

You only have to look at the US and Brazil to see if the genie of inequality is let out the bottle, it's very hard to put it back in again – James Crabtree



Former Mumbai bureau chief for the Financial Times and LSE alumnus, **James Crabtree** sat down with the editor of SouthAsia@LSE, **Christopher Finnigan** to discuss his new book *The Billionaire Raj: A Journey Through India's New Gilded Age*, and the state of income inequality, crony capitalism and corruption in India.



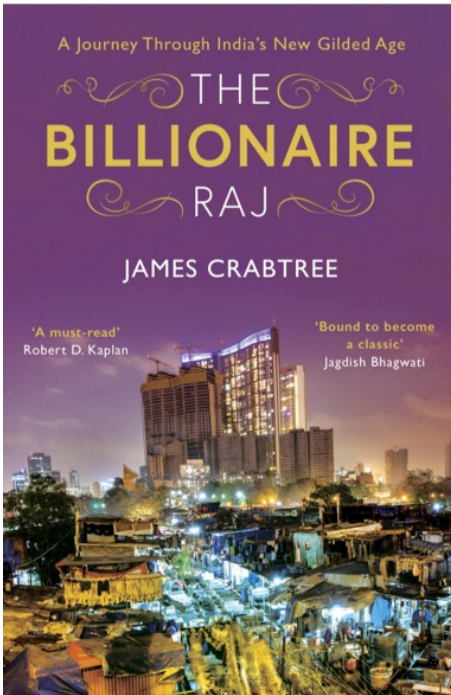
James Crabtree speaking at LSE | Photo Credit: South Asia Centre

What motivated you to write the Billionaire Raj?

I moved to India in 2011 and I stayed for five years. I lived in Mumbai rather than Delhi and I think people who write books about India typically live in Delhi and think about India politically. But I was writing about business, money, finance and banking, and in particular the big Indian conglomerates and tycoons that ran them.

These people are the richest in the country and I quickly became fascinated by the question of who were India's new superrich, or as they are sometimes called the 'Bollygarchs.' Who were these people? What made them tick? What were these businesses they were running? How did they make their money? Did they do it honestly?

I also became quite fascinated with this analogy between the American Gilded Age, a similar moment in American history: the era of the robber barons and the corrupt urban politics. This seemed similar to what India was going through in an early stage of its development. Those topics eventually turned into what now is the Billionaire Raj.



What similarities did you find with the American Gilded Age?

The two eras are obviously not the same. India and America are very different countries in all sorts of ways. But you have some quite persuasive similarities. Both in the American Gilded Age and what I call India's New Gilded Age, you have extraordinary wealth creation. This is especially true at the very top. Some industrialists are making huge amounts of money, particularly those who are global in their aspirations. You have very corrupt urban politics, you have mass urbanisation, you have the beginnings of the creation of a middle class – the Indian middle class has longer routes of course – but there is a kind of mass middle class.

But the thing that really focused my attention was corruption. The American Gilded Age was famous for its wealth and for the corruption of its business and political elites and that, particularly in the later stages of the 2000s, is what appeared to be happening in India too.

How has this new Billionaire class impacted Indian democracy and politics?

The most substantial effect is that it has increased inequality. Over the last ten or fifteen years, India has become a much more unequal country. It started out as a hierarchical society with lots of stratification – the caste system, different regional and religious divisions, all sorts of things. But over the last decade or more, the increase in inequality brought about by wealth creation at the top has been very stark.

Now some people aren't very worried about these levels of inequality. They say as long as people at the bottom are doing relatively better – as they are – then that's fine. But I think there are reasons to be worried about the very stark levels of inequality that India has because it makes it more difficult to grow and develop, to move from being a poor country to being a middle-income country and beyond. I think that's a fairly significant change that has come along with the prosperity of India's new era.

Has the rise of this new Billionaire class affected electoral politics in India?

Corruption is one of the central political fault lines in India, and corruption often has a lot to do with the super-rich because they are the ones who are perceived to be practitioners of crony capitalism. At the last election, the reason why Narendra Modi did so well was that he positioned himself as a candidate who was going to put an end to India's corruption scandals. Many of these corruption scandals involved prominent businesses who were perceived to be able to buy their way to economic success. Modi promised to put an end to such practices and it proved extremely popular. That was part of the reason why he was elected.



James Crabtree speaking at LSE | Photo Credit: South Asia Centre

Why has so much of the wealth generated in the last few decades remained in the hands of a small minority at the top?

Two reasons. The first is a natural process of economic development. What really happened in India was in the middle of the 1990s, there were just a couple of billionaires. It was only in the middle of the 2000s that the numbers really went up substantially, and that was because in the middle of the 2000s, India's economy really began reglobalise. This was the period of the great moderation, the height of peak globalisation, the commodity supercycle, the run into the Beijing Olympics. This was the real zenith of globalisation, and so it was at that time India's billionaire numbers started to go up, up, and up. It was two in the middle of the 1990s. Now its one-hundred and twenty.

Part of the reason for that is the success that comes with globalisation. If you set up a global business, you export and make a lot of money abroad, then you do very well and that's not a thing that just happens in India. It's kind of a rule of emerging economies. There's an economist called Caroline Freund who calls this the process of 'tycoonomics' in which tycoons and billionaires are created as an after-thought of globalisation. That's one reason, and there's nothing particularly wrong with that.

The other thing that has happened in India is crony capitalism. A lot of the people who made money did so because they were using political connections to improve their businesses. It was one of the ways that they tried to get a competitive advantage, and it happened a lot in the middle of the 2000s. During this time, companies were able to peruse rent-seeking strategies and thus received favours from the Government: they received land that other people couldn't get, they got mining rights, access to telecommunications spectrums – all the sorts of things that were in the gift of the Government. This was an enormous source of wealth creation. There were people whose fortunes were created through this process of crony capitalism, through this process of collusion between the elites. Those two forces – globalisation and using connections to get political favours – were the reasons why people managed to become so wealthy so quickly.

