INDIAN ECONOMY YESTERDAY AND TODAY

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Contents

Preface

In November 1959, on an invitation from the university of Warsaw, I delivered these lectures in the Faculty of Political Economy. The first two lectures deal with the historical setting of economic stagnation in India during the British rule. The third lecture deals with the contemporary development. Its general tone and tenor have been determined by two considerations: first, the optimism generated by the realisation of an 18 per cent rise in the national income (as against a target of 12 per cent) during the First Five Year Plan; and the further continuation of this feeling induced by the strategy, structure and target of the Second Five Year Plan. Second, the aim in view was to explain (rather than to criticise) Indian planning to a foreign audience.

Cyclostyled summary of these lectures, in Polish, was circulated among the members of the Faculty. I was pleasantly surprised by the deep interest shown by Polish scholars in Indian affairs. I had the additional pleasure of meeting some Polish scholars who, on the basis of their studies, supported my views on the possibility of an autonomous growth of capitalism in India.

In both the published versions — Polish and English — I have added a section on 'Social Aspects' to the Introduction, and have revised the last portion of the section dealing with 'Exchange Aspects'; and added two sections on 'Performance' and 'The Third Five Year Plan' to the third lecture. The last section on 'Prospects' has been retained, except for a few verbal changes. I hope that in spite of its inadequacies, the book would evoke interest in Indian economic history.

My greatest debt, of course, is to Warsaw University for doing me the honour to be its guest lecturer.

I am grateful to Professor W. Brus, the Dean, Faculty of Political Economy, Warsaw University, for making my stay in Poland fruitful and educative. I am also grateful to Mr. B. Blaszezyszy and other members of the Faculty, who helped me during my stay there.

I am thankful to Mr. J. Burgin, the Director, and Madame K. Gruberowa, the Editor-in-Chief of Ksiazka Wiedza for publishing the book in Polish and giving permission for the Indian edition.

I thank Dr. Zofia Dobreska of the Institute of Economic Research of the Polish Academy of Sciences, Warsaw, under whose editorship the Polish translation has been completed by Mr. B. Blaszczyszyun.

These lectures have also been published by the Humboldt University, Berlin, on the occasion of its one hundred and fiftieth anniversary.

September, 1964. V. B. Singh

Introduction

I

THE EVOLUTION OF INDIA AS AN UNDERDEVELOPED COUNTRY and her post-independence attempt to develop is the theme of these lectures. To cover, in three lectures, the economic evolution of a vast country like India, in the course of two centuries, is bound to be a rather shaky attempt, specially when I am not a historian. In this attempt I am open to criticism from both — the historian, who will treat me as an 'intruder', and the economist, who will treat me as a 'deviationist'. In fact it is highly likely that both may unite and say that my references to events, in the first lecture, are incomplete, as they do not refer to *all* parts of India. My only defence is that, in the first attempt I have not gone to the original sources to complete the picture but have relied on ready-made information available from authoritative secondary sources and each important phenomenon that I have discussed, has been taken to be typical of the whole economy. My main concern has been to discover from my sources the basic tendencies of the period which I have dealt with. That my attempt leaves much to be desired is, of course, too obvious to need any emphasis on my part.

II

A word may be said about the social aspects of these lectures. The first lecture is devoted to an analysis of the gradual and steady change in the pattern of Indian economy, specially in the spheres of agriculture, manufactures, trade and banking. The direction of this change might have led Indian economy to capitalism had the natural evolution not been thwarted by British rule. The exploitation of India in the earlier phase of British rule enriched British plutocracy and enabled it to convert technological possibilities into actualities, through the factory industry, which went to the making of the Industrial Revolution. What was ruthless exploitation and plunder for the Indian people, became a source of unprecedented accumulation and investment for the British entrepreneurs. The conquest of India, in spite of her heroic resistance, was made possible due to a superior economic organisation and technology at British disposal.

The second lecture covers the period 1857-1947, when the Government of India came under the British Crown. *Laissez faire* at home and colonialism abroad became the crux of British policy. Indian manufactures were not allowed to grow into factories. The development of the railways under governmental control (a perfect deviation from perfect competition) was not in response to the internal needs of either traffic, or trade and commerce; it was dictated by the needs of administrative and imperialist strategy. This laid the foundation—what now may be called a tradition—of government intervention and participation in economic activities. Again, the British investment in plantations was a device to exploit serf labour and natural resources, which led to a diversion of the Indian surplus for investment abroad. The exploitation and naked plunder naturally perpetuated an economy which had a zero rate of growth.

Every act of oppression results in a reaction. In the present context it led to the growth of Indian nationalism and renaissance. Nationalism has an obvious economic aspect, which in India was reflected in the urge for economic reforms and industrialisation. In the twentieth century the national movement generated a demand for Indian goods, *via* the *swadeshi*[1] movement, which gave unofficial protection to the nascent industries. The non-cooperation campaigns synchronized with the periods of economic

1. Literally means country-made. The *swadeshi* movement was launched to boycott British goods and patronise Indian goods.

crises — thus promoting industrialisation. It were the popular movements that made it possible for the Indian private sector to grow and come of age. Indian economic ideas flowed from British Classical Political Economy, but the Indian economists outgrew them. They advocated *swadeshi*, in place of Free Trade.[2] Political Economy, as 'An Inquiry into the Nature and Causes of the Wealth of Nations', was used to inquire into the nature and causes of poverty; and an attempt was made to construct a comprehensive theory of underdevelopment (as also of economic development and planning), well suited to Indian conditions.[3] After the Great Depression of the 'thirties the national movement accepted planning as its economic ideology.

It is this ideology of national planning, which has been discussed, in its operational aspects, in the third lecture. The success of Indian planning (as of planning in any other country) depends on a definite correlation of social forces expressed in class alliances, internally as well as externally. In its theoretical framework Indian planning seeks the alliance of the peasantry (along with other sections of rural poor), working class, middle class employees, traders, manufacturers and the democratic intelligentsia in the formulation and implementation of the plans at various levels. This operational alliance alone can guarantee the implementation of the plan in popular interests.

2. In 1906 Dadabhai Naoroji, the Grand Old Man of India, in his Presidential Address to the 27th Session of the Indian National Congress, held at Calcutta, said: 'I am a free trader, I am a member and in the Executive of the Cobden Club for 20 years and yet I say that *swadeshi* is a forced necessity for India in its unnatural economic muddle. As long as the economic condition remains unnatural and impoverishing and the necessity of supplying every year some Rs. 200,000,000 for the salary, pensions, etc. of the children of a foreign country at the expense and the impoverishment of the children of India, to talk of applying economic law to the condition of India is adding insult to injury'. See P. K. Gopalkrishnan, *Development of Economic Ideas in India* (1880-1950), New Delhi, 1959, p. 69.

3. This was chiefly the contribution of Ranade (1842-1901). *Ibid.*, pp. 95-124.

The purpose can be easily achieved, for we have the rich heritage of the national movement in which all these sections had combined. This tradition can be used by the parties of socialism for forging a Planning Front to fight all those economic, social and political forces that tend to oppose, openly or tacitly, planned economic development. Unfortunately the crucial weakness of Indian planning is the absence of this realisation — both on programme and practical levels. However, there is a growing consciousness that without such a joint front Indian planning cannot achieve its goal.

In the external sphere India's sponsorship of the doctrine of *Panchsheel* (the five principles of peaceful coexistence) is a concrete evidence of her desire for international peace, which alone can provide a conducive environment for economic reconstruction. The policy of *Panchsheel* has enabled India to get economic aid from socialist as well as capitalist countries. The policy of planned economic development and *Panchsheel* will surely have a healthy impact on Asian and African countries, for this has enabled India to attain a rate of growth which is higher than in some other countries which won independence in the post-war period. In the wake of economic development private foreign capital is being increasingly imported. This is not without risks. But the import of foreign capital has accentuated economic competition between socialist and capitalist countries in underdeveloped regions.[4] The subject requires research. It is almost certain that the policy of peaceful coexistence would attract increasing economic aid to the underdeveloped countries on more favourable terms. The Soviet resolve to equal the American output by 1970 and to double it by 1980 will further improve the

4. The American studies on the economic consequences of peaceful coexistence are motivated by '... the need to meet the communist threat... including policy toward economic development'. E. Staley, *The Future of Underdeveloped Countries* (New York, 1954), p. 40. This study is typical of the cold war 'academic' projects. The publications of the (American) National Planning Association are also of similar nature.

prospect of economic aid to the underdeveloped countries. The underdeveloped countries have a vested interest in the promotion of planned economic development and international peace. India is destined to play a vital role in both these aspects.

I

Colonialism and Economic Stagnation

THE MOST WIDELY DISCUSSED TOPIC IN CURRENT ECONOMIC literature is the problem of underdeveloped countries, yet adequate attention is not being paid to its historic evolution. The completion of the Industrial Revolution in the eighteenth century in certain countries divided the world into two categories: the industrialised (or developed) and unindustrialised (or underdeveloped). In his Preface to the first German edition of *Capital* Marx aptly remarked, 'The country that is more developed industrially only shows, to the less developed, the image of its own future.' Among the complex problems of the less developed or underdeveloped countries are the predominance of agricultural and pastoral occupations; export of raw materials and import of mill-made goods; absence of heavy industries and predominance of foreign capital in the other industries; top-heavy tax structure; lack of integration and existence of 'plural' societies; lack of educational opportunities and direct or indirect political dependence.[1] These features are also shared by colonial (and ex-colonial) countries which go with imperialism. The postwar wave of nationalism and democracy has liberated a number of countries from the colonial yoke and now they are making concerted efforts to develop their economies on an independent footing. Although, these countries share a large number of features, yet on account of their uneven socio-

1. *Proceedings of Asian Relations* (New Delhi, 1948) p. 121. See also D. R. Gadgil 'Pre-conditions of Economic Development', *Indian Economic Review* (February, 1952), Vol. I, No. 1, pp. 14-22.

economic development, it will not be proper to lump them together.

I. INDIAN TRANSITION AND IMPERIALISM

Because of the impact of the varying climes and times, it is better to choose one underdeveloped country and study the course of its evolution. Accordingly, I propose to discuss, in brief, the evolution of India as an underdeveloped country. My contention is that left to herself India (as other underdeveloped countries) would have, in due course, followed the path of industrialisation, with all its implications, and that the present state of underdevelopment has been imposed on her by imperialism. In this connection I wish to state, again in brief, the conditions which prevailed in Indian agriculture, manufacture, trade and banking at the beginning of British rule and their destruction and the consequent economic drain from India to England which prevented the former from following a natural course of economic evolution. Let us recall that the capitalist entrepreneur has grown out of the precapitalist farmer, manufacturer and trader.

'Two Paths'

The transition from the feudal mode of production, Marx tells us, has taken two paths or ways. In the first path, 'The producer becomes merchant and capitalist, in contrast to the natural agricultural economy and the guild-bound handicrafts of the medieval urban industries. This is the really revolutionising path.'[2] In the second path, 'the merchant establishes direct sway over production,' the merchant becomes an industrialist, 'tends rather to preserve it and retain it (the old mode of production) as its precondition,' but eventually becomes 'an obstacle to the real capitalist mode of production and goes under with its development.'[3] These two paths help us to understand

2. K. Marx, *Capital*, Vol. III (Moscow), p. 329.
3. *Ibid.*

both the history and the theory of economic development (and underdevelopment). Whether a given country has followed the first or second path, or both, is an empirical question to be decided by history. But both paths emerge from the pre-capitalist mode of production, i.e., the transitory stage, which is neither feudal nor capitalist.

II. DESTRUCTION OF AGRICULTURE

There is no dispute among economic historians that eighteenth century India was a rich and populous country. When Clive entered Murshidabad, the old capital of Bengal, he wrote (1757):

> This city is as extensive, populous and rich as the city of London, with this difference that there were individuals in the first possessing infinitely greater property than in the last city.[4]

Just three decades later William Fullarton, described the ruination of Bengal, under the British East India Company, in the following words:

> In former times the Bengal countries were the granary of nations, and the repository of commerce, wealth and manufacture in the East.... But such has been the restless energy of our misgovernment that within the short space of twenty years many parts of these countries have been reduced to the appearance of a desert. The fields are no longer cultivated; extensive tracts are already overgrown with thickets; the husbandmen is plundered; the manufacturer oppressed; famine has been repeatedly endured; and depopulation has ensured.[5]

In 1788 the exploitative mechanism that created this havoc was explained by Burke in his impeachment of Warren Hastings, a Governor-General of the British East India Company. Burke said:

> ...The cattle and corn of the husbandmen were sold for less than a quarter of their value, and their huts reduced to ashes. The unfortunate owners were obliged to borrow from usurers, that they might discharge their bonds, which had unjustly and

4. Quoted in the *Indian Industrial Commission Report*, p. 249.
5. *A View of the English Interests in India*, quoted in R. P. Dutt. *India Today* (Bombay, 1947), pp. 92-3.

> illegally been extorted from them while they were obliged to borrow money, not at twenty, or thirty or forty, or fifty, but at *six hundred* per cent....[6]

The magnitude of this extortion was so high that fathers were compelled to sell their children; large masses of people began to leave their villages and troops were employed to stop this flight and ultimately a rebellion broke out.[7] From this it is evident that the agricultural surplus was not invested in the country for the improvement of agriculture, manufacture and trade; but it was appropriated by British merchant capital to be invested elsewhere, for example, in the tea trade of China, and the beneficiaries of such investments were the British aristocracy, moneyocracy, and millocracy.

III. DISINTEGRATION OF THE VILLAGE COMMUNITY

Hence it may legitimately be asked whether (or not) Indian agriculture had emancipated itself from the feudal hold? This question becomes all the more important when we recall the following statement of Marx:

> The obstacles presented by the internal solidity and organisation of pre-capitalistic, national modes of production to the corrosive influence of commerce are strikingly illustrated in the intercourse of the English with India and China. The broad basis of the mode of production here is formed by the unity of small-scale agriculture and home industry, to which in India we should add the form of village communities built upon the common ownership of land, which, incidentally, was the original form in China as well. In India the English lost no time in exercising their direct political economic powers. as rulers and landlords, to disrupt the small economic communities.[8]

Earlier, in *Capital,* Marx has given a picturesque

6. J. Mill, *The History of British India* (London, 1858), Vol. V, pp. 75-6.

7. R. C. Dutt, *The Economic History of India Under Early British Rule* (London, 1950), p. 76.

8. Marx, *op. cit.,* Vol. I, p. 328.

description of the process of simple reproduction that goes on in the Indian village communities. He writes:

> Those small and extremely ancient Indian communities, some of which have continued down to this day, are based on possession in common of the land, on the blending of agriculture and handicrafts, and on an unalterable division of labour, which serves, whenever a new community is started, as a plan and scheme ready cut and dried. Occupying areas of from 100 up to several thousand acres, each forms a compact whole producing all it requires. The chief part of the products is destined for direct use by the community itself, and does not take the form of a commodity. Hence, production here is independent of that division of labour brought about, in Indian society as a whole, by means of the exchange of commodities. *It is the surplus alone that becomes a commodity, and a portion of even that, not until it has reached the hands of the State,* into whose hands from time immemorial a certain quantity of these products has found its way in the shape of rent in kind. The constitution of these communities varies in different parts of India. In those *of the simplest form,* the land is tilled in common, and the produce divided among the members. At the same time, spinning and weaving are carried on in each family as subsidiary industries. Side by side with the masses thus occupied with one and the same work, we find the 'chief inhabitant,' who is judge, police, and tax-gatherer in one; the book-keeper, who keeps the accounts of the tillage and registers everything relating thereto; another official, who prosecutes criminals, protects strangers travelling through and escorts them to the next village; the boundary man, who guards the boundaries against neighbouring communities; the water-overseer, who distributes the water from the common tanks for irrigation; the Brahmin, who conducts the religious services; the schoolmaster, who on the sand teaches the children reading and writing; the calendar-Brahmin, or astrologer, who makes known the lucky or unlucky days for seed-time and harvest, and for every other kind of agricultural work; a smith and a carpenter, who make and repair all the agricultural implements, the potter, who makes all the pottery of the village; the barber, the washerman, who washes clothes, the silversmith, here and there the poet, who in some communities replaces the silversmith, in

others the schoolmaster. This dozen of individuals is maintained at the expense of the whole community. If the population increases, a new community is founded, on the pattern of the old one, on unoccupied land. The whole mechanism discloses a systematic division of labour; but a division like that in manufactures is impossible, since the smith and the carpenter, etc., find an unchanging market, and at the most there occur, according to the sizes of the villages, two or three of each, instead of one. The law that regulates the division of labour in the community acts with the irresistible authority of a law of Nature, at the same time that each individual artificer, the smith, the carpenter, and so on, conducts in his workshop all the operations of his handicraft in the traditional way, but independently, and without recognising any authority over him. The simplicity of the organisation for production in these self-sufficing communities that constantly reproduce themselves in the same form, and when accidentally destroyed, spring up again on the spot and with the same name—this simplicity supplies the key to the secret of the *unchangeableness of Asiatic societies*, an unchangeableness in such striking contrast with the constant dissolution and refounding of Asiatic States, and the never-ceasing changes of dynasty. The structure of the economic elements of society remains untouched by the storm-clouds of the political sky.[9]

Implications

In the above passage the following portions should be marked and their implications worked out with a view to finding out the disintegrating factors in the old order: (i) 'some of which (ancient Indian communities) have continued down to this day' (which means that the rest have disintegrated); (ii) 'it is the surplus alone, that becomes a commodity, and a portion of even that, not until it has reached the hands of the State.' This is a negation of simple reproduction. (iii) The above description given by Marx refers to 'those of the simplest form' and the complex ones are not included wherein a different state of production naturally prevailed. (iv) Marx uses the phrase 'unchangeableness of Asiatic societies' only in a relative

9. Marx, *op. cit.*, Vol. I, pp. 357-59.

sense. (v) It may also be added that in his letter of 14 June 1853, addressed to Engels, Marx considers the '*question of property*... very *controversial*... among the English writers on India' and asserts that 'in the broken hill-country south of Krishna, property, in land does seem to have existed.'[10] (vi) When Marx refers to the destruction of the ancient Indian village communities on account of the British impact, he is essentially referring to an *exogenous* factor and has not discussed (since there was no occasion) the *endogenous* factors responsible for the disintegration of these primitive economic organisations. Therefore, we have to rely on other sources to trace the endogenous factors leading to the dissolution of the communal organisation of Indian economy — specially agriculture.

