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Review

Reviewed Work(s): *Class, Caste, and Entrepreneurship: A Study of Indian Industrialists* by E. Wayne Nafziger

Review by: Thomas A. Timberg

Source: *Economic Development and Cultural Change*, Vol. 29, No. 2 (Jan., 1981), pp. 424-431

Published by: The University of Chicago Press

Stable URL: <https://www.jstor.org/stable/1153301>

Accessed: 15-11-2024 15:25 UTC

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force, a sixth of its gross domestic product, and is markedly lower in urbanization, industrialization, and literacy. However, both countries' economic, if not political, futures remain uncertain. While Baklanoff expects that economic stability will be furthered through integration into the European Economic Community, persistent and high unemployment, inflation, and balance-of-payments deficits threaten this linkage. What is needed is an analysis of the political economy of the Iberian peninsula, one which identifies the warring factions and fully discusses the issues over which they clash. Baklanoff provides a good framework. We can hope that more comprehensive studies will follow.

E. Wayne Nafziger. **Class, Caste, and Entrepreneurship: A Study of Indian Industrialists.** Honolulu: University of Hawaii Press, 1978. Pp. x+188. \$12.00.

Thomas A. Timberg  
*Washington, D.C.*

A book whose broad general strokes are in the right place, this volume has two serious defects. Enough of the specific details are wrong to disturb anyone with detailed knowledge of the Indian scene, and the narrative is somewhat disjointed. Still, it is essential reading for those interested in the current state of thinking on entrepreneurship, because of several nuggets of summarization of crucial arguments and bodies of literature. The whole volume is rather short—129 pages of text plus another 50 pages of notes, appendices, and bibliography (14 of them a recapitulation of the survey questionnaire).

The book contains a survey of 54 typical small-scale industrial entrepreneurs (and 57 units owned by them) located in the smallest eastern India port city of Visakhapatnam (population 350,000). The median value added is roughly \$5,000 and initial capitalization roughly half that sum. The largest firms surveyed have value added of over \$40,000 and the smallest under \$1,000. Many of the enterprises are ancillaries of larger firms; 18 sell more than one-quarter of their produce to one buyer. This is a pattern very typical of Indian urban small-scale industry. Several of the firms are parts of "family groups" with other enterprises elsewhere in India.<sup>1</sup> This is also quite typical. In one recent Bombay survey, 22 of 60 firms were associated with other such family owned enterprises. I should point out that this pattern is widely reported by surveys in Africa and Latin America as well—and reflects the legal and practical advantages

<sup>1</sup> See also Nathaniel H. Leff, "Industrial Organization and Entrepreneurship in the Developing Countries: The Economic Groups," *Economic Development and Cultural Change* 26 (July 1978): 661-75.

of remaining small as well as a desire to insure against risk (the standard motive for diversification) (see pp. 72–73).

The firms are apparently drawn from the registry maintained by the Industries Department. This register in most parts of India covers, according to many estimates, only half of actual small-scale firms—because, *inter alia*, of restrictions on registration. I do not know how extensive the coverage is in Visakhapatnam. Alternative, somewhat more complete lists of firms can sometimes be secured by combining the registers of the factory inspectors, which cover larger firms, and those of smaller firms registered with municipalities under the Shops and Commercial Establishments Acts.

It should be made clear that few of Nafziger's enterprises are as small as the tailor shops and handloom/weavers workshops which characterize the informal sector covered in the International Labour Organization's various surveys and from which so much is hoped in terms of employment created, capital saved, and items of mass consumption produced. Nor, I should add, did many of Nafziger's entrepreneurs get their start in this sector—a fact mirrored in a number of African small-scale enterprise surveys. An observation based on armchair empiricism, which I think will have wide support, is that in the LDCs journeyman tailors do not become garment factory owners, or village carpenters furniture factory owners. They can and do prosper and fail in their own sphere and provide employment and needed consumer goods—but they usually do not make quantum jumps to other sorts of economic activity.