Does the creation of this new billionaire class have its routes in India's social structures?

Almost the opposite actually. There was a kind of traditional, anglicised business elite that prospered under the socialist years, before India was liberalised in 1991. But actually, the old business elites have been rather marginalised recently. On the one hand you had the arrival of foreign money. This has injected a certain kind of new dynamism into India. Also, you've had the rise of business figures from outside of that tradition. So, some of the richest men in the country (Mukesh Ambani and Gautam Adani) are figures who haven't come from traditional backgrounds. They come from trading backgrounds, but they are not part of the old monied elite that live in South Mumbai or Central Delhi. So in a sense liberalisation unleashed new forces, a new more dynamic form of capitalism, which didn't serve the old elite so well.

In your book you write about 'Good Billionaires' and 'Bad Billionaires'. What you mean by this?

This isn't my distinction, it's a phrase that came from Ruchir Sharma, who is a trader at Morgan Stanley, and also a writer. 'Good Billionaires' are those who made their money honestly, often from exporting, but if not simply by setting up businesses that were competitive at a national level, like the IT sector or general pharmaceuticals, or sections of the automotive supply chain. These are good companies who simply have done very well and as a result their owners, and founders have made a fortune.

The 'Bad Billionaires' are those who have made their money or have been helped along by political favours. They are the examples of crony capitalism. The definition I tend to use when I talk about crony capitalism is the one I take from Minxin Pei, a scholar of corruption in China, which is crony capitalism means collusion between your business and political elites. So while there aren't many businesses in India that only make their money through political favours – most of them are reasonably competitive – but some of them get an extra yard of pace from being able to work the political system. They tend to operate in sectors that are murkier: property, infrastructure developing and mining. These sectors often require a lot of help from the government in order to get anything done – and that's a breeding ground for corruption.

Has this new billionaire class tended to donate large amounts of their wealth to philanthropic causes?

India has unusual rules on corporate social responsibility. There's a rule that says businesses need to give two per cent of their profits, measured in a particular way, to corporate social responsibility projects. So they are required to give a lot of money to charity.

Indeed, Indian businesses have a rich tradition of philanthropy, which is born of their industrial past. If you were setting up a steel plant in India, there was literally nothing there, you would be setting it up in a field in the middle of nowhere. The Tata Group and some of these established old companies, they did a lot of charitable work by providing facilities for their workers through to funding hospitals, and they actually have a tradition of philanthropy that is more profound in western businesses. That's on the plus-side: these traditions of responsibility that have grown up in Indian companies.

The darker side, however, is often these operations – not so much with operations like Tata – but with some of the more unscrupulous characters that I deal with in the book, their corporate social responsibility operations are not always as different from their crony capitalism as you might hope. Such operations are often used to give jobs to family retainers or to buy-off opposition to industrial facilities.

At their worst, there have been some examples in India where these operations have literally been conduits for corruption in which they would be used in a sense to pay bribes. So while there is a lot of good philanthropy in India, and some of the best in the world, there's also a lot of mediocre and at worst philanthropic activity which is almost used as a cover for corruption. I think overall the picture is pretty mixed.

Do you think it's possible for India to achieve a fairer distribution of wealth in the future?

I think it's a very hard challenge. You only have to look at the legacy of the United States and Brazil to know that if you let the genie of inequality out of the bottle at an early stage of development, it's very difficult to put it back in again. And that's a good reason to start acting on it now.

That said, at the end of the book, I claim that this is quite an optimistic book and that while the challenges that India faces often appear overwhelming – climate change, mass urbanisation, the role of women, the way the government works – it often appears that this is an impossible task, and it is very difficult and it will require a lot of wisdom. But if you were to go to America in 1880 and look at the state of downtown New York and look at the morals of their business elite or the corruption of their politics, you would have heard people give a very similar range of problems.

The 'liberal elite' was in permanent despair at the venality of its politicians or the unscrupulousness of its business elites. And yet in Britain in the early 19th century and in America in late 19th century, in Korea or Taiwan in the mid-1960s, these appeared to be societies in the middle of this wrenching transition. They appeared to be unmanageable and yet over a relatively short period of time, some decades in America for instance, you had the middle class beginning to take control over politics. You had urbanisation, which helped to support the middle class, you had progressive political reform, you had the introduction of competition law, you had the building of the institutions from public libraries, newspapers, even sporting leagues that became a mark of a certain type of middle-class civilisation. If you were to have looked then at America in 1920 as opposed to 1890 you would have seen a substantial change.

That's not to say that India is predestined to improve on that timescale, it just means that over a period of twenty or thirty years with wise political decisions, you can have an awful lot of progress. In a sense, India's task is at once modest and radical. If India plays its cards right, it can become a middle-income, parliamentary democracy with a broadly speaking liberal, market economy by the middle of this century. That doesn't sound very exciting but actually, if India was able to pull that off and create a firmly middle-income economy with democratic politics it would be immensely significant. It would become a political model and a push back at the neo-authoritarianism of China. It would give other emerging markets a beacon to aim for.

Underlying my book is a claim about the enormous importance of India not just within India, and not just as an economy, but as a political model. If multi-party parliamentary democracy and a liberal market economy can work here, then that will be a hugely positive example, particularly at a time when China is sliding backwards to a much less appetising form of politics.

This article gives the views of the author, and not the position of the South Asia @ LSE blog, nor of the London School of Economics. Please read our [comments policy](#) before posting.

You can listen to a recording of a panel discussion on income inequality in India with James held at LSE [here](#).



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