Endogenous Factors

As a general proposition it may be stated that the following disintegrating factors were inherent in the situation. First, the internal conflicts among the Jagirdars and Taluqdars (feudal lords), on account of which numerous forts existed in various areas. Second, this perpetual state of warfare and the lords' luxurious mode of living required an increasing amount of revenue; which in turn led to intensified exaction from the peasantry which time and again rose in local revolts.[11] Third, despite a general state of prosperity there were famines (due to natural calamities and the absence of quick transport facilities) which disrupted the old communal organisation, and people migrated to prosperous regions or cities. Fourth, in such conditions usury grows, which in turn helps the dissolution of the economic organisation; one of the reasons being the transfer of land to the non-agriculturists—the usurers, merchants and traders and consequently the influence of the urban moneyed classes on the rural economy also grew.

Referring to the internal disintegrating factors in the

10. *Marx-Engels Selected Correspondence* (Moscow, 1956), p. 104.
11. For example, the rise of Jats again and again.

Indian economy, Bernier, whose writings Engels describes as 'really very fine',[12] wrote towards the third quarter of the seventeenth century (1656-1668), that 'The facts I have mentioned are sufficient to account for the rapid decline of the *Asiatic* states.'[13]

Proprietary Rights

The existence of private property, in some forms, will be a conclusive proof of the process of disintegration of the old form of communal organisation of agriculture. It will be a grave error to apply rigidly, however, the fully developed capitalist concept of private property, whose essential features are free transferability and heritability, to pre-capitalist conditions; although there is probably no dispute regarding the existence of the right of heritability if land taxes were paid regularly during the pre-British days in India. On this controversial issue of property rights in land, James Mill's opinion seems to be nearer the truth. He says:

> ...while in theory the people admitted the right of the prince to the lands they tilled, yet in practice they very commonly regarded them as their own as long as they paid to the sovereign his undisputed share of the products.[14]

Further:

> The right of private property in the soil, ascertained by Colonel Munro to exist in Canara, satisfied him that... they [rights of private property] still existed and were to be discovered in every village.[15]

This view is also supported by Romesh Chandra Dutt, the author of the classical work on Indian economic history. He points out that under the Mahratta rule[16] land

12. *Marx-Engels Correspondence*, p. 100.
13. F. Bernier, *Travels in the Mogul Empire* (London, 1916), p. 227.
14. J. Mill, *op. cit.*, Vol. VII, p. 298. Also see p. 309.
15. *Ibid.*, p. 319.
16. Mahrattas constituted a confederation of Indian states, which were conquered by the British in 1818 after a series of ferocious wars.

was cultivated by the 'peasant proprietors called *Mirasdars* or hereditary owners of their fields.' In the next sentence he quotes Elphinstone, to tell us, that 'a large portion of the ryots are the proprietors of their estates, subject to the payment of a *fixed land tax* to government; and they are never dispossessed while they pay their tax.'[17] From Dutt we also learn that such rights existed elsewhere, for example, in Madras,[18] Mysore,[19] the Punjab[20] and Oudh.[21] Then the distinction between these rights and the capitalist ones is one of *de facto* and *de jure*. With such rights in land the cultivators of large farms could not but be farmers — the heralds of private enterprise in land.

Semi-feudal Economy

But the British intervention did not allow this natural process to grow: by creating landlordism, British rule reversed the development of capitalist relations of production in agriculture and introduced a semi-feudal economy — that, too, at a time when feudalism was being swept away from the continent. Commenting on this situation Marx aptly said:

> If any nation's history, then the history of the English in India is a string of futile and really absurd (in practice infamous) economic experiments. In Bengal they created a caricature of large-scale English landed estates; in south-eastern India a caricature of small parcelled property; in the north-west they did all they could to transform the Indian economic community with common ownership[22] of the soil into a caricature of itself.[23]

The characteristic features of the British-created semi-feudal colonial economy were: (i) transformation of the

17. R. C. Dutt, *op. cit.*, *Victorian Age* (London, 1950), p. 51.
18. *Ibid.*, *Early British Rule*, pp. 124-5, 140.
19. *Ibid.*, p. 213.
20. *Ibid.*, *Victorian Age*, pp. 82-96.
21. *Ibid.*, pp. 264, 271.
22. Common ownership of the soil coexisted with the individual's right to inherit and cultivate land. This tradition can be fully used for the spread of cooperative farming.
23. Marx, *op. cit.*, Vol. III, p. 328n.

old peasant proprietors into various types of tenants without any security; (ii) exaction of increasing absolute rent; (iii) increasing appropriation of feudal dues 'on account of the right of gathering produce from forests, fisheries, and use of water for irrigation from artificial sources, and the like;'[24] (iv) introduction of share-cropping mainly performed by the peasants of lower economic status; (v) use of forced labour, popularly known as *hari-begar,* and the labour rent coupled with various types of customary levies by the landlords from the tenants on occasions like marriage, birth, death or the purchase of an elephant, or horse, etc.; (vi) the zamindar's rights of a quasi-judicial political nature over their tenants; (vii) low technique of cultivation with a primitive type of division of labour and (viii) production for the immediate need of the household, and not for a wider market.[25]

In seeking to establish a social base[26] in India for imperialist exploitation British rule founded an agrarian system which was inherently incapable of producing food and raw materials for a developing economy; it kept the peasants at (or even below) the subsistence level which not only restricted the internal market, but also dried the very fountain which could have been a source for producing economic surplus for investment and development. Whatever surplus agriculture yielded was eaten up by the unproductive classes of imperialists, landlords and usurers. Thus agriculture, the primary source for capital accumulation in a predominantly agricultural country, was organised on a basis which could give rise only to an arrested and thwarted underdeveloped economy.

IV. MANUFACTURE

British exploitation of the Indian manufacture was no

24. *The U.P. Zamindari Abolition Committee Report,* Vol. I, p. 375.

25. From the author's 'Land Tenure in An Indian State' in *Science & Society,* Fall, 1955, Vol. 19, No. 4, p. 306.

26. Cf. *Report of the Land Revenue Commission, Bengal,* Vol. I, p. 19.

less intensive. It was the unity of agriculture and manufacture that had constantly maintained an enviable position for India in international trade, as she had practically little to import but plenty to export. The result was the constant flow of gold and silver to India. In the seventeenth century India was the richest country of the world, 'the agricultural mother of Asia and industrial workshop of civilization.' Towards the third quarter of the eighteenth century Adam Smith spoke of India's (along with Egypt and China) 'wonderful accounts of the wealth and cultivation' and 'renowned for ... superiority in agriculture and manufactures'.[27]

Tavernier, who visited India about the middle of the seventeenth century, writes: 'Kassimbazar, a village in the kingdom of Bengal, can furnish about twentytwo thousand (22,000) bales of silk annually, each bale weighing one hundred (100) *livres*.'[28] He also tells us that 'business is conducted with freedom and fidelity.[29] Describing a diamond mine in Kolher near Golecunda (South India) Tavernier says: '...there were close upon 60,000 persons who worked there, including men, women and children, who are employed in diverse ways, the men in digging, the women and children in carrying earth...'[30] A little later (1656-83) when another Frenchman, Bernier, visited India he was of the view that there was no other country where so much variety could be found. Referring to the abundance of sugar, cotton and silk in Bengal he writes: '...the kingdom may be called the common storehouse of these two kinds of merchandise not of or the Empire of great Mongol only, but of all the neighbouring kingdoms, and even of Europe.'[31] Discussing a workshop he observes: 'The Dutch have sometimes seven or eight hundred natives employed in their silk factory at Kassimbazar, where, in

27. Adam Smith, *The Wealth of Nations* (Modern Lib. ed.), p. 348.
28. J. B. Tavernier, *Travels in India* (London, 1889), Vol. II, p. 2.
29. *Ibid.*, p. 59.
30. *Ibid.*, p. 75.
31. Bernier, *op. cit.*, p. 439.

like manner the English and other merchants employ a proportionate number.'[32] Bernier gives a description of large halls of production centres, which he calls '*Karkanays*' (Karkhaneys) (which are also mentioned in Abul Fazal's *Ain-i-Akbari)*, meaning workshops. He writes:

> In one hall embroiderers are busily employed, superintended by a master. In another you see the goldsmiths; in a third, painters; in a fourth, varnishers in lacquer-work; in a fifth, joiners, turners, tailors, and shoe-makers; in a sixth manufacturers of silk, brocade and fine muslin.... The artisans repair every morning to their respective *Karkanays*, where they remain employed the whole day, and in the evening return to their homes.[33]

Dutt's account of the state of manufactures of the period 1757-1837 covers a large variety of goods such as cotton, silk, paper, boots, boxes, leather, sugar, indigo, tobacco, dyes, salt, saltpetre, coffee, tea, gold, iron, copper, coal, timber and opium.[34] This period is marked by the decline of Indian industries under the British impact. But the situation was not so bad until the beginning of the nineteenth century. Thomas Munro, an important British official testified before a committee of the House of Commons:

> ...If a good system of agriculture, unrivalled manufacturing skill, a capacity to produce whatever can contribute to convenience or luxury; schools established in every village... the general practice of hospitality and charity... a treatment of the female sex... and if civilisation is to become an article of trade between the two countries (India and England), I am convinced that this country (England) will gain by the import of cargo.[35]

Then what was the mechanism through which the Indian manufacturers were uprooted by the British? It

32. *Ibid.*, p. 440.
33. *Ibid.*, pp. 258-59.
34. Dutt, *op. cit.*, *Early British Rule*, pp. 27, 45, 205ff, 235, 239, 241, 245, 248, 259, 256-90, 293ff.
35. Quoted in *Ibid.*, pp. 259-60.

was a systematic policy of coercion[36] brought on the manufacturers to sell to none except the Company, and that too at the price it dictated, which was, without exception ,much below the market price; the competition generated by machine-made English goods backed by political and military powers; the physical annihilation of the weavers by 'cutting off their thumbs;[37] the use of protection against India not only during the mercantilist phase but also of free trade[38] resulting in ruthless de-industrialisation of India, accelerated by her political subjugation that destroyed the manufactures. The Governor-General reported in 1834-35: 'The misery hardly finds a parallel in the history of commerce. The bones of the cotton-weavers are bleaching the plains of India.'[39] It is in this way that manufactures, the second source of accumulation and economic development, were plundered and ruined.

V. TRADE

A prosperous state of agriculture and manufacture naturally led to extensive trade. It is not generally realised in the West that India had a tradition of extensive international trade. A renowned Indian historian has conclusively shown that for full three thousand years India was the key centre of the Old World, and stood as one of the topmost maritime countries. Her trade relations were extended not only to Asian countries but 'with the whole of the then known world, including the countries under the dominion of the Rome Empire, and both the East and the West became the theatre of Indian commercial activity and gave scope to her naval energy and throbbing international life.'[40]

36. *Ibid.*, pp. 26, 264-65.
37. *Ibid.*, p. 27.
38. *Ibid.*, *Victorian Age*, pp. 537-44.
39. Marx, *Capital*, Vol. I (Moscow, 1954), p. 432.
40. P. K. Mookerji, *Indian Shipping* (London, 1912), p. 4. Also see pp. 82-3.

This was true also of seventeenth century India. Bernier reports of India's extensive trade not only with South-East Asia and Japan, but also with France, Portugal and England. India imported a part of her lead requirements from England and broad-cloths and other articles from France.[41] He found in abundant quantity the finest variety of cotton and silk stuffs, saltpetre, lac, opium, wax, butter and various drugs which not only met the requirements of internal consumption but were heavily exported.[42] Consequently Indian exports outstripped her heavy imports and enabled India not only to preserve her gold and silver but also to import them.

VI. INDIGENOUS BANKING

Against this background it is not difficult to appreciate the growth of classes of merchants, traders, shopkeepers and financiers. For example, Delhi had 80 *caravansarais* for foreign merchants housed in magnificent buildings with decent lodging, storehouses, stables and vaults and Patna accommodated 600 brokers. The merchants of Agra heaped money like grain and their counterparts in Dacca used to weigh money since it was not possible to count. The traders of Gujarat were known for their honesty and integrity. Virji Vora (1619-1670), the then leading Gujarati trader, has been described to be the richest man of his period in the world.[43] The banking house operated by the Jagat Seth family (1718-1760) had become proverbial: even the European East India Companies had to depend very much on the Seths for the timely supply of credit which was the life-blood of their so-called 'investment'.

In 1753 Roger Drake, President of the Calcutta Council, was told that the Jagat Seth House monopolised the purchase of all the bullion that was imported into Bengal. This banking house had its branches in most of the

41. Bernier, *op. cit.*, p. 203. Also see p. 439.
42. *Ibid.*, pp. 439-40.
43. R. K. Mukerjee, *Economic History of India*, 1600-1900 (London, 1946), pp. 76-7.

important towns of Northern India, between Dacca and Delhi, and its *hundis* were honoured. It also functioned as the receiver and the treasurer of government revenues. It could send one crore of rupees to the Emperor of England by a single *hundi*. In 1757 when Ahmad Shah Abdali invaded Delhi he found it to his advantage to recognise the pre-eminence of this banking house. The wealth of this House was not merely a product of usury. It had developed credit and international trades.[44] Burke compared the extensive transactions of this House to that of the Bank of England.[45] The native capital resources were extensive and were spread over the whole of India: Bengal, Northern India, Gujarat, Maharashtra and Madras.[46]

But the trade and banking of a country are dependent in large measure on the state of agriculture and manufacture. The ruination of agriculture and manufacture under British rule, coupled with constant exactions, restitutions, tributes and gifts extorted from India, the fortunes made by the servants of the British East India Company; the financing of British trade in China by means of Indian bullion; the 'investment' policy of the Company (that is the purchase of Indian merchandise for exports by the Company with 'borrowed' capital from India) and lastly the competition generated by the Western joint-stock enterprises[47] backed by political and military powers rendered Indian trade and banking crippled and permanently disabled. As early as 1788 Lord Cornwallis claimed: 'Merchants from the upper parts of Hindustan were in fact expelled and those concerned with exports by sea discouraged.'[48] This diverted the attention of the moneyed classes to the acquisition of zamindari, which was the only source of investment under

44. N. K. Sinha, *Economic History of Bengal* (Calcutta, 1956), Vol. I, pp. 137-43.
45. N. C. Sinha, *Studies in Indo-British Economy Hundred Years Ago* (Calcutta, 1946), p. 18.
46. *Ibid.*, pp. 17-28.
47. *Ibid.*, pp. 29-31.
48. *Ibid.*, p. vi.

the colonial and semi-feudal conditions prevailing under British rule.

VII. ECONOMIC DRAIN

The economic drain from India to England started with the operations of the European (specially the British East India Company)[49] companies. The East India Company sent its first ship on 2 May 1601 and the venture of the mercantile capital received the active support of Queen Elizabeth, who was one of the shareholders of the Company.[50] (In 1689 the share of the British king rose to £7,000).[51] So far as the character of the early voyages is concerned, the following observation of Murry, who was an admirer of the Company's integrity, will be enlightening:

> ...Independently of the fact that whole fleets were sometimes laden with captured goods, trade was often carried on by compulsory means, calculated to ensure a profitable return only to the stronger party. These first voyages, in short exhibit the profits of trade combined with the produce of piracy.[52]

No wonder, therefore, that the capital investment of £429,000 in the first British joint-stock company, constituted for trade with East India, earned a profit of 87.5 per cent and multiplied its investing capacity.

The economic drain (consisting chiefly of export surplus, cost of wars that the British fought anywhere and everywhere, interest on the so-called public debt, extracted gifts and looted wealth. Hastings' dealing with the Begums of Oudh and Raja Chet Singh of Banaras not only promptly figured in his impeachment, but also have become proverbial) from India progressively weakened her potentialities for development. Prior to British rule, India was a traditional

49. See Ramkrishna Mukherjee, *The Rise and Fall of the East India Company* (Berlin, 1955).
50. *Ibid.*, p. 28.
51. *Ibid.*, p. 42n.
52. Quoted in *ibid.*, p. 30.

exporter of cotton goods. But between 1794 to 1813 cotton goods worth £826,757 were imported into India from England.[53] The machine-made cotton goods ruined both the spinners and the weavers. Between 1818 and 1836 the export of cotton twist from England to India increased 5,200 times.[54] In 1814-15 a sum of £3,446,016 was drained out of India. This increased to £3,090,582 in 1836-37 and £6,162,043 in 1851.[55] Montgomery Martin wrote (1838):

> This annual drain of £3,000,000 on British India amounted in thirty years, at 12 per cent (the usual Indian rate) compound interest to the enormous sum of £723,997,917 sterling; or, at a low rate, as £2,000,000 for fifty years, to £8,400,000 sterling! So constant and accumulating a drain even on England would have impoverished her; how severe then must be its effects on India, where the wages of labourer is from two pence to three pence a day?

Further:

> For half a century we have gone on draining from two to three and sometimes four million pounds sterling a year from India, which has been remitted to Great Britain to meet the deficiencies of commercial speculations, to pay the interest on debts, to support the home establishment, and to invest on England's soil the accumulated wealth of those whose lives have been spent in Hindustan. I do not think it possible for ingenuity to avert entirely the evil effects of a continued drain of three or four million pounds a year from a distant country like India, and which is never returned to it in any shape.[56]

During the last twentyfour years of the Company's rule—1834-35 to 1857-58—the total tribute from India amounts to £151,830,989, which works out at a yearly average of £6,325,875, that is, about half of the annual land revenue collections for the period.[57]

53. Dutt, *op. cit., Early British Rule*, p. 257.
54. R. P. Dutt, *India Today* (Bombay, 1946), p. 101.
55. Mukherjee, *op. cit.*, p. 224.
56. Quoted in *ibid.*, p. 224.
57. *Ibid.*, pp. 224-25.

Then there was the mechanism of 'investment', that is, the Company's purchase of Indian goods for export and sale in Europe, without any commercial return for India. During a period of nineteen years from 1793-94 to 1811-12 £25,134,672 were expended on this so-called 'investment',[58] the yearly average being £1,322,877.