Chapter 2 gives a wide-ranging historical survey and analysis of concepts of entrepreneurship used by economic analysts, including some, like the ideas of Maurice Dobb, which are not usually covered in such surveys. Rather unusually, Nafziger refers us to others of his works for lengthy consideration of Weber, Hagen, Hoselitz, and McClelland, “which, however, do not belong in a discussion of the entrepreneur in the history of economic analysis” (p. 158). Nafziger clearly differentiates the literature on the origins and specific historical role of entrepreneurs from that which tries to understand entrepreneurs in the context of the normal sort of economic theory. The latest work cited in the bibliography was published in 1973, though some works are cited in the footnotes from as late as 1975. Anyone with experience of the lags in university press publication schedules will understand these omissions. Works such as Schatz's on Nigeria are thus not covered.<sup>2</sup>

Chapter 3 reviews the literature on Indian entrepreneurship, though the coverage of the literature is certainly partial—omitting much of the extensive Indian and Russian work. This section makes some particularly

<sup>2</sup> Sayre Schatz, *Nigerian Capitalism* (Berkeley: University of California Press, 1977). One misses also reference to Peter Marris and Anthony Somerset, *The African Entrepreneur* (New York: Africana Publishing Co., 1971).

interesting points, especially in its trenchant criticism of McClelland and others concerned with increasing achievement motivation. I should add that here, too, since the completion of the book, one scientific evaluation of the Gujerat Industrial Development Corporation (GIDC) entrepreneurial training program (using McClelland's achievement motivation techniques) has been done—and successful results have been documented.<sup>3</sup> I think it is fair to add, though, that Nafziger's recitation of various reasons for the program's success, other than the use of achievement motivation training (pp. 60–61), may still be valid. The Gujerat program may indeed have been quite successful before the introduction of achievement motivation training. The increase in the potential social spread of GIDC candidates because of concessions to former untouchables should not have done much to increase the program's differential success if we are to credit what Nafziger says elsewhere, when he demonstrates that successful entrepreneurs in India usually come from elite or at least high status backgrounds.

The point about high status origins, which is made in more detail in chapters 4 and 5, is certainly unassailable, though it should be made clear that "high status" is defined simply as being comfortably above the mean. What is clear, and I think rather generally recognized, is that large numbers of people are effectively excluded from any entrepreneurship, whatever their subjective wishes. An entrepreneur has to have the social capability of getting at the capital, technology, and markets required. The interesting question is how those who do become entrepreneurs differ from their capable brethren and whether it is possible to increase the number of new enterprises undertaken by increasing the number of the capable or by any other government action—an issue which is only addressed peripherally in this book.

Nafziger asserts that there are no studies on the differential opportunities for entrepreneurship on the part of different social classes. As a matter of fact, since the typical study shows why one group and not the other has become entrepreneurs, it deals with precisely that. The whole point of almost all the studies covered by Nafziger and many others is that industrial entrepreneurship is highly concentrated in certain small Indian groups—because they have the money and market connections or the critical skills for it. This is true whether we are talking about Marwaris (Timberg), Gujeratis in Ahmedabad (Gillion, Acharya, Pandit), commercial castes and communities in general (Gadgil, Lamb, Brimmer), Hazlehurst's work on Punjabis, Berna's on Madrasis, or Owens and Nandy's on Mahishya entrepreneurs in Calcutta.<sup>4</sup> The point is as true of

<sup>3</sup> V. G. Patel, *Innovations in Banking: The Gujerat Experiments*, Domestic Finance Studies no. 51 (Washington, D.C.: Public Finance, Development Economics, World Bank, August 1978).

<sup>4</sup> Hemlata Acharya, "Creative Response in Indian Economy: A Comment," *Economic Weekly* 9 (April 17, 1957): 547–49; James Berna, *Industrial Entrepreneurship*

works on commercial failure in Bengal (Kling, N. K. Sinha), the unpublished work (as far as I know) of Surajit Sinha and Subyasachi Bhattacharya on Gandhabaniks and Subarnabaniks, and the work of John Broomfield on a rural entrepreneurial family.<sup>5</sup> It is equally characteristic of Hanna Papanek's work on Muslim trading communities in India and Pakistan and the works of S. F. Levin and V. I. Pavlov and other Soviet scholars of the Shirokov and Reisner school.<sup>6</sup>

