technology in recent years is the growing importance of "software" elements and managerial technology in the spectrum. Today's 'technology' majors include the likes of Google (a search engine), Facebook (a social media platform) and Uber (an aggregator). This allows for both the widening of the scope of innovation and an increase in the pace of obsolescence of technologies, providing a constant source of 'new, new things' on which finance can place its bets.

Fourth, the period of the rise of finance has seen a substantial expansion of the service economy and the GDP generated by services. This is because of the specific way in which finance has moulded the use of information technology, allowing it to transform industries delivering products such as goods, media and music, and access to traditional services like commercial taxi services. One often noted feature of contemporary Indian capitalism, is that recent growth in national income has become overwhelmingly dominated by the services sector, and that too by activities that in themselves do not promise much for future growth increases. What needs to be noted is that this is not the result of the observed diversification of national economic activity in the direction of services that occurs at relatively high levels of per capita income after a period of diversification away from agriculture to manufacturing.

Finally, the rise of finance changes the dynamics of capitalism itself. Some economies still remain exporters, others are the destination for imported profits from foreign investment, and yet others grow on the basis of internal stimuli, in which tax and debt financed public expenditure is replaced with debt financed private expenditure as the principal 'exogenous' stimulus to growth. One cause for this is that for a host of reasons, ranging from its fear that excess borrowing would spur Inflation that would erode the value of the assets or the command over real resources of those holding financial wealth to its desire to rein in States

pursuing proactive fiscal policies based on borrowing, which legitimises the State and delegitimises the market to the detriment of finance, capital opposes debt financed spending by governments. As the presence and power of finance increases, therefore, fiscal conservatism becomes the norm and austerity a recurrent policy recommendation.

All of this suggests that the growing dependence on foreign finance capital has distorted India's growth. India's failure, visible from the mid-1960s, to make an expanding and technologically dynamic industrial sector an important, let alone the principal, driver of growth has only worsened in the age of finance. As per the new series on national accounts with 2011-12 as base, over the entire four-year period starting 2012-13, services of various kinds accounted for as much as 68.7 per cent of total GDP growth. Manufacturing provided for only around 18 per cent, slightly less than the service activities comprising trade, repair, hotels and restaurants. What is more startling is that some of the biggest contributions to GDP growth came from finance, insurance and real estate (FIRE – 30.9 per cent) and public administration and defence (12.5 per cent). Indeed, these two sectors together accounted for 43 per cent – or nearly half – of all estimated increases in economic activity in the past four financial years. Over 2015-16, this FIRE sector accounted for a huge 21.6 per cent of total GDP (or Gross Value Added at Basic Prices, as the new series describes it). This is problematic, because expansion in these sectors is not suggestive of a good foundation for future stable growth.

Accompanying this is the evidence from the demand side that indicates that the combination of financial liberalisation and the large financial inflows that followed did create a new regime of accumulation in India. The inflow of foreign capital had as its counterpart an increase in the overhang of liquidity in the domestic economy. Based on that overhang, a liberalised banking system has been creating new credit assets at a rapid rate. The ratio of bank credit outstanding to GDP, which had remained at around 22 per cent for a decade starting 1989-90, began to rise after 1999-2000, doubled by 2005-06 and is currently well above 50 per cent. India has been witnessing a credit boom during its high growth years.

There were also significant changes in the sectoral distribution of credit. Overall there were two sets of sectors that gained in share. The first comprised of retail advances, covering housing loans, loans for automobile and consumer durable purchases, educational loans, and the like. The share of personal loans increased from slightly more than 9 per cent of total outstanding commercial bank credit at the end of March 1996 to close to a quarter of the total more recently. The second area of change was the distribution of credit going to industry, which at around 40 per cent of total bank credit outstanding was still substantial. The share of infrastructural lending in the total advances of scheduled commercial banks to the industrial sector rose sharply, from less than 2 per cent at the end of March 1998 to 16.4 per cent at the end of March 2004 and as much as 35 per cent at the end of March 2015. That is, even as the volume (though not share) of lending to industry in the total advances of the banking system has risen, the importance of lending to infrastructure within industry has increased hugely. Sectors like power, roads and ports, and telecommunications have been the most important beneficiaries. For commercial banks, which are known to prefer lending for short term purposes, this turn to lending to infrastructure was a high risk strategy.

These changes initially spurred growth because of the demand increases it financed. But soon it was clear that this trajectory was one that involved driving growth at the expense of financial stability, since many of these projects and loans were not viable and turned non-performing. According to the end-June 2016 edition of the Reserve Bank of India's (RBI's) biannual Financial Stability Report, gross non-performing assets (GNPAs) of the scheduled

commercial banks (SCBs) rose sharply from 5.1 per cent of gross advances at the end of March 2015 and to 7.6 per cent at the end of March 2016. Thus, the problem is not just the volume of bad assets, but the rapid growth in such assets. According to answers to two questions (Nos. 1759 and 2526 of August 2016) in the upper house of the Indian parliament, while the total GNPAs of public sector banks stood at Rs. 4,768 billion at the end of March 2016, the non-performing assets that were reported by them in the second half of financial year 2015-16 alone amounted to Rs. 2,770 billion. Figures obtained by Reuters through a Right to Information application indicate that stressed assets on the books of the banks had risen from Rs. 8060 billion at the end of December 2015 to Rs. 9220 billion at the end of June 2016. That would suggest that the value of loans that could turn bad is still on the rise.