The increase in British imports and the so-called 'investment' are not to be evaluated on the assumption of perfect competition, but in the context of the unjust commercial, political and military policies pursued by the East India Company. It was the operation of such exclusive companies that led Adam Smith to characterise them as 'nuisances in every respect; always more or less inconvenient to the countries in which they are established, and destructive to those which have the misfortune to fall under their government'.[59]

The exactions were not confined to manufacture and trade alone. Agriculture had to bear a heavy burden. During a period of 46 years from 1792 to 1838, the year of Queen Victoria's accession, the total land revenue stood at £407,313,896; the gross revenue at £769,664,513 and the gross expenditure at £729,242,535.[60] In other words during these 46 years land revenue contributed 52.9 per cent of the gross revenue and 55.8 per cent of the gross expenditure and the excess of revenue (running into millions of pounds) was pocketed by the Company.

There was yet another method used in harnessing India's produce for British interests. A huge sum of £2,244,829 was paid by the British administration in India to the railways on account of guaranteed interest, a novel method of making private investment profitable, in a short span of ten years from 1849 to 1858.[61]

It is not possible to calculate the loot and plunder that

58. Dutt, *op. cit., Victorian Age*, p. 158.
59. Adam Smith, *op. cit.*, p. 606.
60. *Ibid.*, pp. 399-405.
61. Dutt, *op. cit., Victorian Age*, p. 176.

have been committed on Indian soil during British rule. According to Digby, between Plassey (1757) and Waterloo (1815), a period of crucial importance for British capitalism, between £500,000,000 and £1,000,000,000 worth of treasure was taken by the British from India. The magnitude of this sum can be appreciated if it is realised that at the turn of the last century the aggregate capital of all joint-stock companies operating in India amounted to £36,000,000. But during the period 1837-38 to 1857-58 the so-called 'Indian Debt' increased from £30,249,893 to £60,704,084. The economic impact of the British conquest may be summarised in the following words of Romesh Chandra Dutt:

> India in the eighteenth century was a great manufacturing as well as a great agricultural country, and the products of the Indian loom supplied the markets of Asia and of Europe. It is unfortunately true that the East India Company and tho British Parliament, following the selfish commercial policy of a hundred years ago, discouraged Indian manufacturers in the early years of British rule in order to encourage the rising manufactures of England. Their fixed policy, pursued during the last decades of the eighteenth century and the first decades of the nineteenth, was to make India subservient to the industries of Great Britain. This policy was pursued with unwavering resolution and with fatal success; orders were sent out, to force Indian artisans to work in the Company's factories; commercial residents were legally vested with extensive powers over villages and communities of Indian weavers; prohibitive tariffs excluded Indian silk and cotton goods from England; English goods were admitted into India free of duty or on payment of a nominal duty.... The invention of the power-loom in Europe completed the decline of the Indian industries; and when in recent years the power-loom was set up in India, England once more acted towards India with unfair jealousy. An excise duty has been imposed on the production of cotton fabrics in India which... stifles the new steam-mills of India. Agriculture is now virtually the only remaining source of national wealth of India... but what the British Government... take as land tax at the present day sometimes approximates to the whole of the econo-

mic rent.... This... paralyses agriculture, prevents saving, and keeps the tiller of the soil in a state of poverty and indebtedness.... In India the state virtually interferes with the accumulation of wealth from the soil, intercepts the incomes and gains of the tillers... leaving the cultivators permanently poor.... In India, the State has fostered no new industries and revived no old industries for the people.... In one shape or another all that could be raised in India by an excessive taxation flowed to Europe, after paying for a starved administration. Verily the moisture of India blesses and fertilises other lands.[62]

VIII. INDIA AND THE INDUSTRIAL REVOLUTION

Without the Indian wealth, it seems, it would not have been possible for the Industrial Revolution to mature in Britain. Invention alone is not enough to change the economy of a country, unless it has been integrated with the production process. For example, 'in 1733 Kay patented his fly-shuttle, and in 1738 Wyatt patented his roller-spinning machine worked by water power; but neither of these inventions seems to have come into use.'[63] But the appearance of Hargreave's Spinning Jenny in 1770, Arkwright's water-powered spinning frame in 1769, followed by his patents in 1775 for carding- drawing- and spinning machines, Crompton's mule in 1779; Cartwright's power-loom in 1785 and the application of steam engine to blast furnaces in 1788 heralded the dawn of the Industrial Revolution. Why? Because, as has been pointed out, after Plassey (1757), Indian wealth began to flood England. Here is the testimony of Brooks Adams:

> Before the influx of the Indian treasure, and the expansion of credit which followed, no force sufficient for this purpose existed, and had Wyatt lived fifty years earlier, he and his inventions must have perished together. Possibly since the world began, no investment has ever yielded the profit reaped from the Indian plunder, because for nearly fifty years Great Britain stood without a competitor. From 1694 to Plassey

62. *Ibid., Early British Rule*, pp. viii ff.
63. G. H. Perris, *The Industrial History of Modern England.*

(1757) the growth had been relatively slow. Between 1760 and 1815 the growth was very rapid and prodigious.[64]

IX. INTERNAL CONFUSION

It is argued that because of the internal conditions then prevailing in India nothing else could have happened. This surmise is a negation of a scientific assessment of the processes of history. It is true that there was utter internal confusion and chaos during the eighteenth century, under the impact of the disintegrating Moghul Empire. The European companies had started an onslaught from the South-West and the Afghan invasion from the North-West. Nadir Shah (of Afghanistan) invaded India in 1739 and the direct financial spoil has been estimated to be Rs. 150,000,000. Some 28,000 transport animals were needed by Abdali (1756) to load the booty. At that time Lahore, Delhi and Agra were more populous and urbanised than London or Paris. But with successive invasions from the North-West there prevailed extreme uncertainty and insecurity. It is of some interest to note that because of this situation three leading poets of Urdu—Mir, Sauda and Mir Hassan—left Delhi and settled down in Lucknow, which had not yet become insecure and unsafe. Reflecting on his and his beloved city's misfortune Mir wrote:

Taking me as an alien, and with laughter derisive
Why ask my habitat, you Men of the East.
Delhi was that city, the fairest in the world,
Where the choicest of the age had their abode.
By heavens despoiled, laid barren and bare
Of that House of Desolation, I was a dweller.[65]

64. Brooks Adams, *The Law of Civilisation and Decay*, p. 260. See also pp. 263-64.

65. The original in Urdu reads:

کیا بود و باش پوچھو ہو پورب کے ساکنو   ہم کو غریب جان کے ہنس ہنس پکار کے
دلی جو ایک شہر تھا عالم میں انتخاب   رہتے تھے منتخب ہی جہاں روزگار کے
جس کو فلک نے لوٹ کے ویران کر دیا   ہم رہنے والے ہیں اسی اجڑے دیار کے

Referring to this inner chaos Marx wrote:

> The paramount power of the Great Moghul was broken by the Moghul viceroys. The power of the viceroys was broken by the Mahrattas. The power of the Mahrattas was broken by the Afghans,[66] and while all were struggling against all, the Briton rushed in and was enabled to subdue them all.[67]

Why did the British succeed in conquering India, whereas other invaders chose to settle on the Indian soil? Marx's answer is:

> Arabs, Turks, Tartars, Moghuls, who had successively overrun India, soon became *Hinduised,* the barbarian conquerors being, by an eternal law of history, conquered themselves by the superior civilisation of their subjects. The British were the first conquerors superior, and therefore inaccessible to Hindu civilisation. They destroyed it by breaking up the native communities, uprooting the native industry, and by levelling all that was great and elevated in the native society. The historic pages of their rule in India report hardly anything beyond that destruction.[68]

X. RETARDATION OF CAPITALIST GROWTH

It was the higher form of socio-economic organisation and technology that enabled the British to conquer India. There could be no question of entering the Indian scene to set right the confusion. For, in certain respects, the confusion prevalent in eighteenth century India is comparable to the Wars of Roses in England and the Thirty Years' War in Germany, which fulfilled a twofold task: the dissolution of the old order and the laying of the foundations of the new order—an autonomous growth of capitalism. From the foregoing analysis of the economic conditions in India, it is fairly clear that, in the course of the natural evolution, out of the agricultural, manufacturing, trading, banking

66. But the first blow was delivered by Ahmad Shah of Afghanistan in 1761.

67. 'The Future of British Rule in India', *New York Daily Tribune,* 8 August 1953.

68. *Ibid.*

and shipping interests a new class of capitalist entrepreneurs was bound to emerge—may be under a king, as it did in Japan. This was all the more possible, because nature has bestowed India with abundant supplies of raw cotton, raw jute; easily mined coal and iron ore; abundant skilled and industrious population and rich reserves of gold and silver, second perhaps to that of no other country in the world,[69]. She has also an extensive internal market.

Griffiths, a contemporary British writer on India, concedes that the employment of 60,000 miners 'was clearly a large-scale capitalist organisation', and adds:

> In the shipbuilding industry, too, as well as in salt mining we find similar developments, but these three are exceptions and if we exclude the *Karkanays* of the emperors and the nobles... production in India was still in the hands of individual artisans.[70]

Why should the shipbuilding industry and the *Karkanays* of the emperors and nobles be excluded, specially when the former was formidable and the latter were numerous and spread all over the Indian towns and which were also numerous? The shipbuilding industry was fairly advanced and had established itself in various places. For example, in Maharashtra in 1674, at the time of Shivaji's coronation, he had 57 ships of war (excluding smaller craft) with a total fighting strength of over 5,000 men. Five years later the number of ships increased to 66. It is a formidable force even by modern standards[71]. India's extensive foreign trade could not have been possible without a strong mercantile navy. Thus, shipbuilding had attained the status of a national industry. Since the *Karkanays* were widespread and India had contacts with France and England, the possibility of their being transformed into factories and the gradual development of the 'emperors and nobles' and

69. B. H. Buchanan, *op. cit.*, pp. 450-1.
70. P. Griffiths, *The British Impact on India* (London, 1952), p. 430.
71. See M. Mulgaonkar, *Kanhoji Angrey, Maratha Admiral—An Account of His Life and His Battles with the English* (Bombay, 1959).

the traders, manufacturers, moneylenders, and other business and agricultural interests into capitalist entrepreneurs, cannot, in the background of the Industrial Revolution, seriously be controverted. In fact, these *'Karkanays'* could have provided the nucleus for developed capitalist organisations. I do not, however, suggest that capitalist production had become the dominant mode of production in seventeenth-eighteenth century India. In 1776 Adam Smith cited the pin industry as the model industry even of England—the pioneer of the Industrial Revolution. But the crucial issue is that the above-mentioned workshops, which were sufficiently large for non-mechanised production, could have easily become the nucleus for factory production, and it was British rule that prevented this natural industrial growth of India. What Griffiths called the 'exceptions' could have as well been the leading sectors of large-scale industrialisation of India. The fact that even without steam-power and mechanical aid 60,000 workers could be employed to work with simple tools is a tribute to the organisational ability of the Indian entrepreneurs. It is on the basis of such evidence that Buchanan, an American authority on India, reached the melancholy conclusion in 1934 that India 'had all the crude elements upon which manufacturing depends', yet during more than a century she could develop 'only a few of the simplest industries' and that too with foreign (chiefly British) machinery and organisation.[72]

The role of British rule in the retardation of independent growth of capitalism in India, when the internal conditions were maturing for such a change, may be summarised in the following observation made by R. P. Dutt:

> The invasion, however, during this critical period of the representatives of the more highly developed European bourgeoisie, with their superior technical and military equipment and social-political cohesion, thwarted this normal course of

72. Buchanan, *op. cit.*, pp. 450-51.

evolution, and led to the outcome that the bourgeois rule which supervened in India on the break-up of the old order was not Indian bourgeois rule, growing up within the shell of the old order, but foreign bourgeois rule, forcibly superimposing itself on the old society and smashing the germs of the rising Indian bourgeois class. Herein lay the tragedy of Indian development, which thereafter became a thwarted or distorted social development for the benefit of a foreign bourgeoisie.[73]

XI. NATURE OF BRITISH RULE

Here I may be permitted to digress and examine the nature of British rule in India, specially in the context of Marx's views; which have been, at times, misrepresented and distorted by vested interests and pseudo-intellectuals. It has often been maintained that had India managed to escape British rule, she (and this applies to other colonies) would have remained an idyllic, pre-industrial and a disunited country. It is argued that British rule brought capitalism to India, which in itself was a big step towards progress. An elementary knowledge of economic history is enough to demonstrate that capitalism does not come and go. It grows and dies. And unless British rule can be equated with the totality of the creative forces of world history, capitalism in India could have grown even if there had been no Plassey and no Clive. Passages from Marx's articles on India which refer to the 'regenerating role' of British rule in India are clumsily pieced together in support of this contention.

The central point that Marx makes is:

> England has to fulfil a double mission in India: one destructive and the other regenerating—the annihilation of old Asiatic society, and the laying of the material foundations of western society in Asia.[74]

I have stated earlier that Indian society was disintegrating because of the endogenous factors, and British rule,

73. R. P. Dutt, *op. cit.*, p. 85.
74. Marx, *op. cit.*

as an exogenous factor, accelerated this process, just as Roman invasion accelerated the fall of the slave society in the West.

In Marx's words, 'the laying of the material foundations of Western society' in India was accomplished by the British, as 'the unconscious tool of history'. The advent of the British in India synchronised with the epoch of free-trade capitalism in England. Imperial and administrative necessities forced the British to lay the material foundations—'political unity', 'electric telegraph', 'native army', 'free press', 'private property in land', a (Western) educated middle class and 'regular and rapid communication with Europe'[75]—for the future society. Marx's reference to 'material foundations of Western society' is a scientific forecast on the basis of the data then available and it should be judged in terms of the unborn society which Marx had in mind. About the birth of this unborn society, Marx wrote in unmistakable terms:

> The Indians will not reap the fruits of the new elements of society scattered among them by the British bourgeoisie, till in Great Britain itself the new ruling classes shall have been supplanted by the industrial proletariat, or till the Hindus themselves shall have grown strong enough to throw off the British yoke altogether.[76]

75. For comments see R. P. Dutt, *op. cit.*, pp. 80-81.
76. Marx, *op. cit.*

2

Pseudo-Development Under British Rule

INDIA CAME UNDER THE BRITISH CROWN IN 1857. THUS IT TOOK about ninety years for the Indians to grow 'strong enough to throw off the English yoke'. This period is, however, marked by the formalisation and legalisation of exploitation on the one hand, and a steady struggle to win political and economic independence on the other.

I. DECLINE OF INDIAN COTTON INDUSTRY

The economic drain continued to flow out of India. During the first two decades of direct British rule the expenditure in England, out of Indian revenue, constituted 17.7 per cent of the gross expenditure.[1] Total Indian exports during this period stood at 121 per cent of the total imports,[2] but this was not, however, the result of general economic development, but of colonial exploitation. In the later part of the nineteenth century (1878 onwards) this tendency was further accentuated by a manipulated fall in the value of the rupee. Before 1885 ten rupees represented about sixteen shillings and in 1895-96 they represented less than twelve shillings.[3] Thus, there was a fall of 25 per cent.

Meanwhile British imperialism continued its anti-Indian textile policy and adopted ruthless measures to destroy it further. Romesh Chandra Dutt aptly said:

> When every civilized government on earth is endeavouring to help home manufactures, the Indian Government has cruelly

1. R. C. Dutt, *op. cit., Victorian Age,* p. 373.
2. *Ibid.,* p. 343.
3. *Ibid.,* p. 529.

> repressed the infant mill industry of India under the mandate of Lancashire, even in respect of coarse cotton fabrics with which Lancashire does not compete. The results broadly stated are—a decline in cotton manufactures, a decrease in the demand for machinery and mill work, and an increase in the import of cotton manufactures...[4]

The same fate was met by silk and woollen manufactures. The import of hardware, cutlery, plated-ware and raw metals steadily increased.[5]

II. BRITISH INVESTMENTS

While textile, the national industry of India, was declining, the mileage under railways increased from 20 in 1853 to 24,760 in 1900.[6] This increase in means of transport is not an index of the increase in Indian economic exploitation of India. During the year of the so-called Mutiny (1857) the railways covered only 288 miles; but they increased to 1,588 miles in 1861; 2,336 miles in 1862; 2,550 miles in 1863; 3,936 miles in 1867 and so on.[7] The total outlay on the construction of these lines is estimated to be Rs. 2,276,697,-650.[8] This vast expansion of the railways guaranteed: (i) The political subjugation of India with the help of British army. (ii) The movement of Indian foodstuffs and raw materials to the ports to be shipped to England. (iii) An extensive market for British manufactures. (iv) A certain guaranteed rate of profit for British investors. It was under the pressure of British business that railways were constructed with great rapidity.