The general theme of all of these (and the list is incomplete) is that commercial groups had the market networks, commercial institutions, and access to capital to succeed in a form of entrepreneurship whose content was largely commercial. Whereas in the first few countries to industrialize technical tasks were critical, this was less the case for secondary industrializers who could copy and purchase technology. On the other hand, the tasks of financing and marketing were often far more onerous—since the appropriate institutions had not yet been developed and the scale of competitively viable technologies had often increased. Commercial communities which possessed institutions which were easily adaptable to the commercial tasks of industrial entrepreneurship were thus first and predominant among industrialists. In some cases, like the Mahishya, a farming caste in the Calcutta area, skill in manufacture was more important—and the technically skilled Mahishya machinists turned out to

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*in Madras State* (Bombay: Asia Publishers, 1960); Andrew Brimmer, "Setting of Entrepreneurship in India," *Quarterly Journal of Economics* 49 (November 1955): 553–76; D. R. Gadgil, *Notes on the Rise of Business Communities in India* (New York: Institute for Pacific Relations, 1951) and *Origins of the Modern Indian Business Class: An Interim Report* (New York: Institute of Pacific Relations, 1959); Kenneth L. Gillion, *Ahmedabad: A Study in Indian Urban History* (Berkeley: University of California Press, 1969); Leighton Hazlehurst, *Entrepreneurship and the Merchant Castes in a Punjabi City* (Durham, N.C.: Program in Comparative Studies on Southern Asia, 1966); Helen Lamb, "The Indian Business Communities and the Evolution of an Industrialist Class," *Pacific Affairs* 28 (June 1955): 101–16 and elsewhere; Ray Owens and Ashish Nandy, *The New Vaisyas* (Durham, N.C.: Carolina Academic Press, 1978); Mrs. D. P. Pandit, "Creative Response in Indian Economy: A Regional Analysis," *Economic Weekly* 9 (February 23, 1957): 283–85 and (March 2, 1957): 315–17; Thomas Timberg, *The Marwaris: From Traders to Industrialists* (New Delhi: Vikas Publishing House, 1978).

<sup>5</sup> John Broomfield, "The Rural Parvenu: A Report of Research in Progress," *South Asian Review* 7 (April 1973): 181–95; Blair Kling, *Partner in Empire: Dwarkanath Tagore and the Age of Enterprise in India* (Berkeley: University of California Press, 1976); N. K. Sinha, *The Economic History of Bengal*, 3 vols. (Calcutta: K. L. Mukhopadhyay, 1961–70).

<sup>6</sup> S. F. Levin, *Formirovanie Burzhuaziya Pakistana* (Moscow: Nauka, 1971); Hanna Papanek, "Leadership and Change in the Khoja Ismaili Community" (Ph.D. diss., Harvard University, 1962), "Entrepreneurs in East Pakistan," in *Bengal: Change and Continuity*, ed. Robert and Mary Jane Beech (East Lansing: Asian Studies Center, Michigan State University, 1971), "Pakistan's New Industrialists and Businessmen: Focus on the Memons," in *Entrepreneurship and the Modernization of Occupational Cultures in South Asia*, ed. Milton Singer (Durham, N.C.: Program in Comparative Studies on Southern Asia, 1972), and "Pakistan's Big Businessmen: Separatism, Entrepreneurship, and Partial Modernization," *Economic Development and Cultural Change* 21 (October 1972): 1–32; V. I. Pavlov, *The Indian Capitalist Class* (New Delhi: People's Publishing House, 1964).

have enough commercial skill to make their operations pay. In some general sense, this seems to be the case as well among many of the smaller high-technology firms in Bombay and Delhi and the small bicycle and machine-tool shops of the Punjab and Bombay.<sup>7</sup> Nonelite groups had neither the skills nor the networks and were not able to be successful entrepreneurs.

Those elite groups who did not enter industry typically had attractive alternatives in government service or landowning—and that conditioned, if it did not determine, their avoidance of industry. Interestingly, since land reforms have wiped out the largest landowners, a number of the more resilient have moved into industry, both as executives and as proprietors.