Even ignoring this trend, the rise in non-performing assets due to reclassification is not without implications for the health of India's predominantly public banking system. Once assets are recorded as non-performing, banks need to write off loss assets. They must also provide for the implicit decline in the value of doubtful and sub-standard assets. That adversely affects the profitability of banks. Even though much less than the RBI mandated 70 per cent of NPAs have on average been provided for by Indian SCBs, the return on assets (RoA) and the return on equity (RoE) of the group fell between end-March 2015 and end-March 2016, from 0.8 to 0.4 per cent in the case of the former and from 9.3 to 4.8 per cent in the case of the latter. Underlying this profit squeeze was an 86 per cent year-on-year growth of risk provisions and a 27.3 per cent increase in write-offs, which together contributed to a 43 per cent fall in profits after tax. Given the uneven distribution of this hit across banks, 21 SCBs accounting for 37 per cent of the total assets of all SCBs recorded negative RoA values over financial year 2015-16.

The question that arises, therefore, is the manner in which the government, the RBI and the banks are aiming to address this problem. One option would be for the banks to treat the write-offs as merely "technical' and then try and recover as much of the value of these assets as possible, to strengthen their financial position. However, the experience here has been disappointing. Not only has total NPA reduction been flat between 2014-15 (Rs. 1,270 billion) and 2015-16 (Rs. 1,280 billion) when the sum of declared NPAs was rising, but much of this reduction has been the result of compromises or write-offs, which yield the bank little or nothing. NPA reduction is reported under three heads (actual recoveries, "upgradation" or transformation of NPAs into paying assets, and compromises/write-offs). Write–offs involve a complete loss for the banks. According to Finance Ministry figures the share of write-offs in the NPA reduction of the public sector banks rose from an already high 41 per cent in 2014-15 to 46 per cent in 2015-16.

This is also a course for concern since NPAs are often a reflection of wilful default. In the fourth round of what has become a periodic exercise, the All India Bank Employees Association (AIBEA), the "oldest and largest" trade union in the industry, has released a list of 5,610 wilful defaulters on debt they owe commercial banks. The official listing of suit-filed accounts of wilful defaulters disseminated through the Credit Information Bureau (India) Ltd, reports 6,081 cases involving loans totalling Rs. 59,518 crore as of March 31, 2016.

The Reserve Bank of India (RBI) defines a wilful defaulter as one who has diverted bank loans to activities other than the one for which they were originally taken, siphoned funds out with no corresponding assets of any kind to show in the books of the company or who has not repaid loans despite having adequate resources to meet commitments. Thus, the crucial issue here is not default per se, but default that is intentional, deliberate and calculated. This

makes wilful default a criminal offence. A default that results from a wrong investment decision, sheer mismanagement or unexpected changes in the business environment of a firm that does not have the liquidity to meet payments commitments would not fall in the "wilful" category.

Despite this restricted definition, wilful defaults are large. The total default in the 5,610 accounts revealed by the AIBEA adds up to Rs. 58,792 crore. This amounts to around 11 per cent of total non-performing assets in the banking system at the end of March 2016. As many as 4,738 of these accounts accounting for Rs. 47,351 crore of wilfully defaulted loans are with the public sector banks (including the State Bank of India group). In an answer to a Parliamentary question in the Lok Sabha in December 2015, Finance Minister Arun Jaitley reported that in the case of loans of Rs.25 lakh and above from public sector banks alone, the number of cases of wilful default had risen by 44 per cent from 4929 at the end of March 2013 to 7265 at the end of September 2015, and the sum involved by a huge 150 per cent from Rs. 25,804 crore to Rs. 64,335 crore. Clearly, the credit boom during the years after 2004 has been exploited by a set of unscrupulous borrowers, who could avoid scrutiny because of the relaxation in scrutiny that is associated with a post-liberalisation debt spiral.

What is noteworthy about the numbers released by the AIBEA is that the top 106 borrowers (1.9 per cent of the total) responsible for wilful default on loans equal to or exceeding Rs. 100 crore each, together accounted for Rs. 23,093 crore or close to two-fifths (39.3 per cent) of the total sum in default as per this list. Clearly, the NPAs in the books of banks and the manner in which they are being addressed point to a new form of primitive accumulation in India in the Age of Finance.

All of this points to the almost moribund nature of the new capitalism being shaped in India because of increased dependence on foreign finance. In the 1950s, there was near unanimity that winning a degree of autonomy *vis-à-vis* foreign capital was a prerequisite for consolidating India's political freedom. Today, many see recognition by foreign capital as a favoured investment destination as a measure of the country's economic success. But turning moribund and losing sovereignty at the expense of the working people seems to be the real consequence of the accumulated presence of foreign (especially financial) capital in the country since liberalisation.

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