Reflecting on this situation Romesh Dutt rightly observed:

> ...We cannot enjoy the luxury of European travelling when the annual earning per head of population in India is £2, and that in England £42. We are content to be among the foremost nations out of Europe, so far as the facilities of

4 *Ibid.*, p. 531.
5 *Ibid.*, p. 531.
6 *Ibid.*, p. 548.
7 *Ibid.*, p. 548.
8 *Ibid.*, p. 549.

travelling are concerned.... We object to the revenues of India being assigned for new lines, or for guarantees on new lines.[9]

But such protests could not deter the British government. All this extension of railways took place when people were dying of hunger in millions and millions, year after year, and even the official commissions had recommended the extension of irrigation facilities, which have been traditionally a function of the central government in India. 'When we turn from railways to the subject of irrigation works,' observed Romesh Dutt, 'we turn from unwise extravagance to equally unwise niggardliness.'[10] Consequently in the last quarter of the nineteenth century there were famines, which took a toll of 32,400,000 human lives.[11]

Plantations

Plantations—indigo, tea, coffee and rubber—have been one of the earliest attractions for European, chiefly British, capital in India.[12]

(i) *Indigo.* The Indigo plantation was operated with serf labour. In 1860 the Indigo Commission found that 'whether the ryot took his original advances with reluctance or cheerfulness' he was 'never afterwards a free man.'[13] The ryot witnesses informed the Indigo Commission 'that the original advances were taken by their father or grandfather.'[14] The Commission has quoted the following saying prevalent in the villages: 'If you sign on Indigo Contract you won't be free for seven generations.' Such conditions of serfdom persisted in Assam, Bengal, Bihar and UP. Because of the invention of synthetic dyes the indigo industry got the first setback. But it was only under the influence of

9 *Ibid.*, p. 448
10 *Ibid.*, p. 550.
11 P. A. Wadia and K. T. Merchant, *Our Economic Problem* (Bombay, 1945) p. 59.
12 See Buchanan, *op. cit.*, pp. 27-74.
13 *Report,* para 109.
14 *Ibid.*, para 57.

rising nationalism following World War I that the workers on indigo plantation were liberated.[15]

(ii) *Tea.* Tea plantations grew in the latter half of the nineteenth century. In 1850, in Assam, there was just one tea estate covering 1,876 acres and the output was 216,000 lbs.; in 1853 there were 10 estates covering 2,425 acres and the output was 366,700 lbs.; in 1859 there were 48 estates covering 7,599 acres and the output was 1,205,689 lbs.; in 1869 there were 260 estates covering 25,174 acres and the output was 4,717,769 lbs. and in 1871 the number rose to 295 covering 31,303 acres and producing 6,251,143 lbs. of tea.[16] But the remarkable increase in tea plantation started after the year 1885. During 1885-89 the average acreage under tea was 310,595 acres; which increased to 704,059 in 1920 and 789,000 in 1929. The output for these years were 90,602,000, 345,340,000 and 432,998,000 pounds, respectively.[17] While the plantations have been organised on a large-scale, there has been no mechanisation. Till very recently there were no labour laws applicable to these estates, with the result that the exploitation of the labourers, who numbered about 500,000 as early as 1887, went unchecked.[18]

The mode of recruiting labour was exceedingly deceitful. The workers were given false promises but once they arrived at the plantation, the Royal Commission on Labour in India pointed out,

> ... they have been guarded not unlike prisoners... They have found themselves set down in a swampy jungle, far from human habitation, where food was scarce and dear, where they have seen their families and fellow labourers struck down by disease and death, and where they themselves, prostrated by sickness, have been able to earn by far less than they could have done in their own homes.[19]

15 See D. G. Tendulkar, *Gandhi in Champaran* (1957).
16 Buchanan, *op. cit.*, p. 55.
17 *Ibid.*, p. 56.
18 *Ibid.*, p. 59.
19 *The Royal Commission on Labour in India Report*, p. 359.

With cheap land and cheaper labour tea plantation became a lucrative business. In 1930 more than Rs. 400,000,000 were invested in Indian tea planting companies, of which 25 per cent were registered in India and 75 per cent in England.[20] Tea plantation continues to be under the domination of foreign—chiefly British—capital; although the process of Indianisation is clearly visible.

(iii) *Coffee.* Coffee is another plantation industry which the British capital has boosted up. The East India Company took interest in the coffee plantation as early as 1823 and with greater inducement to this industry 4,000 acres were brought under coffee cultivation. But the boom for the industry came in 1860 which synchronised with the American Civil War. Soon after, competition was generated by Brazilean coffee and consequently during 1877-87 'as many as 263 plantations were abandoned.'[21] For holding the labourers on the estates the tea and coffee planters were given the powers of criminal prosecution.

In 1885 coffee cultivation covered 237,500 acres; but in 1894-95 it fell to 133,000; in 1904-05 to less than 100,000 and in 1914-15 to 88,000. With the rise in prices during and after the war the business became once more profitable and in 1926-27 as many as 150,000 acres were brought under cultivation.[22]

(iv) *Rubber.* In the beginning of the present century rubber plantation was also introduced and it continues to be under the domination of foreign capital. In 1921 the number of rubber estates employing more than 10 persons was 135 covering 124,000 acres and employing 17,000 workers.[23]

Jute and Coal

In the nineteenth century the bulk of British investment was in railways and plantations, although attention was also paid to jute and coal mining. Bengal has monopolised the

20 Buchanan, *op. cit.*, p. 67.
21 *Ibid.*, p. 70.
22 *Ibid.*, p. 71.
23 *Ibid.*, p. 73.

manufacture of jute because of the good start, local availability of raw materials and the supply of cheap but efficient labour. Jute manufacturing has been owned and managed almost entirely by British capital; though since the first quarter of this century it is estimated that more than 50 per cent shares have been owned by Indians.[24] But ownership of share has to be separated from ownership and management of the industry. During 1924-25 two British labour leaders visited the jute mills and were deeply shocked at 'the scandalously low' wages and the 'simply staggering' profits. They calculated that during the decade 1915-24, 'the jute mills earned 90 per cent per annum on their capital,'[25] and that 'the average annual profit is eight times of the wages' bill.'[26] The growth of the industry can be estimated from the increase in the number of looms. There were 102 looms in 1859; 950 in 1860; 3,868 in 1877; 6,700 in 1885; 7,659 in 1890; 15,213 in 1901; 31,755 in 1910; 38,364 in 1915; 40,367 in 1920 and 58,639 in 1930.[27] So the real growth took place in the first quarter of this century; specially as a result of the boom created by World War I.

Like jute, coal has also been under the domination of British capital. The first mine was opened by two Britishers in 1774. By 1860 fifty collieries had started functioning in the Raniganj field and in 1868 they produced more than 99 per cent of the half million tons produced in the country. The total production of coal in 1880 was about 1,000,000 tons; in 1900 it increased to over 6,000,000 tons; in 1912 over 12,000,000 and in 1917 about 22,000,000 tons.[28] The paid-up capital of joint-stock companies engaged in coal mining increased from Rs. 67,200,000 in 1914 to Rs. 117,-746,496 in 1925 and the number of companies increased from 153 to 251.[29]

24 *Ibid.*, pp. 231-32.
25 *Ibid.*, pp. 231-33.
26 Quoted in *Ibid.*, p. 253.
27 *Ibid.*, p. 245.
28 *Ibid.*, p. 257.
29 *Ibid.*, p. 269.

This brief reference to the British policy of investment—chiefly in railways and plantations—makes it abundantly clear that industrialisation or economic development of a colony cannot be the concern of the imperial power. The profits of the British investors have not been used for the development of Indian economy; but for further exploitation in India and elsewhere. British capital entered into only those industries whose exports to Britain were considered essential for maintaining imperial supremacy.

III. RISE OF INDIAN BOURGEOISIE

But even this process of investment created a desired reaction. By 1890 there were a number of factories which employed 300,000 workers. Because of the exceedingly unsatisfactory conditions of service and work, labour discontent grew, and with it local labour movements. But from the viewpoint of Indian industrial leadership what was more important was the rise of the national bourgeoisie which became resentful and clamant from the third quarter of the nineteenth century and sought to establish itself in various ways. Marx's prophecy came to be true:

> ... when you have once introduced machinery into the locomotion of a country, which possesses iron and coals, you are unable to withhold it from its fabrication. You cannot maintain a net of railways over an immense country without introducing all those industrial processes necessary to meet the immediate and current wants of railway locomotion, and out of which there must grow the application of machinery to those branches of industry not immediately connected with railways. The railway system will therefore become, in India, truly the forerunner of modern industry. This is the more certain as the Hindus are allowed by British authorities themselves to possess particular aptitude for accommodating themselves to entirely new labour, and acquiring the requisite knowledge of machinery. Ample proof of this fact is afforded by the capacities and expertness of the native engineers in the Calcutta mint, where they have been for years employed in working the steam machinery, by the natives attached to the several steam-engines in the Hardwar coal districts, and

by other instances. Mr. Campbell himself, greatly influenced as he is by the prejudices of the East India Company, is obliged to avow 'that the great mass of the Indian people possesses a great *industrial energy*, is well fitted to accumulate capital, and remarkable for a mathematical clearness of head and talent for figures and exact sciences.' 'Their intellects,' he says, 'are excellent.'[30]

Cotton Mill Industry

The chief field for the investment of Indian capital has been the cotton mill industry, as it enjoyed certain locational advantages.. Besides, the cotton mill industry needed less capital than other industries and the ruined spinners and weavers were readily available to be trained in mechanical operations. The cotton mill industry of India has grown almost entirely under the leadership of Indian capital. Some of the well known businessmen, merchants and bankers came forward as entrepreneurs, although they did not abandon their earlier business. The emergence of the first cotton mill is traceable to the period 1850-55 but it was only a decade later that there were 10 cotton mills in Bombay City and three more in the Presidency. By 1877 this number increased to 51 in the whole country with 1,250,000 spindles and more than 10,000 looms. In 1879-80 there were 58 cotton mills which increased to 114 in 1889-90, 194 in 1900-01 and 264 in 1913-14. The number of persons employed increased from 39,537 in 1779-80 to 99,224 in 1889-90; 156,355 in 1900-01 and 260,847 in 1913-14. The number of spindles increased from 1,407,830 in 1879-80 to 2,934,634 in 1889-90; 4,942,290 in 1900-01 and 6,620,576 in 1913-14. Similarly, the number of looms increased from 13,307 in 1879-80 to 22,078 in 1889-90; 40,542 in 1900-01 and 96,688 in 1913-14.[31]

Thus, between 1890 and 1914 the cotton mills increased almost by 5 times; the persons employed 7 times; and the

30 K. Marx, 'The Future Results of the British Rule in India' in Marx and Engels, *On Colonialism* (Moscow), p. 87.

31 D. R. Gadgil, *Industrial Evolution of India* (1946), pp. 76-79.

spindles more than quadrupled and the looms increased more than seven times. This remarkable increase despite the obstacles placed by colonialism, was partly possible because of the swadeshi movement of 1905 which called upon Indians to use country-made goods—specially cloth. As a result of such forces Lord Curzon established the new Department of Commerce and Industry and two years later the first Industrial Conference was held. By 1914 India had occupied the fourth position in world cotton manufacturing. The boom generated by the war naturally helped the growth of the industry and yielded on an average 30 per cent profit. It should be noted that the emphasis of the national movement on the consumption of Indian goods and the boycott of the British cloth, synchronising with the Great Depression, gave a great fillip to the cotton industry.

Iron and Steel

In the natural course of economic development the iron and steel industry should have been boosted up while extension of railways was taking place on a large scale. This was all the more necessary because both history and geography have favoured this industry in India. The great iron pillar of Delhi, weighing over six tons, was built in A.D. 415 and is solid proof of the advanced knowledge and skill of Indian workman, and the level of technological growth. Buchanan concludes that: '...The old weapons are second to none and it is said that the famous damascus blades were forged from steel imported from Hyderabad in India.' And referring to the aforementioned iron pillar Buchanan observes: 'No one yet understands how so large a forging could have been produced at that time. Remains of old smelting furnaces found throughout India are essentially like those in Europe prior to modern times. Compared with a modern country, India had very little iron, but it was produced in widely scattered communities.'[32] This

32 Buchanan, *op. cit.*, p. 274.

means that the technical knowledge about steel was widely diffused. *The Imperial Gazetteer of India*, however, proclaimed in 1907: 'The native iron-smelting industry has been practically stamped out by cheap imported iron and steel within range of the railways, but it still persists in the more remote parts of the peninsula.'[33]

The deliberate destruction of the indigeneous iron and steel industry appears all the more criminal when we note that nature has been beneficient to us. Our iron ore resources are extensive. Coking coal, limestone dolomite and manganese are also available, and that too, not far off from the main sources of iron ore. If, however, the present state of our iron and steel industry fails to give an adequate idea of our resources, it is because of our colonial past which greatly retarded the development of a modernised industry. It was not in the interest of British rule to develop iron and steel industry in India and consequently the earlier attempts, even by Britishers, were not encouraged.[34]

It was Jamshedji Tata (founder of the leading Indian industrialist family of Tatas), who first showed some understanding of India's industrial future specially in the field of the production of iron and steel. He invited American and European experts to conduct a pilot survey of Bengal and Bihar with a view to establishing there an iron and steel industry on a large-scale — employing the latest available scientific methods. Consequently, in 1907 the Tata Iron and Steel Company was founded with Indian capital — an expensive proposition to start with. But the 1914-17 war created huge demands for steel resulting in gains rather than in losses.

IV. FIRST WAR AND INDUSTRIALISATION

The exigencies of the war situation both directly and indirectly stimulated industrialisation, side by side with a more rapid pace of de-industrialisation. Directly, because

33 *Imperial Gazetteer of India*, Vol. III, p. 145.
34 Buchanan, *op. cit.*, pp. 278-82.

India was to be used as the industrial arsenal of the war; and indirectly, because the British Empire, as an economic unit (including India), had to be strengthened and protected against the imperialist rivalry of Japan — which was already assuming menacing proportions — and ultimately of America. Under the impact of the resurgent revolutionary forces, both international and national, the unconcealed imperialist exploitation assumed a newer form with a heightened intensity, as I shall explain and illustrate later on. *The Moral and Material Progress of India* frankly stated: '...prior to the War certain attempts to encourage Indian industries by means of pioneer factories and government subsidies were effectively discouraged from White Hall.'[35] Now, the positive discouragement of industries yielded place to grudging recognition.

The Industrial Commission of 1918 enunciated certain fundamental principles: '...in future government must play an active part in the industrial development of the country, with the aim of making India more self-contained in respect of men and material;' and 'it is impossible for the government to undertake that part, unless provided with adequate administrative equipment and forearmed with reliable scientific and technical advice.' The Commission deprecated India's dependence on imports of iron and steel goods and machinery. It also proposed organisational improvement for the encouragement and control of industries; improvement of technical training and education; reorganisation of the scientific staff and the grant of technical and financial aid to industries and generation and supply of power for them. These recommendations of the Industrial Commission were followed by the Fiscal Commission of 1921 which reported in the following year in favour of 'discriminating protection;' while in a minute of dissent five Indian members expressed their opinion in favour of full protection.

35 *Report* (1921) p. 144.

While these commissions were meeting and reporting the cycle of boom and crisis did not wait. The war boom lasted until the autumn of 1920. 'Between April 1919 and March 1920 there was an unexampled boom in company promoting in India, especially in the engineering, sugar and oil refining, tanning and timber industries.'[36] This period is also noted for all-round industrial activity. In India the manufacturing and exporting business, e.g., cotton, jute, cement, steel and iron, maganese, oil seeds, hides and skins became attractive for investors. Taking 1914 to be the base the index of capital of companies registered reached 221 in 1921. But soon the high profits gave birth to speculation and depression came on the scene. The index of capital of companies, with 1914 as base, dropped down to 121 in 1922; 51 in 1923; 40 in 1924; 31 in 1925; 45 in 1926 and 29 in 1927. The large-scale industries, excepting jute because of its monopoly, were specially hard hit. The cotton industry suffered severely and the iron and steel industry—from which so much was expected—was forced to plead for protection against imports.[37]

Since the Reports of the Industrial Commission and the Fiscal Commission were not implemented, it appears that they were only measures to sidetrack the main demand for industrialisation and protection. However, the national movement had reached a new phase under the direct leadership of Mahatma Gandhi and the first all-India non-cooperation movement started in 1921. The British government were forced to give all-round concessions. The policy of protective tariff adopted by the government was a part of these concessions.

The establishment of the Imperial Bank of India was yet another device to take away the industrial capital from even the remote possibility of Indian influence and to regu-

36 Vera Anstey, *The Economic Development of India* (London, 1949), p. 220.

37 *Ibid.*, p. 220.

late its flow in the country according to the needs of British monopolies.

Discrimination

The (British) Government of India's assistance to Indian industrial development was worked by the granting of protection and subsidies to the iron and steel industry in 1924. Then again a recession followed. The majority of the applications received by the Tariff Board were not endorsed, e.g., those of cement and paper industries. Even in the case of iron and steel the basic duties were lowered and the subsidies abolished, when the case came up for renewal. The most important principle introduced through the continuation of these acts, was Imperial Preference, which became the backbone of the tariff system.

Indian industry, however, received a great setback in 1927, when as a result of the recommendation of the Hilton Young Commission on Indian Finance and Currency (1926), the exchange value of rupee was stabilised at 1s 6d instead of the prewar rate of 1s 4d. This policy of deflation was adopted in face of universal protest in India. In his minute of dissent to the Commission's Report, Sir Purshottamdas Thakurdas had expressed the Indian viewpoint when he wrote: 'It will hit the Indian producer to an extent beyond his capacity to bear. It will hit, and hit very hard, four-fifths of the population of the country that exists on agriculture.'

With the thirties Imperial Preference was extended to cotton piece goods. The Ottawa Agreement of 1932, imposed on India a general system of Imperial Preference, despite the protest of the Indian people as well as the Indian Legislative Assembly. The Ottawa Agreement, its terms, the manner it was negotiated and its subsequent history—all indicated that India was merely a supplier of raw materials and only incidentally of industrial goods.

V. CRISIS AND DECLINE OF BRITISH HOLD

Meanwhile the crisis had come. Agricultural prices touched the lowest level on record. Taking 1913 as the base, for example, we find that the price of Indian cotton in London stood at 114 in 1929; but it decreased to 74 in 1930 and 59 in 1931.[38] The price 'scissors' struck the rural economy harder. Consequently the non-agriculturists—merchants, traders, and usurers—and the Kulaks found it advantageous to acquire landed property while the rural distress prevailed. This also affected India's foreign trade adversely. In 1929 our net export surplus was worth Rs. 860 millions; which declined to Rs. 790 millions in 1930; Rs. 620 millions in 1931; Rs. 348 million in 1932 and Rs. 34 millions in 1933. Similarly the net gold imports stood in 1929 at Rs. 212 millions, which declined to Rs. 143 millions in 1930 and Rs. 125 millions in 1931. But this was not the end of our distress. In the following year (1932) we suddenly began to export gold worth Rs. 580 millions; which increased to Rs. 683 millions in 1933.[39]

But the crisis also weakened the British economic hold on India. From the thirties the Indo-British economic nexus began to weaken. On the one hand, Britain's share of exports in the Indian market declined, on the other hand, it is noteworthy that the rise of Indian manufacturing became marked.