That the successful groups were small was so apparent to many of the writers in this somewhat crowded field that they felt it required no explication. But I did provide some documentation in a study Nafziger cites.<sup>8</sup>

Actually, very few empirical studies of Indian entrepreneurship stress ideological, attitudinal, or psychological factors. Perhaps Kennedy's study on the Parsis is most clear.<sup>9</sup> Pace Singer's admonitions on taking texts out of context, he explains the whole matter of Parsi industrial success by quoting Parsi sacred texts.<sup>10</sup>

In fact, the psychological traits appropriate to entrepreneurship differ according to the entrepreneurial task faced. As Nafziger notes, "When available resources are scarce, persons with a high need for cooperation will produce more than those with high n Ach. [n-Achievement]" (p. 55). Owens and Nandy's study on Mahishya entrepreneurs in Calcutta shows that for Mahishyas what differentiated successful entrepreneurs was not McClelland's "n-Achievement motivation," a testable trait which McClelland hypothesized characterizes successful entrepreneurs, but "n-Affiliation," the ability to deal socially with others.<sup>11</sup> Among high-caste, non-Mahishya small engineering shop owners, who had to break with family patterns to set up their shops, we find higher "n-Achievement" scores than among their nonindustrialist confreres.

Chapter 6 in the Nafziger book reviews government programs to assist small-scale industry in India and contains, inter alia (pp. 114–19), a good review of the negative effects on small enterprises of government rationing of raw materials. The argument about the merits in terms of

<sup>7</sup> M. L. Pandit, "Some Less Known Factors behind Recent Industrial Change in Punjab and Haryana," *Economic and Political Weekly* 13 (November 25, 1978): 1935–40.

<sup>8</sup> Thomas Timberg, *Industrial Entrepreneurship among the Trading Communities of India: How the Pattern Differs?* (Cambridge, Mass.: Development Advisory Service, Harvard University, 1969), pp. 5–6.

<sup>9</sup> Robert Kennedy, "The Protestant Ethic and the Parsees," *American Journal of Sociology* 67 (July 1960): 11–20.

<sup>10</sup> Milton Singer, "Text and Context in the Study of Contemporary Hinduism," *Adyar Library Bulletin* 25 (1961): 274–303.

<sup>11</sup> Owens and Nandy.

equity of not subsidizing small enterprise credit is a classic piece of wisdom universally expounded by economists and commonly disregarded by policymakers (including American ones).

There has been some change in the role of the banks since the survey was conducted—a doubling of the percentage of bank loans going to small industrial enterprises within the last decade in the context of a considerable increase in bank credit. But the modal small enterprise still does not have bank finance. In a recent survey in Bombay of enterprises roughly in the size class of those considered by Nafziger, almost a fourth had some bank credit. In Nafziger's case, the figure is two out of 54. Incidentally, the recommendation made by Nafziger to coordinate financial and technical assistance has been partially achieved in the in-house consultancy services the banks have generated. But the subject of consultancy needs a broader treatment than that given by Nafziger. It is perhaps the case that there is not so much need for technical consultancy for many of the simple processes in which small-scale enterprises engage. One of the least evaluated inputs in small-scale enterprise expansion is consultancy, so it is hard to be as optimistic about its potential role as Nafziger is. Numerous surveys like Nafziger's bemoan the actual quality of extension services in India; an equally large number, like Nafziger, feel that extension services are an essential element in small-scale enterprise promotion. One would like some concrete demonstration that extension services ever play a critical development role. There is one evaluation just undertaken of public consultative services in India, but that, too, will largely be about services which serve the large-scale sector.

Incidentally, contrary to what Nafziger found about National Small Industries Corporation and State Finance Corporation initial capital loans, bank loans for working capital to small enterprises do appear to be profitable.

As I mentioned, there are lots of unimportant lapses of detail. For example, on page 78 we have a reference to "Muslim-led" Mysore State. Unless Nafziger is referring to the period before the fall of the interloper, Tipu Sultan, in 1799, Mysore was ruled by an eminently Hindu Wadiyar dynasty and a Hindu bureaucratic and landholding elite. Perhaps Nafziger was misled because of the tenure of the Muslim Mirza Ismail as prime minister in the 1930s. On pages 118–19 we have the sentence, "The Indian Administrative Service is too small, and lacks the specialized skills and the control of the wide range of policy instruments essential for the detailed regulation of prices and physical output in the private sector." The point at issue concerns not the couple of thousand elite members of the Indian Administrative Service, who staff the highest bureaucratic positions, but the administration as a whole. The Sikh Khatri (a Punjabi trader-administrator caste) may have been very like the Hindu Khatri as successful entrepreneurs—but Kusum Nair's dicta on the Sikhs pre-

sumably apply to the far more numerous Jat, Ramgarhia, and Ahluwalia Sikhs—all prominent among entrepreneurs, though their Hindu caste fellows are not. Similarly, Kammas and Naidus may in fact be Sudras in the eyes of some isolated temple guardians, but they hardly differ in significant ways from groups who are listed as Kshatriyas. They are essentially prosperous landowning groups which have now moved into a range of middle-class urban occupations.