In the pre-depression period (1929-30) India's adverse balance in relation to the UK was Rs. 360 millions, if compared to Rs. 590 millions in 1913-14. But the 'sensational fall' in British imports in India during the first three years of the depression further reduced the adverse balance and it stood at Rs. 110 millions in 1932-33 and a year later a favourable balance was created. The competition generated by the industrial development in Europe, America and Japan was too powerful a force to be controlled by mani-

38 *Statist*, 11 November 1933, p. 370.
39 *Ibid.*

pulation of the Indian tariff—the Imperial Preference. Consequently the British share in the total Indian imports declined from 45 per cent in 1928 to 36 per cent in 1938.[40]

Every trade cycle creates opportunities for fresh investments. In India, as said earlier, the specific character of the national movement extended a great patronage to Indian industries, specially cotton textile. Because of these factors after the depression Indian industries recovered rapidly. For example, India had 6,397,000 spinning spindles in 1914, which increased to 8,807,000 in 1930 and stood at 10,059,000 in 1939. In the year 1938-39 the value of India's imported manufactured goods (Rs. 92 lakhs) was almost twice the value of her exports of manufactured goods. In 1935-36 the Indian imports accounted for 31.7 per cent from the UK and 5.6 per cent from the USA; in 1937-38, 29.9 per cent from the UK and 7.4 per cent from the USA and in 1939-40, 25.2 per cent from the UK and 9.0 per cent form the USA. This showed a decline in British imports and growth of American imports in the Indian market. All this happened at a time when the British government were using the Protection System—originally meant for helping nascent Indian industries—to help the British industries through the mechanism of Imperial Preference.

VI. BALANCE SHEET OF INTER-WAR YEARS

The two decades (1919—1939) intervening between the two wars is the period of finance-capitalist rule in India. It is claimed by imperialist ideologues that during this period industrialisation progressed in India under the patronage of British rule. Facts, however, belie these claims.

We have already stated that the number of companies floated during this period was unprecedented. It is also true that a section of the Indian bourgeoisie struggled hard and established itself in certain branches of the economy.

40 B. N. Ganguli, *Reconstruction of India's Foreign Trade* (1946), pp. 21-23.

For example, in 1914, Indian cotton mills produced only 25 per cent of the mill-produced cotton goods consumed in India, but in 1934-35 they produced 75 per cent. By 1932-33, the steel industry was able to meet 75 per cent of the requirements of the Indian steel market, although the over-all consumption of steel was too low when compared to advanced countries. For example, 'the record steel output of 879,000 tons in 1935-36 was below the level of Poland in the same year (with a population less than one-tenth of India), and less than one-sixth that of Japan in 1936, or one-nineteenth that of the Soviet Union.'[41] Taking 1914 as the base, in 1930 the number of spindles had increased only by 38 per cent, whereas in Japan they increased by 183 per cent.

But whether a country is industrialising itself or not is to be judged on the criterion of the greater, or increasing, percentage of people depending on industries for their livelihood. Judging by this criterion we find that in 1911 there were 17.5 million persons employed in industries, which decreased to 15.7 million in 1921 and 15.3 million in 1931. That is, during the two decades it decreased by 12.6 per cent. In 1911 industrial workers constituted 11.7 per cent of the total working population; but this percentage declined to 11 in 1921 and 10 in 1931. The total decrease was 9.1 per cent. Again, in 1911 industrial workers constituted 5.5 per cent of the total population which fell to 4.9 in 1921 and to 4.3 in 1931. The total fall in the percentage of the industrial worker to the total population for the period is 21.8. In this period the population had increased by 12 per cent. To offset this there should have been a rapid industrialisation to absorb the growing population, specially when the British authorities themselves had been reporting, since the end of the nineteenth century, that agriculture had reached the saturation point. But what really happened instead was a 12 per cent fall in the number of those employed in industry

41 Dutt, *op. cit.*, p. 134.

and the percentage of industrial workers to total population decreased by more than 20 per cent. So much so that in 1931 there were 2 million less recorded workers than in 1911. On the eve of World War II the real picture of India was one of *'de-industrialisation'*, by which is meant a state in which the compensating advance of modern industry is less than the decline of the old handicrafts. The result has been increasing pressure on agriculture.

Increasing Tribute

In spite of the continuing economic stagnation in India the flow of tribute from India to England went on increasing. In 1851 the Home Charges were £2.5 millions; which increased to £17.3 millions in 1901; £19.4 millions in 1913-14 and £27.5 millions in 1933-34. The excess for Indian exports over imports stood at £3.3 millions in 1851; £11.0 millions in 1901; £14.2 millions in 1913-14 and £69.7 millions in 1933-34. (Add to this the loss due to the deflation of the Indian rupee after 1927). It should be noted that the items covered by the term tribute are (1) political deduction and Home Charges; (2) interest on foreign capital registered in India. It is interesting to analyse the various components of the tribute and the percentage they bear to the total. K. T. Shah and K. J. Khambata, in their *Wealth and Taxable Capacity of India* (1924), presented the following picture for the year 1921-22 (Re. 1 being equal to 1s 4d): (i) political deductions or Home Charges (Rs. 500 millions) 22.5 per cent; (ii) interest on foreign capital registered in India (Rs. 600 millions) 27.3 per cent; (iii) freight and passenger carriage paid to foreign companies (Rs. 416.3 millions) 18.8 per cent; (iv) payments on account of banking commission (Rs. 150 millions) 10 per cent and (v) profits, etc., of foreign business and professional men in India (Rs. 532.5 millions) 35.5 per cent. Thus of the total tribute, Rs. 500 millions or 22.5 per cent was exacted because of India's direct political dependence and Rs. 1,698.8 millions or 77.5 per cent because of direct economic dependence.

Genesis of the Tribute

Tracing the genesis of India's tribute to England R. P. Dutt writes:

> In the normal formula of imperialist expansion this process would be spoken of as the export of capital. But in the case of India, to describe what happened as the export of British capital to India would be too bitter a parody of the reality. The amount of actual export of capital was very small. Only over the seven years 1856-62 in the whole period up to 1914 was the normal excess of exports replaced by an excess of imports, totalling £22.5 million for the seven years—not a very large contribution for an ultimate total of capital investments estimated at close on £500 million by 1914. Over the period as a whole the export of capital from Britain to India was more than counterbalanced many times over by the contrary flow of tribute from India to England, even while the capital was being invested. *Thus the British capital invested in India was in reality first raised in India from the plunder of the Indian people, and then written down as debt owed by India to Britain, on which she had thenceforward to pay interest and dividends.*
>
> The nucleus of British capital investments in India was the Public Debt—that favourite device already employed by the oligarchy in Britain to establish its stranglehold. When the British government took over in 1858, they took over a debt of £70 million from the East India Company. In reality, as Indian writers have calculated, the East India Company had withdrawn in tribute from India over £150 million, in addition to the charges for the cost of wars waged by Britain outside India—in Afghanistan, China and other countries. On any correct drawing of accounts, there was thus a balance owing to India; but this naturally did not present the debt being taken over and rapidly increased.[42]

Under direct British rule the Public Debt doubled in eighteen years (1858—1876), from £70 million to £140 million; which increased to £224 million in 1900; £274 million in 1913 and £884.2 million in 1939. Thus, within

42 *Ibid.*, p. 127.

eighty years or so the debt multiplied by more than twelve times.[43]

So far as direct investment is concerned, in 1927 the *Statist* issued the following index of the capital of new companies registered in India: 1914, 100; 1921, 221; 1922, 121; 1923, 51; 1924, 40; 1925, 31; 1926, 45 and 1927, 29. And on this steep decline it (the *Statist*) commented: 'There can be little doubt but that the figures reflect a definite setback in the economic development of the country. For this setback the currency and exchange policy pursued by the Government of India is not wholly without blame.'[44]

VII. NATIONAL MOVEMENT AND PLANNING

In later years the situation continued to wōrsen on account of the Great Depression which was followed by the mass national movement in the 'thirties. In 1931 the Indian National Congress passed the famous resolution on Fundamental Rights which embodied advanced democratic demands—nationalisation of key industries and transport, labour rights and agrarian reforms. After a series of Round Table Conferences in London came the Government of India Act, 1935, under which popular ministries were formed, which gave a great fillip to the peasant and labour movements and the economic activities of the country.

The then Congress President, Subhas Chandra Bose, convened a conference of the industries ministers of the Congress provincial governments in October 1938. This conference unanimously passed the following resolution:

> This conference of the ministers of industries is of opinion that the problems of poverty and unemployment, of national defence and of economic regeneration in general cannot be solved without idustrialisation. As a step towards such an industrialisation a comprehensive scheme of national planning should be formulated....
>
> This conference, having considered the views of several

43 *Ibid.*, pp. 113-14.
44 *Statist*, 6 August 1927.

provincial governments, is of opinion that, pending the submission and consideration of a comprehensive industrial plan for the whole of India, steps should be taken to start the following large-scale industries of national importance on an all-India basis, and the efforts of all provinces and [native] Indian states should, as far as possible, be coordinated to that end:

(*a*) Manufacture of machinery and plant and tools of all kinds;

(*b*) Manufacture of automobiles, motor-boats, etc., and their accessories, and other industries connected with transport and communications;

(*c*) Manufacture of electrical plant and accessories;

(*d*) Manufacture of heavy chemicals and fertilizers;

(*e*) Metal production;

(*f*) Industries connected with power generation and power supply.

In accordance with this resolution a National Planning Committee, with Jawaharlal Nehru as President and Professor K. T. Shah as Secretary, was formed. This committee set up a number of subcommittees, whose recommendations could not be published earlier than 1947 because of the imprisonment of the President and some other members during the war. The National Planning Committee published its Reports in 27 parts, which provide an outline for socialist planning in India.

VIII. SECOND WAR: INDUSTRIALISATION AND STERLING BALANCE

At this stage it is necessary to recapitulate the important events during World War II. The popular ministries had to resign. The country was brought under the Defence of India Rules—which was the blackest of the black acts. India was forced to enter the war which turned her into a practically closed economy. Imports were cut off. Indian industry, commerce, agriculture and transport had to shoulder the responsibility of supplying the needs of the Eastern Theatre of the war. Despite the obstructionist policy[45] of British

[45] See M. Visvesvaraya, *Prosperity Through Industry* (1943), p. 15. See also: *American Technical Mission Report.*

imperialism, industries could develop because of the war situation.[46] Let us have a glimpse of both: obstruction placed by the British rule and the development reached by the Indian industries.

Even at the risk of undermining the war effort the British government did not allow the development of automobile and shipbuilding industries in India. The American Technical Mission found 'horse shoes, steel tips for army boats, and railroad switch gear being produced in a ship-repair plant at Bombay, while more than 100 ships waited in the harbour for major and minor repairs.'[47] The *Eastern Economist* told the same story (31 August 1945):

> We could make everything and yet nothing. We were just suppliers of anything and everything, menders, repairers of all things on earth, but the makers of none. We had no system, no plan. Rather, there was a plan—clear-cut and thorough—to prevent the industrialisation of this country in the postwar period.

But the inevitable happened. The number of industrial workers increased from 1,751,137 in 1939 to 2,520,000 in 1944. The paid-up capital of joint stock companies in British India increased from Rs. 2,885 million in 1939-40 to Rs. 3,292 million in 1943-44. According to the estimate of *Capital* (Calcutta), the index of industrial activity increased from 114.0 in 1939-40 to 132.1 in January 1945. The production of paper increased from 59,000 tons in the prewar years to 90,000 tons in 1943-44. The production of mill-made cloth increased from 3,800 million to 4,700 million yards. The annual output of steel increased from about 750,000 tons in 1939 to about 1,125,000 tons in 1943-44.[48]

The increase in industrial activity, the huge demands and inflation created by the war led to an all-round increase in profits. Taking 1939 as the base the index of average net

46 *Recent Social and Economic Trends in India*, 1946.
47 *Report*, p. 3.
48 Cf. R. P. Dutt, *op. cit.*, p. 145.

profits in 1943 stood as: jute 926; cotton 626; tea 392; sugar 218; coal 124; engineering 225; miscellaneous 401 and all kinds 327.[49] But the increase in profits did not stimulate industrial development but commercial speculation. Accordingly there has been a phenomenal rise in the number of scheduled banks during the war and the postwar years. In 1938-39 there were 51 banks which regularly reported to the Reserve Bank of India, but in 1947-48 this number increased to 101. In 1938-39 the balances of these banks with the Reserve Bank stood at Rs. 1,588 lakhs which increased to Rs. 10,081 lakhs in 1947-48.[50] The figures for the year 1947-48 have not been materially affected by the Partition, because the overwhelming majority of the banks and the investers have remained in India. Each group of Big Business has started its own bank with a view to facilitating commercial speculations and transactions. It also shows that Indian Big Business, even when they have resources to invest, prefer trade and commerce to industry, probably because the former yield a higher return on the capital invested. Here it may be pointed out that the total picture that emerges, after the investment of British as well as Indian private capital, is one of commercial rather than industrial revolution.[51]

In the accumulation of the aforesaid huge profits the exigencies of the war were mainly responsible. To what extent the demand was created because of the huge defence expenditures, can be appreciated from the following. In 1939-40 the total defence expediture stood at Rs. 495.4 million, which increased to Rs. 736.1 million in 1940-41; Rs. 1,039.3 million in 1941-42; Rs. 2,671.3 million in 1942-43; Rs. 3,958.6 million in 1943-44; Rs. 4,583.2 million in 1944-45 and Rs. 3,913.5 million in 1945-46. The total

49 M. H. Gopal, 'Industrial Profit Since 1939' in *Eastern Economist*, 4 May 1944, p. 730.

50 *Report on Currency and Finance*, 1947-48 (Reserve Bank of India, Bombay), p. 164.

51 Cf. Buchanan, *op. cit.*, p. 130.

expenditure for the seven years stood at Rs. 17,397.4 million.[52]

The increase was about eight times.

Sterling Balances

The story of this defence expenditure in India cannot be complete without a reference to the Sterling Balances. The history of India's Sterling Balances is the history of a fresh chapter in the predatory exploitation of this country by British imperialism. In face of united national opposition, British rule could not easily force the war burdens on the Indian people. Any political settlement was also ruled out. For exploiting Indian resources a novel mechanism was found in a financial settlement between the (British) Government of India and the British government in November, 1939. This settlement implied that India would pay for the military maintenance so long as the army was on Indian soil and for Indian defence. The moment they left the Indian soil the cost would be recovered from His Majesty's Government (HMG). In the then political atmosphere this was the only possible method for consolidating the imperial defence.

After the attack on Pearl Harbour on 7 December 1941, India became the main base of war against Japan. American and British forces ran to India and they had to be fed and clothed by her. Barracks were built, more than 10,000 special trains were run, and the military was also given weapons, iron, steel, wood, tent cloth, mosquito nets, camouflage nets, cement and bricks. Thus goods and services were placed at the disposal of the Anglo-American troops.

But India did not get a penny for her goods and services. All that she got was the promise of HMG to pay the balances at a future date. But the manufacturers had to be paid. This was done by an inflationary increase in the

52 *Report on Currency and Banking* (1945-46).

currency issue of the Reserve Bank of India. This sum Britain agreed to pay, but in sterling—which was deposited in London and credited to the Government of India or the Reserve Bank of India.

On the plea that there was shipping difficulty, Britain did not allow India to import capital goods and machinery which India required for industrialisation. The imperialist lust for colonial exploitation did not stop at this. It also appropriated the dollar reserve of India amounting to Rs. 45 crores. Thus, imports from America also came to a dead stop.

It was in this way that Sterling Balances worth Rs. 1,733 crores had accumulated by March, 1946. This sum was in addition to the war reparation of the prewar sterling debt of Rs. 426 crores. In return, India got only impoverishment, misery and death (through Bengal Famine). This sum (Sterling Balances) was more than twice the total capital invested in all the industries—except railways and other means of transport—in the prewar years. If these balances had been ordinarily realised our industrialisation would have doubled and the volume of employment for the workers as well as the middle classes would have gone up considerably —even on the assumption that the ratio of the capital to labour would have been higher than before. The wartime misery of the Indian people could have easily been manoeuvred to bring happiness and prosperity for them in the postwar years. But how these possibilities could not be utilised will be discussed later.

Industrialists' Plan

An assessment of the industrial evolution of India and the rising forces of democracy and socialism in the country led Indian industrialists to the inevitable conclusion that the industrialisation of the country would follow the path of planned economic development. In this changing situation the Indian industrialists put forward a *A Plan of Economic Development for India* (popularly known as the

Bombay Plan) which was published in two parts in 1944 and 1945. For assessing the strategy of the industrialists it is necessary to know the salient features of this Plan which was merely an outline of economic desiderata. The Bombay Plan admitted that 'the necessary preparatory work may take three to five years'.

The Bombay Plan stated the political requisite of planning and demanded that a national government should come into existence at the Centre (at that time all the national leaders were put in prisons) which should have complete freedom in economic matters. The second part of the Bombay Plan described the organisational setup in the following words:

> The future economic structure should provide for free enterprise but enterprise which is truly enterprising and not a mere cloak for sluggish acquisitiveness. It must ensure at the same time that the fruits of enterprise and labour are fairly apportioned among all who contribute to them and not unjustly withheld by a few from the many.... An enlargement of the positive as well as preventive functions of the state is essential to any large-scale economic planning.

The Plan also conceived a 'central directing authority' and vigorous measures of state control in the fields of: (1) production, (2) distribution, (3) consumption, (4) investment, (5) foreign trade and exchange, and (6) wages. (There is no mention of control on prices and profits). The Bombay Plan surmised that 'from the point of view of maximum social welfare, state control should be more important than ownership or management', and there should be 'no surrender of freedom except for well-defined ends and except with the assent of the community', and finally, there should be 'sufficient scope for the play of individual incentive and enterprise'. The Plan also accepted that 'equitable distribution is necessarily implied in a Plan for increased production' which implied a fixation of minimum income and prevention of gross inequalities. Regarding agriculture the Plan suggested that the government should fix fair prices and that 'the link between the landlord and the tenant must be broken'. Introduction of steeply graduated income tax and agricultural income tax were also recommended.

It may be pointed out that this institutional framework visualised by the Bombay Plan is based on a synthesis of the Smithian and the Keynesian theories of the functions of state designed to serve the vital interests of the entrepreneurs. The shift from the 'minimum' (Smith) to the maximum welfare and positive functions of the state, with necessary controls and state enterprises, to enable the capitalist system run smoothly, has been used to build up a 'mixed economy' of the capitalist variety in which the strategic functions of the state (and the state enterprises) are directed towards the protection, preservation and promotion of the so-called free enterprise.