In general, the community focus in Nafziger's analysis is justified because of the correspondence between caste and social status—and the fact that many castes do constitute somewhat differentiable social groups. Precisely for this reason, however, the caste cluster classifications he uses are too gross. There are Muslim mercantile and craft industrial groups particularly prominent in South India. Origins among these groups may have explained the Muslim entrepreneurs more than Nafziger's discussion on page 78.<sup>12</sup>

Another more general issue to be addressed in connection with the book is the use of voluntarily supplied financial data and the question of their accuracy in a country where tax evasion is rampant. Of course, a number of Nafziger's units are small enough to be exempt from income tax, but precisely those ones may keep more rudimentary accounts than the others and be inaccurate for that reason. As one who is on record as affirming the value of using this sort of financial data, I should be the last to criticize, but I would have felt more happy to see total sales and present capital stock value, rather than measures as income tax, related as net income and value added.<sup>13</sup>

One petty issue is raised that perhaps needs some clarification: the Kling-Rungta controversy about the origin of the managing agency. Until it was forbidden quite recently, the managing of Indian firms was often contracted by the shareholders to a managing agency—which managed and may have promoted a number of other firms. At the very least these managing agencies contributed to the concentration of economic power, and they were often able to provide high-quality management and financial assistance. But managing agency arrangements also provided means to favor an inner group at the expense of the totality of stockholders. In the case of Ahmedabad textile mills, where one-mill-managing agencies were not uncommon, a share in the managing agency commission was often the reward for taking part in the mill's promotion. In any case, the agencies were especially characteristic of European firms and were only slowly adopted by Indian firms as they came into the market. Kling simply demonstrated that Dwarkanath Tagore (an early nineteenth-century

<sup>12</sup> See, e.g., Mattison Mines, *Muslim Merchants: The Economic Behavior of an Indian Muslim Community* (New Delhi: Shri Ram Centre for Industrial Relations and Human Resources, 1972).

<sup>13</sup> Thomas Timberg, "Small Scale Industry Survey Data: Note," *Economic and Political Weekly* 13 (August 26, 1978): 1478–79.



Calcutta merchant prince and the poet, Rabindranath's, father) in fact promoted the first of these managing agencies with some of his European partners. Needless to say, his primacy does not change the fact that the managing agency was characteristically a European innovation. Interestingly, with the ban on managing agencies, a number of them have reappeared as management consulting firms—which perform the same range of services as their Western counterparts—and have spun off market research and computer firms which are now successfully peddling their wares to the general international market.

Theodore W. Schultz, ed. **Distortions of Agricultural Incentives**. Bloomington: Indiana University Press, 1978. Pp. vii+343.

Yujiro Hayami

*Tokyo Metropolitan University*

Distortions in agricultural product and input markets arising from government interventions have resulted in serious misallocations of resources around the world. Typically, high-income industrialized countries subsidize agriculture by price supports and trade protection that result in conspicuous waste in the form of surplus inventory and acreage control. In contrast, developing countries whose economy is predominantly agrarian try to exploit agriculture by such policies as export taxes, marketing boards, and overvalued exchange rates; the result has been persistent underinvestment in agriculture and a recurrent food crisis.

Professor Theodore Schultz and his colleague Professor D. Gale Johnson have long argued that government intervention and the resulting price distortions in developed and developing nations are the major source of disequilibrium in world agriculture. The volume under review is the proceedings of a conference on this topic, organized by Schultz himself with the participation of 22 distinguished scholars. Papers and comments presented focus on one-half of the subject area, namely, the adverse effects on agricultural output and productivity of repressive price distortions in developing countries. Distortions in developed countries are dealt with only to the extent that they relate to the problems of developing countries (Johnson's paper on trade). Thus, the book represents a forum for discussion of the development strategies of low-income countries, with a special emphasis on the effect of government intervention into the market mechanism in agriculture.

The list of participants led me to expect both comprehensive treatments and fresh insights on this most crucial issue in agricultural development policy today. My expectation was partially fulfilled, but I was left with a sense of frustration.