It is within this framework that the Bombay Plan fixed the following main targets for undivided India on the basis of the average prices that prevailed during 1931-39. Per capita income was to be doubled at the end of the three five year plans from a prewar figure of Rs. 65 to Rs. 135 per annum. That is, it was visualised that the per capita income would increase by about Rs. 70 in 15 years, allowance being made for the increase in population. Three sectors had been visualised: industry, agriculture and the services. But for achieving this target the main reliance had been put on industry. The Plan proposed that income from industry would be raised by 500 per cent, that from agriculture by 130 per cent and from services 200 per cent. Thus industry would have contributed 35 per cent of the total national income instead of 17 per cent; agriculture 40 per cent instead of 53 per cent and services 20 per cent instead of 22 per cent. The Plan demanded priority for basic industries which include power, mining, engineering, chemicals, shipbuilding, automobiles and aircraft, etc. Scope was also provided for the development of small-scale and cottage industries.

The total outlay of the Plan was Rs. 10,000 crores to be raised by the state and private enterprise. No demarcation of the respective share of the two was made. Out of this outlay industry (both capital and consumer goods) was to get Rs. 4,480 crores and agriculture Rs. 1,240 crores. The other chief heads of expenditure were housing and health services. The phasing of the outlay was as follows: Rs. 1,400 crores in the first plan; Rs. 2,900 crores in the second and Rs. 5,700 crores in the third.

The financial resources were to be raised externally as well as internally. The external finance was Rs. 2,600 crores to be realised from: (1) hoarded wealth Rs. 300 crores and (2) Sterling Balances Rs. 1,000 crores; (3) balance of trade Rs. 600 crores and (4) from foreign borrowing Rs. 700 crores. The internal finance was Rs. 7,400 crores to be raised from: (i) savings Rs. 4,000 crores and (ii) Rs. 3,400 crores from deficit financing.

It is not our purpose to subject the Bombay Plan to a detailed criticism. I have given a summary of the Plan to indicate the industrialists' strategy. In this context it is pertinent to point out that agricultural development, based on radical land reforms, plays a crucial role in the industrialisation of an agricultural country and this has been neglected in the Bombay Plan. The reliance on inflation in a free market economy as a device to procure developmental finance is an invitation to the people to oppose planning. Similarly, the reliance on the private flow of foreign investment is an invitation to foreign monopolies to come and exploit Indian resources in collaboration with indigenous capital. For these and other reasons the Bombay Plan could not be considered a satisfactory plan for the independent economic development of India.

But the Bombay Plan did stimulate thinking. As a reaction to this Plan, two more plans were produced. M. N. Roy prepared an alternative plan (*A People's Plan*) which had a definite socialist orientation and S. N. Agrawal drafted yet another (*A Gandhian Plan*) which had a Gandhian orientation. In collaboration with the provincial governments, the Government of India had also been busy in drafting postwar five year plans.

Advisory Planning Board

In June 1946 a national government came to power. By this time there had been some thinking, although without the necessary data, on planning. The National Planning Committee appointed by the Congress did some pioneering work in the field. This was followed by the Industrialists' Plan, the People's Plan and the Central and Provincial Plans. Jawaharlal Nehru, on behalf of the Central Government, appointed an Advisory Planning Board in October 1946 with the object of making 'rapid survey of the field and to make recommendations regarding the coordination and improvement of planning, and as regards objectives and priorities and future machinery of planning'. The Report of this Board was made available to the public in March, 1947. It could not receive much attention, however, because of the Partition of India, although it served some useful purpose. In the first place, Nehru pointed out in his brief Introduction to the Report, it enabled public opinion to be seized of the fundamental issues connected with planning. This was important in view of the fact that, in effect, there were two Reports—one by the majority (chiefly consisting of bureaucrats and industrialists) and the other by Professor K. T. Shah (one of the architects of the National Planning Committee) who sought to give a progressive orientation to planning, despite the opposition of the majority on the Board. Second, the Board suggested the constitution of a Planning Commission (which it conceived as 'as far as possible, a non-political body whose members will not fluctuate with changes in political fortunes') and a Central Statistical Organisation. The suggested constitution of the Planning Commission has rightly not been accepted; but the subsequent formation of the Central Statistical Organisation has proved to be exceedingly helpful. Lastly, it compiled the

Central and Provincial Plans which have been summarised in the following:

> In the early stages of planning (i.e. early 1944 approximately) it was very roughly estimated that during the first postwar quinquennium (which at that time was expected to begin about the year 1947) the Centre would be able to provide for development work approximately Rs. 1,000 crores. Of this, it was assumed, again very provisionally that Rs. 500 crores would be derived from revenue surpluses and Rs. 500 crores from loans.
>
> Provincial governments were informed that they could look to the Centre for assistance in raising loans and that they might expect to receive from the Centre by way of grants for development from ½ to 2/3 of the assumed Central revenue surpluses of Rs. 500 crores. They are also asked to make esitmates of their own resources. Their provisional estimates—which, again, were very little more than guesses—suggested that over the whole quinquennium provincial revenue surpluses might amount in all to nearly Rs. 200 crores.

In May, 1944, the provincial governments were directed to prepare plans with the suggestion that 'in view of the limitations imposed by finance and the scarcity of trained personnel, it might be advisable, in addition to attempting general progress throughout a province to select certain compact areas for concentrated development such as would quickly yeild visible and measurable results'. In the words of the Advisory Planning Board the provincial plans, 'vary in merit. Some are little more than collections of departmental schemes hastily thrown together'. The total outlay of the Central and provincial five year plans was estimated to be Rs. 1,295 crores. In order of priority the important heads of expenditure were: hydro-electric development and irrigation Rs. 260 crores (20 per cent); railways Rs. 230 crores (17 per cent); roads Rs. 186 crores (14.3 per cent); agriculture Rs. 145 crores (11.1 per cent); education Rs. 114 crores (8.8 per cent); health Rs. 111 crores (8.7 per cent) and industrial development Rs. 36 crores (2.8 per cent).

This brief reference to the official programmes of planning is essential for indicating the background of the present five year plans of India. The idea of planning was widely accepted; but different meanings were given; some of which, in effect, nullified the fundamentals of a socialist planning.

On the Eve of Independence

While discussions were going on regarding the political and economic reconstruction of the country the general situation was causing great anxiety. On the eve of Indian Independence the economic situation, in the words of the *Report on Currency and Finance* (published by the Reserve Bank of India), was as follows:

> For India the year has been a very difficult one, the progress of transition to peace economy having been rendered painfully slow. Inflationary conditions continued, shortages of consumers' goods persisted; speculative activity was on on the increase, particularly on the stock exchanges, the general price level showed an almost continual rise; surpassing the 1944 wartime peak level, while the cost of living continued to move up and there was widespread labour unrest. Industrial production was hampered by the virtual non-availability of capital goods, difficulties of transport, reduction in working hours to 48 per week and frequent strikes. The food position continued to cause great anxiety, the threatened famine having been kept at bay through stringent rationing over wide areas and partly through some, though inadequate imports from abroad. Demobilisation could not reach the provisional target while development plans, particularly of the provinces, could be put through only partially, the 'works programme' being restricted to avoid competitive increases in building costs. The grave economic problems which the country had to face were greatly aggravated by frequent outbreaks of serious internal disturbances.[53]

But with the dawn of independence those prerequisites for social and economic regeneration were created for which India had struggled ceaselessly. The Indian people had categorically stated in their Independence Pledge:

53 *Report*, 1946-47, p. 41.

We believe that it is the inalienable right of the Indian people, as of any other people, to have freedom and to enjoy the fruits of their toil and have the necessities of life, so that they may have full opportunities of growth. We believe also that if any government deprives a people of these rights and oppresses them, the people have a further right to alter it or to abolish it. The British Government in India has not only deprived the Indian people of their freedom but has based itself on the exploitation of the masses, and has ruined India economically, politically, culturally, and spiritually. We believe, therefore, that India must sever the British connection and attain *Purna Swaraj* or complete independence.

And on 15 August 1947 we won this independence.

3

A Developing Economy

THE winning of independence gave India the opportunity to reconstruct her socio-economic organisation with a view to maximising the welfare of the people. It is known, however, that things did not change overnight on 15 August 1947, the day Britain transferred power to India.

I. THE INTERLUDE: 1947-50

Free India inherited a depleted semi-feudal colonial economy shattered by the stresses and strains of the war, which was further aggravated by the unnatural partition of the country and the subsequent communal riots on an unprecedented scale, leading to unheard-of brutalities, destruction of life and property and mass violence culminating in the migration of 5 million refugees from either side. Partition left India in the meshes of economic maladjustment and instability. One of the consequences was that the Indian cotton and jute mills came to depend on Pakistan for their raw materials and India's position became weaker in respect of the normal food supply. The estimated food production of the Indian Dominion, which averaged 43 million tons during 1942-46 dropped to 40 million tons in 1947. *The Report on Currency and Finance* concluded: 'The food crisis entered its grimmest stage after the Partition of the country, threatening to lead to a breakdown of the entire system of rationing, which since its inception in 1945 had been extended to cover as many as 171 million people by August 1947.'[1]

In early September this situation led to the appointment of the Foodgrains Policy Committee, which reported

1. *Report* 1947-48, p. 52.

in December in favour of decontrol, cessation of imports and increase in the agricultural production in the long period. It was also visualised that a five-year plan ought to be initiated which should have a target of producing an additional 4 million tons annually. As part of the long-range agricultural production the Bhakhra-Nangal, the Damodar Valley and the Hirakud Projects were initiated.[2]

Falling production and increasing governmental outlays, chiefly as a result of Partition, further aggravated the inflationary situation. Under the impact of decontrol (which was totally unwarranted in view of the short supply of foodgrains) and the imposition of a restrictive import policy (which was perhaps unavoidable in the circumstances) the economic situation became even more complicated.[3] Decontrol only resulted in higher prices and greater profits to the hoarders and traders.

Although the following year (1948-49) was, relatively speaking, peaceful, the Police Action in the former native State of Hyderabad, the continuation of the military operations in Kashmir, and the problem of integrating as many as 538 former native Indian States did not permit the devotion of undivided attention to economic problems. The cumulative effect of these factors was an increase in the inflationary pressure on the economy. The general price level soared from 302 in November 1947 to the peak of about 390 in July 1948. The widening gap between the country's requirement of food and the internal supply necessitated heavy imports which meant greater strain on the limited foreign exchange resources. Industrial production also suffered on account of the loss of raw materials, limited availability of capital goods, the slump in the investment market and an increase in industrial disputes.

Industrial Policy

A major orientation in the sphere of policy making was

2. *Ibid.*, p. 54.
3. *Ibid.*, p. 51-2.

the formulation of the Industrial Policy Resolution by the Indian Parliament on 6 April 1948. The resolution reiterated its faith in planning and expressed the desire of the government 'to establish a National Planning Commission to formulate programmes of development and to secure their execution.' But so far as the immediate programme was concerned it favoured, what has been called, a 'mixed economy.' This policy has been subject to fundamentally conflicting interpretations. Some of the important implications of this policy are:[4]

(1) The Government of India reiterated their policy of planned economic development which was visualised in the works of the National Planning Committee, but because of the exigencies of the situation, they accepted a policy of mixed economy, wherein the role of the state was *essentially* of an auxiliary nature; although the state's inherent right to acquire property, regulate and control private enterprise was not in the least impaired. The enterprises were classified under state (Public) and Private Sectors and on an operational basis the respective spheres were defined.

(2) The relationship between production and distribution was misconceived. 'Equitable distribution' was related to future increased production, while a lease was granted to the existing maldistribution. Here one is reminded of the letter which Ricardo wrote to Malthus on 20 October 1820: 'Political Economy you think is an enquiry into the nature and causes of wealth — I think it should rather be called an enquiry into the laws which determine the division of the produce of industry amongst the classes that concur in its formation. . . .' Therefore, production and distribution should have been seen as two facets of the same process.

(3) In the sphere of production, however, emphasis was laid on the increased production of (i) capital equipment;

4. The text of the resolution is given in Appendix A.

(ii) essential consumers' goods (like food and cloth) and (iii) exportable commodities to fight the foreign exchange crisis. This was a sound theoretical strategy. But on the practical plane it was not realised that the existing economic organisation was not capable of fulfilling these essential tasks of national, political and economic interests. For producing capital equipments basic and heavy industries were needed. For producing more food and cloth and raw materials the chief bottleneck was our antiquated agricultural system which needed radical reforms. This was all the more necessary after the Partition which had seriously impaired the normal supply. In view of the above and the fact that we were chiefly exporters of raw materials or semi-manufactured goods, our position with regard to the production of exportable commodities could not substantially improve. Therefore, the aforesaid theoretical strategy in the sphere of production did not yield any practical results.

(4) With a view to increasing production the importance placed on the reorganisation and development of cottage and small-scale industries was basically correct, as these are the traditional occupations, next only to agriculture, and offer employment to a vast mass of the people. Without a change in technology, they are capable of yielding higher output employment and income provided they are organisationally put on a rational basis. This necessitates organisational changes. For example, the cooperativisation of the smaller units to render them viable and ensure them adequate circulating capital and market is the prerequisite of any development of the small-scale and cottage industries. But without the initiative of the state, at least in the initial years, this could not be made possible. Once again a theoretically sound strategy was not used to yield practical results.

(5) The Industrial Policy Resolution was forthright in its welcome of foreign capital. But the discouraging res-

ponse impelled the Prime Minister to give a further clarification[5] (just a year after) that there would be no discrimination against foreign capital; it would be permitted to earn profits and in the event of nationalisation compensation would be paid. But even this assurance did not satisfy foreign capitalists who demanded that the very word nationalisation should be banished; taxation should be lowered and there should be no regulation or control on its (foreign capital) operations. This demand was diametrically opposed to the democratic opinion in the country which had no objection to the investment of foreign capital as such provided it was in accordance with the national socio-economic objectives.

(6) The Resolution recognised that for any scheme of industrialisation the willing participation of labour and a harmonious state of industrial relations were essential. For this the creation of certain objective conditions, for example, fair wages, profit-sharing, industrial housing and works and production committees were suggested, but these recommendations were not implemented.

Within the framework of this industrial policy, there was plenty of scope for private enterprise to operate energetically for the developmnt of the country. But this did not happen. The year 1949-50 was not only politically peaceful and witnessed the completion of the integration of the former princely states but also marked the dawn of the first Constitution framed by Indians themselves, which declared India to be a sovereign democratic republic.

Indian Constitution

Certain socio-economic aspects of our Constitution are noteworthy: (1) The Preamble to the Constitution embodies the resolve of the people of India to secure to all citizens:

Justice, social, economic and political;
Liberty, of thought, expression, belief, faith and worship;

5. The text of the speech is given in Appendix B.

Equality of status and of opportunity;
and to promote among all of them;
Fraternity, assuring the dignity of the individual and the unity of the Nation.

(2) The Constitution has guaranteed certain fundamental economic rights, some of the important ones being:

(a) There shall be equality of opportunity for all citizens in matters relating to employment or appointment to any office under the state (Article 16).

(b) All citizens shall have the right to acquire, hold and dispose of property and to practise any profession or to carry on any occupation, trade or business (Article 19).

(c) The State has, however, the right to acquire private property for public purposes provided compensation is paid under law (Article 31).

(d) Traffic in human beings, *begar* and other similar forms of forced labour are prohibited (Article 23).

(e) No child below the age of fourteen years shall be employed to work in any factory or mine or engaged in any other hazardous employment (Article 24).

(3) Then there are the 'Directive Principles of State Policy, which provide the framework for the socio-economic development of the country. The Fundamental Rights are enforceable by law, they are mandatory; but the Directive Principles of State Policy are only *recommendatory*. They 'are nevertheless fundamental in the governance of the country and it shall be the duty of the state to apply these principles in making laws' (Article 37).

Some of these important provisions are:

(1) The state shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic, and political, shall inform all the institutions of national life (Article 38).

(2) The state shall, in particular, direct its policy towards ensuring (*a*) that the citizens, men and women equally,

have the right to an adequate means of livelihood; (*b*) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good; (*c*) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment; (*d*) that there is equal pay for equal work for both men and women; (*e*) that the health and strength of workers, men and women, and the tender age of children are not abused and that citizens are not forced by economic necessity to enter avocations unsuited to their age or strength; (*f*) that childhood and youth are protected against exploitation and against moral and material abandonment (Article 30).

(3) The state shall take steps to organise village panchayats as units of self-government (Article 40).

(4) The state shall, within the limits of its economic capacity and development, make effective provision for securing the right to work, to education and to public assistance in cases of unemployment, old age, sickness and disablement, and in other cases of undeserved want (Article 41).

(5) The state shall make provision for securing just and humane conditions of work and for maternity relief (Article 42).

(6) The state shall endeavour to secure to all workers work, a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities and, in particular, the state shall endeavour to promote cottage industries on an individual or cooperative basis in rural areas (Article 43).

(7) The state shall endeavour to provide within a period of ten years from the commencement of this Constitution, free and compulsory education for all children until they complete the age of fourteen years (Article 45).

(8) It shall be the duty of the state to raise the level of nutrition and the standard of living and to improve public

health (Article 47).

(9) The state shall endeavour to organise agriculture and animal husbandry on modern and scientific lines (Article 48).

Devaluation

While such important records were established in the social life of the country, the economic situation continued to deteriorate. The inflationary tendency went further and was accompanied by wage inflation. Taking the year ending August 1939 to be the base, the price level went up from 370.2 in March 1949 to 393.3 in October 1949. Industrial production and the depletion of the foreign exchange resources continued their earlier tendencies. Import of foodgrains increased from 2.8 million tons in 1948 to 3.7 million tons in 1949. Trade between India and Pakistan virtually came to a standstill because of the latter's decision not to devalue her currency. Following devaluation there was a marked expansion in exports, which eased the balance of payments position somewhat[6] but it reacted adversely on the economies of both India and Pakistan.[7] The devaluation of the rupee in terms of US dollars, from 30.225 cents to 21 cents, was profitable to the US monopolies as it ensured a higher price for their exports, and a lower price for the imports. From the tenor of the debate on the subject in Parliament it was clear that India was forced by circumstances to agree to devalue her currency. Following devaluation an eight-point[8] programme was launched, 'which aimed broadly at holding the price-line and conserving the country's resources in foreign exchange'.[9]

Regulation of Industries

The unsatisfactory state of industrial production impelled the government to pass the Industries (Development and

6. *Report on Currency and Finances* 1949-50, p. 45.
7. *Ibid.*, p. 3.
8. *Ibid.*, pp. 46-8.
9. *Ibid.*, p. 46.

Regulation) Act, which embodies the more important principles underlying the government's policy in respect of the regulation and control of industries. The Act provides for the creation of 27 industries[10] listed in a schedule of the Act. The firms engaged in the manufacture of those industrial items were required to get themselves registered; the expansion of the existing ones or the establishment of new ones were subject to a licence to be obtained from the Board, which was given comprehensive powers. The Central Government assumed the power to inspect and investigate these industries. In respect of ten of the scheduled industries[11] the Central Government assumed additional powers, which were to be exercised in case of a substantial fall in production, a marked deterioration in the quality of the product, an undue rise in prices or the need to conserve resources of national importance. In case the undertakings resort to non-compliance of the Board's or government's directives, the government is entitled to take over direct control of such undertakings. Thus within the framework of the Industrial Policy Resolution of 1948 the Central Government assumed comprehensive powers to

10. (1) Aircraft, (2) arms and ammunition, (3) coal, including coke and other derivatives, (4) iron and steel, (5) motor and aviation fuel, kerosene, crude oils and synthetic oils, (6) salt, (7) ships and other vessels propelled by the agency of steam, or by electricity or other mechanical power, (8) sugar, (9) telephones, telegraph apparatus and wireless communication apparatus, (10) textiles made wholly or in part of cotton or jute, (11) automobiles, including tractors, (12) cement, (13) electric lamps and fans, (14) electric motors, (15) heavy chemicals, including fertilizers, (16) heavy machinery used in industry, including ball and roller bearing and gear wheels and parts thereof, boilers and steam generating equipment, (17) locomotives and rolling stock, (18) machine tools, (19) machinery and equipment for the generation, transmission and distribution of electric energy, (20) non-ferrous metals, including alloys, (21) paper and newsprint, (22) pharmaceuticals and drugs, (23) power and industrial alcohol, (24) rubber goods, (25) tea, (26) textiles made of wool, and (27) vanaspati.

11. (1) Aircraft, (2) arms and ammunition, (3) coal, including coke and other derivatives, (4) iron and steel, (5) motor and aviation fuel, kerosene, crude oils and synthetic oils, (6) salt, (7) ships and other vessels propelled by the agency of steam, or by electricity, or other mechanical power, (8) sugar, (9) telephones, telegraph apparatus and wireless communication apparatus, and (10) textiles made wholly or in part of cotton or jute.

regulate and control the industries in the private sector. In certain cases the government effectively intervened and took over the management of the undertakings concerned. But certain constitutional rigidity with regard to the distribution of subjects between the Central and the State governments render such powers (as mentioned above) of the Central Government less effective than what they ought to be.

Eve of First Plan

The year 1950-51 marked the first year of the Indian Republic. But the economic situation continued to cause anxiety. *The Report on Currency and Finance* commented:

> The process of stabilisation following the devaluation of the rupee received a setback with the outbreak of Korean hostilities in June 1950. The steady deterioration in the international situation and the shortages of essential goods resulting from stockpiling, coupled with heavy outlays, in most of the leading countries on rearmament programmes had a generally unsettling effect on the economies of nations; this generated fresh inflationary forces, and led to a reimposition of controls which, in certain cases, had been relaxed earlier. To the inevitable effect of these developments on the Indian economy were added the disturbances caused by certain international factors. Natural calamities led to a further deterioration of the food situation and gave rise to near-famine conditions in parts of Bihar and Madras. The continued deadlock with Pakistan over the Kashmir issue and in regard to trade relations for the greater part of the year also militated against efforts at stabilisation.[12]

Taking 1946 to be the base, the industrial production for 1949 was 106.3 as against 105.2 for 1950. Although there was some increase in the production of raw materials like cotton and jute it still remained inadequate in relation to current demands. The output of foodgrains sharply fell resulting in a deficit of 5.5 million tons for 1951 as against

12. *Report on Currency and Finance*, 1950-51, p. 35.

a deficit of 3.6 million tons in 1950. This necessitated the stepping up of imports from the targetted 1.5 million to over 2.1 million tons in 1950. The Economic Adviser's general index of wholesale prices (taking the year ending August 1939 to be the base) rose from 392.4 in March, 1950 to 438.6 in March, 1951—a rise of 11.8 per cent as against a rise of 6.0 per cent in 1949-50. With worldwide rearmament and arms stockpiling it became increasingly difficult to secure the needed imports, despite relaxations in import controls. This situation, however, created a demand for our exports which made the balance of payments position substantially favourable. Currency and credit showed unusual expansion. Money supply with the public rose during the year (1950-51) by Rs. 99.2 crores as against a decline of Rs. 18.4 crores in 1949-50. Similarly, scheduled bank credit showed an expansion of Rs. 84.6 crores as against a contraction of Rs. 34.2 crores in the preceding year.[13]

The publication of the *Report of the National Income Committee* in 1951 underlined the agrarian character of the Indian economy. Agriculture (including forestry, fishery and animal husbandry) contributed Rs. 4,150 crores or 47.6 per cent of the national income (in 1948-49); commerce, transport and communications contributed Rs. 1,700 crores or 19.5 per cent; mining, manufacturing and hand-trade contributed Rs. 1,500 crores or 17.2 per cent and 'other services' (administration and house property) contributed Rs. 1,380 crores. The importance of small enterprises (mainly household) was also emphasised by the fact that this accounted for a major share of Rs. 5,350 crores or 61.3 per cent of the net domestic product; whereas the large enterprises and unclassified items accounted for Rs. 1,050 crores and Rs. 2,330 crores, respectively. The total working force of principal earners, including working dependants but excluding subsidiary workers, was estimated at 13.27 crores, of whom 9.05 crores were in agriculture. The Report also

13. *Ibid.*, pp. 35-6.

showed that the public sector played almost an insignificant role.

II. FIRST FIVE YEAR PLAN

This economic climate demonstrated once again that the economic fate of a country, specially an industrially backward one could not be left to private enterprise. Therefore the Government of India directed the Planning Commission in 1951 to keep in view the Directive Principles of State Policy, while framing its proposals. Meanwhile the Government of India had submitted to the Commonwealth Consultative Committee in September, 1950, a six year developmental programme envisaged under the Colombo Plan. This covered developmental projects in agriculture, fuel and power, industry and mining, and social services. The financial outlay over six years was estimated to be Rs. 1,840 crores. The major river valley projects (for example, the Bhakra-Nangal, Damodar Valley and Hirakud projects) which had already started, were also included in this Plan. To these may also be added the state enterprises such as the fertiliser factory at Sindri, the machine tool factory at Bangalore, the penicillin and paludrine factory at Poona and the dry core cable factory at Chittaranjan. The capital outlay on these schemes in the central budget for 1951-52 was placed at Rs. 6.39 crores.

Objectives and Outlay

A picture of the Plan in its totality is necessary before certain comments can be made and lessons drawn. The Plan had a twofold objective; firstly, it aimed at correcting the disequilibrium in the economy caused by the war and the partition; secondly, it aimed at an all-round balanced development resulting in a rising national income and a steady improvement in the standards of living. It is noteworthy that the plan emphasised that the aim was not merely to plan within the existing socio-economic organisation but to change this progressively by democratic methods in accordance with the objectives of the Directive Principles of State Policy. The Plan categorically stated:

> Corresponding to each stage of development there tends to grow a certain economic and social stratification which is conducive to the conservation of the gains from the use of known techniques. Such stratification has a part to play in social progress. But, beyond a point, it hampers innovation and change, and its very strength becomes a source of weakness. For development to proceed further, a re-adaptation of social institutions and social relationships thus becomes necessary. In planning for a better economic order, the close interrelation between the technical and social aspects of the process of development has to be continually kept in view. While there is need for concentrating effort on the more immediate problems, planning implies the readiness on the part of the community to view the social process as one whole and to take action designed to shape this process along desired lines over a defined period.[14]

This emphasis on structural changes, however, was more of an academic character than practical, for it was more an anthology of developmental schemes (together with expenditures to be incurred on them) than a well-integrated developmental plan. The Indian Prime Minister himself took this very view of the Plan in his speech at the Avadi session of the Congress Party. Since it was basically a financial plan it would be interesting to cast a glance at the distribution of expenditure in the developmental programmes of the public sector. There remained a gap between the initial allocations and the sums actually spent. Therefore, it is better to depend on the actual outlay over the five year period estimated at Rs. 1,960 crores. The actual outlay was as follows: agriculture and community development 14.8 per cent; irrigation and power 29.1 per cent; industries and mining 5 per cent; transport and communications 26.4 per cent; social services (education, health, housing, labour and welfare of the backward communities

14. *First Five Year Plan Report*, p. 7.

and rehabilitation) 21 per cent, and miscellaneous 3.7 per cent.

The outlay of Rs. 1,960 crores came from the following sources: taxation and the surpluses of railways 38.0 per cent (Rs. 752 crores); market borrowings 10 per cent (Rs. 205 crores); small savings and unfunded debt 16 per cent (Rs. 304 crores); other capital receipts 5 per cent (Rs. 91 crores); deficit financing 21 per cent (Rs. 420 crores) and external assistance 10 per cent (Rs. 188 crores). Thus 90 per cent of the financial outlay was raised internally. The bulk of the 10 per cent of the external assistance came from the USA as technical assistance under President Truman's Point Four Programme. This assistance enabled the launching of the Community Development Programmes on a wide scale.

The First Five Year Plan has been called an agricultural plan in the sense that agriculture (including irrigation and power) was given top priority and 44 per cent of the financial outlay was allocated to it. The term 'agricultural plan' does not mean, however, that the plan prepared the necessary agricultural prerequisites, viz., adequate supply of raw materials for a growing industry and food supply for an increasing population and an *agricultural surplus* which could effectively be used for investment and importing capital equipments.

An Evaluation

Since the Plan was essentially a catalogue of developmental schemes in the fields of agriculture, industry, cottage industries, conservation of mineral resources, development of irrigation and power, education, public health and public administration with a view to increasing the material and cultural standards of the people, its achievements should be evaluated in terms of the quantum of additional goods and services created in these fields.

Agriculture. The production of foodgrains increased from 50 million tons in 1950-51 to 64.9 million tons in 1955-56—

an increase of about 30 per cent. The production of raw cotton increased from 29.1 lakh bales in 1950-51 to 40 lakh bales in 1955-56—an increase of 37.5 per cent. The production of raw jute increased from 32.8 lakh bales in 1950-51 to 42 lakh bales in 1955-56—an increase of 28 per cent. It may, however, be noted that agricultural production has fluctuated according to the vagaries of the monsoon. For example, in 1954-55 the production of foodgrains was 66.6 million tons, a record figure, which the *Report on Currency and Finance* ascribed to 'a run of three good monsoons which is unusual.' The output of foodgrains in 1955-56 was about 3 million tons above the Plan target. The index of agricultural production at the end of the Plan period was about 19 per cent higher than at the beginning.

Industry. In the field of industrial production the increase over the Plan period was 40 per cent. The production of finished steel was 976 thousand tons in 1950-51 which increased to 1,274 thousand tons—an increase of 30.5 per cent. The production of cement increased from 2,692 thousand tons in 1950-51 to 4,592 thousand tons in 1955-56—an increase of 71.3 per cent. The production of ammonium sulphate increased by 756 per cent. Similarly, the production of diesel engines increased by 80.7 per cent, automobiles 53 per cent, cables and wires 547.1 per cent, aluminium 99.4 per cent, cotton manufactures 30 per cent and jute manufactures 28 per cent. The production of bicycles increased by 429 per cent, sewing machines 236.3 per cent, electric lamps 61 per cent, paper and paper boards 64 per cent, sugar 70 per cent, Vanaspati (vegetable fats) 80.4 per cent.

The increased supply of raw materials, utilisation of unutilised capacity as well as fresh investment contributed to the general increase in industrial production. Several products were manufactured for the first time and a number of new and important industries like petroleum refining, shipbuilding, manufacture of aircraft, railway wagons, penicillin, ammonium chloride and D.D.T. were established.

Economic Overheads and Social Services

There has been an advance in strengthening the economic overheads on the basis of which further expansion could be undertaken. About 16 million acres of land were brought under irrigation. The capacity for power generation was increased from 2.3 million kw to 3.4 million kw. The railway was rehabilitated. Locomotives, coaches and wagons were manufactured. Some 430 miles of railway lines dismantled during the war were restored and 380 additional miles constructed. Roads have been constructed and transport facilities have been extended.

There has also been an expansion of the social overheads. In 1950-51 the number of children in primary schools was 18.7 million which increased to 24.8 million in 1955-56—an increase of about 33 per cent. The number of graduates in engineering and technological institutions rose from 2,200 to 3,700 and of those taking diplomas from 2,700 to 4,000. More than 14,000 village level workers were trained in basic agriculture, cooperation and allied activities in connection with the organisation and expansion of community development projects. There was a moderate increase in the number of hospitals and dispensaries, a large-scale programme of the control of malaria and filaria, which used to demobilise the agricultural population, was executed.

Standard of Living

It has already been pointed out that the national income has fluctuated owing to fluctuations in agricultural production. Taking 1950-51 to be the base the indices of national income at constant prices increased to 118.4; and the indices of per capita national income at constant prices to 111 at the end of the Plan period. In 1956 the per capita consumption is estimated to have increased by about 8 per cent. The consumption of cereals per adult per day went up from 12.6 ounces in 1950-51 to 14.4 ounces in 1955-56, and of cloth from 9.7 yards (which was exceptionally low) to 16.4 yards, and of sugar from 0.37 ounces to 6.57 ounces. There has also been an increase in the consumption of industrial goods like lanterns, bicycles, sewing machines, electric lamps, radio receivers, vegetable fats, etc.

This rate of increase in the levels of consumption may not be significant by itself. But when one looks at it against the background of an economy which has stagnated for about two hundred years, this increase becomes a distinct reminder of the fact that an agricultural country like India can raise the standard of living of her people only through planned economic development. Here a reference to the nature and quality of the First Five Year Plan is pertinent.

A Retrospect

It is an elementary principle of planning that the planning authorities must have a control (more direct than indirect) over the resources so that an order of priorities and targets may be fixed and executed. It is also essential that the objectives and interests of the plan must harmonise with the objectives and interests of the people so that their willing participation in the formulation and implementation of the plan may be insured. In this light the Plan revealed certain fundamental weaknesses.

Reflecting on the achievements of the First Plan Prof. P. C. Mahalanobis remarked that the Plan had failed to realise 'even the modest targets on account of the delays in preparing projects, inadequate administrative organisation and lack of sufficient facilities to give training to technical personnel.' It has already been pointed out that higher agricultural production was chiefly due to favourable monsoon. But the measures recommended with regard to land policy could not be implemented with any degree of urgency because of lack of necessary coordination and cooperation between the Union and the State governments, under whose jurisdiction agriculture falls. The recommendations with regard to the development of the cooperative movement, marketing and agricultural finance and the suggestions about the amelioration of the conditions of the agricultural worker, village and small industries were not directed towards changing the *status quo*. The Community Development and Rural Extension services succeeded in creating some islands of lop-sided development in the vast ocean of the agricultural sector. But in the absence of democratic land reforms they continued to make the rich richer and the poor poorer, contrary to the letter and spirit of the Directive Principles of State Policy. The external help artificially injected into the countryside could not change the face of the village, nor could it succeed in creating those endogenous forces which could create a democratic base in the countryside. It raised the important question: When the Central Government stopped subsidising the community projects to the extent of 80 per cent, from where would the States find the necessary finance to run them? Most of the irrigation and power projects were long-term plans and in the short-term, small-scale irrigation projects could be made successful only if local initiative could be generated but for which objective conditions were not created.

As regards the private sector, its contribution to the net domestic product stood at 92.5 in 1950-51 which declined to 90.1 in 1955-56. This simply demonstrates that the private sector cannot function in public interest if the 'expected' rate of profit was not forthcoming. In contrast to the contribution of the private sector the contribution of the public sector, despite its limited operations, was significant; in 1950-51 it stood at 7.5 which increased to 9.9 in 1955-56.

But the most disquieting feature of the plan period was the rising unemployment, on account of which the Plan had to be revised in the very second year of its operation and labour-intensification schemes were added. The total number of the unemployed registered with the Employment Exchanges (which is not a true index of the situation in the Indian context) increased from 337,000 in March 1951 to 705,000 in March, 1956.

The fundamental weaknesses of this financial plan were: (1) Its incapacity to curb or neutralise the influence of monopolies — indigenous or foreign; (2) its failure to complete democratic land reforms which would have released productive forces, increased production, and extended the frontiers of the internal market; (3) its failure to substitute the existing bureaucratic administration by a democratic one; (4) its failure to emphasise the role of basic industries which alone can feed rapid economic development; (5) the absence of state control over trading agencies and the failure to implement a sound price policy; (6) the lack of necessary coordination and cooperation between the Union Government and the Planning Commission on the one hand and the State governments on the other; (7) the failure to work out a system of incentives for increased production; (8) the failure to work out proper balance-sheets of physical (that is, targets, input-output indices and labour) and financial plans and to coordinate them and (9) the failure to enlist popular participation in the formulation and implementation of the plan, which gave it the appearance of being imposed from above.

In spite of these limitations and failures the First Five Year Plan of India showed a new direction towards reconstructing the economy of the country. It gave birth to a sense of self-reliance and mutual help. The potentialities of planned economic development and the weakness of the First Plan combined to create an atmosphere in which the Parliament of India resolved in December 1954, that the future national goal of the country was to build a socialist pattern of society. It was with this perspective that preparations for the Second Plan began.

I. THE SECOND FIVE YEAR PLAN

The results of initial studies on the preparations of the Second Five Year Plan were embodied in Prof. P. C. Mahalanobis' 'Draft Recommendations for the Formulation of the Second Five Year Plan' (popularly known as the Plan-Frame) published in March 1955.

Plan-Frame

Compared to the magnitude of investment in socialist countries, where it forms 20-30 per cent of the national income, the Plan-Frame was very modest. The proportion of investment was to be stepped up from 7 to 11 per cent of the national income; the national income was to be increased by 5 per cent per annum. The development strategy consisted in investing 80 per cent of the total outlay in the building up of basic industries—production of the means of production. Our survey of the economic development of India has shown that Indian enterpreneurs were not capable of undertaking an investment of the magnitude required for the construction of basic industries. Against this historical background the decision to build the basic industries in the public sector was a most crucial decision and provides the key to the process of industrialisation.

The Plan-Frame had the following objectives in view: (1) Advance to a socialist pattern of society, through rapid growth of national economy by increasing the scope and importance of the public sector; (2) development of basic heavy industries for the manufacture of producer goods to strengthen the foundations of economic independence; (3) increase in the production of consumer goods as much as possible through cottage industries and to provide an adequate market for products; (4) development of factory production of consumer goods in a way not competitive with the products of cottage industries; (5) increase in productivity in agriculture and to speed up agrarian reforms with an equitable distribution of land so as to stimulate the increase of agricultural production and of purchasing power in rural areas; (6) provision of better housing, educational and medical services, specially for the poorer sections of the population; (7) liquidation of unemployment as speedily as possible and within a period not exceeding ten years; (8) increase in the national income by about 25 per cent over the plan period and (9) a more equitable distribution of income.

In May 1955 the Plan-Frame and some other documents were considered by the National Development Council, which accepted the above objectives including the target of an increase of 25 per cent in the national income and the creation of employment opportunities for 10 to 12 million people. After some discussion a Draft Memorandum (December 1955) and a Draft Outline (February 1956) were published.

Economic Strategy

Although there has been an agreement on the objectives of the Second Plan, yet there has been a basic shift in the strategy of development from the Plan-Frame to the Draft Outline and the final shape of the Second Plan. This will be clear from the following table:

ALLOCATION OF DEVELOPMENTAL EXPENDITURE
(in per cent)

Items	*Plan-Frame Total*		*Draft-Memo Total*		*Draft-Outline Total*		*Final Plan Total*	
Agriculture & community development	950	22.1	565	11.8	565	11.8	568	11.8
Irrigation & power	450	10.5	898	18.7	898	18.7	913	19.0
Sub-total	1400	32.6	1463	30.5	1463	30.5	1481	30.8
Industries & minerals	1100	25.6	891	18.6	891	18.6	890	18.5
Transport & communications	950	22.1	1384	28.8	1384	28.8	1386	28.9
Social service	750	17.4	946	19.7	946	19.7	945	19.7
Miscellaneous	100	2.3	116	2.4	116	2.4	99	2.1
Grand total	4,300	100.0	4,800	100.0	4,800	100.0	4,800	100.0

In the Plan-Frame the construction of industries constituted the basic strategy for economic development. Marx's Departmental Scheme as well as the modern growth models suggest that the lever to economic development is the development of Department I. But this strategy was changed in the final report of the Second Five Year Plan. In the Plan-Frame 26 per cent of the total outlay in the public sector was allocated to the construction of Department I, but this was reduced to 18.5 per cent in the final report. This reduction is, in effect, much more when it is noted that the total outlay of Rs. 4,300 crores (Plan-Frame) was increased to Rs. 4,800 crores in the final report. The reallocation has been tilted in favour of transport and communications. In the Plan-Frame the outlay on transport and communications was 22 per cent, which was increased to 29 per cent in the final report. Similarly the expenditure on social services was increased from 17 per cent to nearly 20 per cent. In view of the enlarged size of the final outlay the expenditure on these items have increased relatively as well as absolutely.

Nobody will question the social usefulness of greater facilities given to the people through an improvement and extension in transport and communication and social services. But the question is one of priority in a plan of economic development. This priority is to be determined on the criterion whether a given expenditure will create more means of production or not. Because it is the increasing supply of the means of production that can be used for enlarging the size of the economic surplus, which is the crux of economic development. In case there are conflicts between the short- and long-term requirements, then the former have to yield place to the latter. In a planned phasing of programme transport and communications come later than the construction of industries producing the means of production.

Looking thus there is no escape from the inevitable conclusion that the expenditure on transport and communications and social services cannot lead to a higher national income and greater economic surplus. This shift in the pattern of expenditure also implies that the additional employment will be the responsibility of the sectors that are absorbing the greater part of the outlay. The creation of greater employment in transport and communications and social services will mark the conversion of unemployment into unproductive employment, which by definition cannot create economic surplus. The change in the pattern of expenditure, has on the one hand reduced the outlay in the public sector and on the other increased the outlay in the private sector.

This change in the pattern of the outlay has also adversely affected the strategic role of the public sector— as the leader of development. Now it is required to create greater facilities (through transport and communications) and demand (through building activities) for the private sector. This looks strange specially in the context of the Industrial Policy Resolution of April 1956 which stated:

> The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the State, in present circumstances, could provide, have also to be in the public sector. The state has, therefore, to assume direct responsibility for the future development of industries over a wider area.[15]

And the Second Five Year Plan categorically stated:

> In a growing economy which gets increasingly diversified there is scope for both the public and the private sectors to expand simultaneously, but it is inevitable, if *development is to proceed at the pace envisaged and to contribute effectively*

15 The text of this Industrial Policy Resolution of 1956 is given in Appendix C.

to the attainment of the larger social ends in view, that the public sector must grow not only absolutely but also relatively to the private sector.[16]

This relationship of the public and private sectors is a part of the strategy of socialist development, which in the long run, eliminates the role of the private sector; although in the transitory period it provides all desirable facilities to the private sector, provided that it functions according to the directives of the planning authorities. This sound theoretical strategy has not, unfortunately, been put to proper practical use in the Second Plan.

The Financial Aspect

The change in the pattern of the outlay, however, has not meant a corresponding change in the essential development targets of the Plan, viz., 7 to 12 per cent of the national income is to be invested; 5 per cent of the national income is to rise every year and an additional employment for 8 million persons is to be created in the non-agricultural occupations. The change in the pattern of outlay should have been reflected in a change in the basic development targets. The failure to do so shows not only a lack of coordination between the physical targets and the financial outlay but also an incorrect assessment of the expected output.

The difficulty with regard to the realisation of the development targets has been further aggravated by uncertain and inadequate provisions for financing the development. The total outlay of Rs. 4,800 crores is to be met in the following manner:

(i) 1,200 crores from budgetary resources;
(ii) 1,200 crores from public borrowing;
(iii) 1,200 crores from deficit financing;
(iv) 800 crores from foreign assistance and
(v) 400 crores from uncovered gap.

16 *The Second Five Year Plan, Report*, p. 23.

In this financial arrangement there are two inherent dangers. Firstly, 25 per cent of the total outlay, that is, Rs. 800 crores of foreign assistance plus Rs. 400 crores of uncovered gap have been left uncertain and indefinite. To this extent the tempo of investment will depend on the success (or otherwise) of negotiations regarding foreign loan. Secondly, another 25 per cent of the total outlay is to be covered by deficit financing. At the end of March 1956 the money supply with the public stood at Rs. 2,184 crores (296 per cent more than in 1951-52, the beginning of the First Five Year Plan) and to this was to be added Rs. 1,200 crores, that is, 55 per cent more. The capacity of an economy to absorb deficit financing depends on the elasticity of the supply of consumer goods — specially foodstuffs. Under Indian conditions, where agriculture still depends on the vagaries of nature, no guarantee can be given about food production, unless of course, it is increased through radical land reforms and intensive cultivation. Therefore deficit financing of this magnitude (notwithstanding the release of about Rs. 600 crores of the sterling balances) means not only inflation but also a most unproductive use of our foreign exchange — import of foodgrains. The rise in prices will lead to a higher cost of the developmental scheme, which in turn will create a greater gap between the existing financial resources and the required outlay for the plan. The position of the lending countries — capitalist as well as socialist — was fairly known, therefore, it was not difficult to know the sources from where foreign assistance would flow. The *Survey of India's Foreign Liabilities and Assets* published in 1955 (by the Reserve Bank of India) clearly stated that between 30 June 1948 and 30 June 1953 the largest increase was of British and American capital. The inelasticity in the supply conditions of the capitalist lending countries has been softened by the favourable terms embodied in the economic aid coming from the socialist countries (chiefly the Soviet

Union) to India and strengthened her bargaining capacity in the international economic field. But this cannot be a safeguard against the undesirable socio-economic consequences of traditional foreign investment. Irrespective of the source of origin, foreign investment and aid will naturally create serious repayment problems in the near future — starting with the Third Five Year Plan.

It is against this background of vacillation in the field of economic strategy as well as uncertainty and inadequacy of financial resources that the Second Five Year Plan of India was launched in April 1956 — three and a half years ago. The slow rate of progress of the plan supports the correctness of the prognosis attempted here.

It was thought that the success of the Plan would depend on the fulfilment of the following essential conditions: (*a*) a substantial increase in agricultural production; (*b*) a steady increase in domestic savings; (*c*) external assistance to meet the foreign exchange gap; (*d*) maintenance of a stable price level and (*e*) the efficient utilisation of assets and resources created since 1951-52. For the fulfilment of these conditions certain minimum steps were needed, which, however, were not taken. Consequently, non-realisation of the expected increase in agricultural production, the absence of a psychological climate for further investment, the liberal import policy, the Suez crisis and the pressure of inflation — these combined to create a crisis for the Plan in the very first year of its operation. Between April 1956 and August 1957 the rise in prices was 14 per cent and the foreign exchange crisis took a serious turn.

The continuation of such tendencies forced the Planning Commission to ask the National Development Council, in May 1958, to divide the development programmes in two parts. Part A consisted of programmes directly related to increase in agricultural production and the 'core projects', i.e. those projects which had reached an advanced stage and other unavoidable schemes. These include the steel plants in the public and private sectors; coal and lignite; railway electrification; port development programme and power projects. This part represents the level of outlay up to which, on the existing assessment of resources, commitments have been made for the rest of the plan period. The outlay for this part is to be Rs. 4,500 crores. Part B consists of such projects which will be undertaken to the extent additional resources become available. Corresponding to this changed outlay there was change also in its distribution under various heads. For instance, there was a reduction in the outlay on Agriculture and Community Development from 11.8 per cent to 11.3 per cent. Similarly, there was a reduction in the outlay on Industries and Minerals from 18.5 per cent to 17.5 per cent, but significantly enough there was an increase on Transport and Communications from 28.0 per cent to 29.8 per cent.[17] If the analysis that I have made is correct, the original mistake (viz., faulty pattern of investment endangering the realisation of the physical targets) was being continued. In July 1959 the total actual outlay for the first four years had been officially worked out to be Rs. 3,550 crores.[18] This means that in the last year of the plan period about Rs. 950 crores (slightly more than one-fifth of the total outlay) was to be invested.

The inner contradictions between the development targets and the changed pattern of the outlay and emphasis has, to quote the *Report on Currency and Finance* for 1958-59, 'revealed mixed trends, with a blend of elements, of stagnation and forces of sustained progress, and of recessionary tendencies with basic inflationary factors.[19] The continued rise in prices necessitated mobilisation of more financial resources, often involving foreign exchange,

17 *Plan Resources and Outlay*: '*A Review*' (Delhi, 1959), p. 69.
18 *Ibid.*, p. 80.

so that the 'core projects' might be implemented even at higher costs. Consequently, in April 1960, the Planning Commission had to raise the financial outlay from Rs. 4,400 crores to Rs. 4,800 crores[20] (at current prices). The pattern of investment has been *basically* the same as shown in the table on pages 93-94. The slight variation in the change of the percentage of expenditure in various sectors may chiefly be due to the price variations in the costs of construction in these projects. The economic situation prevailing during 1959-60 has been summarised in the *Report on Currency and Finance* in the following manner:

> During 1959-60, the penultimate year of the Second Five Year Plan, the economic situation in India presented a mixed picture of progress and stress. The outstanding feature of the year was a marked recovery in the rate of growth of industrial output which had slowed down in the previous two years. The improvement in the balance of payments position, noticed since the end of 1958, was sustained during 1959-60, aided by the continuing import curbs, large-scale foreign aid and somewhat better export performance. The overall investment in the economy seems to have recorded a modest rise during the year. Agricultural production, which in the 1958-59 season had touched a record level, is estimated to show some reduction in the year under review, mainly under commercial crops, and partly under foodgrains. The volume of internal trade was larger as evidenced by the rise of about 6.5 per cent in the number of wagons loaded during 1959-60 as compared to 1958-59. The somewhat disquieting aspect of the situation was the further rise that occurred in the general price level in spite of two successive good crop years and the substantial rise in the rate of industrial production—a situation which indicated the low margins on which the economy has been operating. In this context, the year was characterised by growing pressure for salary and wage increases, which were met in part by government and industry.[21]

19 *Report*, p. 2.

20 *Second Five Year Plan Progress Report*, 1958-59 (New Delhi, 1960), p. 16.

21 *Report*, p. 1.

Performance

At this stage of our analysis it is appropriate to have a look at the performance of Indian planning, specially the targets already achieved in respect of the rate of growth of the national income, per capita income, agricultural and industrial production, employment and the state of wages. The level of *real* national income has increased by 18.5 per cent, whereas the target was about 12 per cent during the First Five Year Plan; and about 12 per cent during the first three years of the Second Five Year Plan. The total increase of national income is about 32 per cent since 1950-51, when the First Five Year Plan was started; whereas the per capita income has recorded an increase of about 19.2 per cent. Thus, there has been an increase of 2 per cent per annum in the per capita income. In Appendix D (Table No. 1) we have shown the targets and the percentages actually achieved in the domain of national income and agricultural and industrial production since 1951. However, we may draw a balance sheet of the Second Five Year Plan. The Plan is expected to yield an increase of 20 per cent in the national income, which is higher than the achievement of the First Plan. The situation could have been better had favourable weather co-operated with Indian planners. The importance of agricultural output in the Indian economy is crucial, because it contributes about 50 per cent of the national income and for increasing it at the rate of 5 per cent per annum (as stipulated in the Second Plan), the agricultural production must increase, at least, by 4 per cent yearly.[22] Therefore, even a slight upset in the monsoon can create serious disproportion in the rise of national income. A 4 per cent rate of growth per annum, in spite of three successive unfavourable monsoons, is not a mean achievement. The ghost of Malthus has been laid in its grave, as the rate of

22 See M. Kalecki, *Economic Weekly* (Bombay) 9 July 1960.

agricultural output has been higher than the rate of the growth of population.

The real achievement, however, is in the field of industrial production. The production of steel has been increased by 100 per cent; of electricity by 70 per cent; of coal by 40 per cent; of cement by 90 per cent and of fertilizers by 166 per cent. This increased production of strategic commodities laid the foundation for an increased growth.

The crucial failures of the Plan may be said to be on five fronts. First, the targets have not been realised in any sector. It has been repeatedly pointed out that this failure is inherent in the changed pattern of investment from the Plan-Frame to the finalised Plan, and the non-implementation of the stipulated land reforms.

Second, although, at 1952-53 prices, the overall investment of the Second Plan will turn out to be almost near the target of Rs. 6,200 crores, the distribution between the public and the private sectors will be substantially different from what was originally planned. The ratio originally planned was 60:40; recent estimates suggest it to be in the neighbourhood of 50:50—'The private sector, having had a more generous deal.'[23]

Third, the target for saving was 11 per cent of the national income, but recent estimates place the ratio at 8 per cent. The overall investment seems to have been fulfilled on account of the larger foreign assistance and larger drafts on sterling balances than were originally estimated.[24] An analysis of the data relating to joint-stock companies surveyed by the Reserve Bank of India reveals that the percentage of internal resources to the funds for assets formation in public limited companies has declined from 60 in the First Five Year Plan period to 27 in 1957; and the percentage of external resources has increased from 40 to 73 in the same period. Private limited companies,

23 A. K. Das Gupta, 'Larger Investment Need', in *Seminar* (Bombay) September 1960, p. 19.
24 *Ibid.*

accounting for 20 per cent of the capital of all companies, excluding financial institutions, reveal the same unfortunate features. Explaining this situation Dr. Baljit Singh writes:

> Borrowings have now become their (of Public and Private Companies) main stay for assets formation and of late nearly half of their borrowings are from foreign countries, particularly the USA. Domestic capital market is very much less significant, as is the case in regard to the government loans.[25]

Fourth, from the employment front, the news is more disquietening. The target of the Second Plan was to absorb additional 10 million hands. But recent estimates suggest that the Plan will end up with an additional employment of about 8 million persons. Thus there will be an addition of two million to the backlog of 5 million with which the Second Plan started. Reflecting on this sad aspect Professor A. K. Das Gupta has asked a pertinent question: 'What kind of a plan is it, one will surely ask, if it leads up to as much as 40 per cent increase in the volume of unemployment in five years, whereas the growth of population during the period is only about 11-12 per cent?'[26]

Fifth, the most unfortunate aspect of the Indian economic development has been the inequitable distribution of the increased national income, rendering the rich richer and the poor poorer. In January, 1960, speaking as Chairman of the Third All-India Labour Economics Conference, Professor P. C. Mahalanobis stated that two sample surveys carried out respectively in 1941 and 1958-59 in the rapidly growing Asansol industrial area in West Bengal revealed that

> The Family structure had changed appreciably, and the proportion of single-person households had increased from 11 per cent in 1941 to 33 per cent in 1958-59 indicating the advent

25 B. Singh, 'Compulsory Savings', *The Indian Economic Journal*, Vol. VII, No. 4, April 1960, pp. 386-7.

26 A. K. Das Gupta, *op. cit.*

of new labourers from outside the area; the average size of the household in consequence decreased from 5.22 in 1941 to 3.67 in 1958-59. The consumer expenditure per person per month at prices of 1941 was Rs. 7.35 for the households surveyed in 1941 and Rs. 7.81 for the households in 1958-59. Making the comparison the other way round, the expenditure at 1958-59 prices for the two sets of households was Rs. 32.71 in 1941 and Rs. 42.51 in 1958-59. The per capita consumer expenditure has remained practically the same during the last 18 years. The pattern had changed to some extent, and expenditure on foodgrains, sugar and clothing was higher in 1958-59. Personal savings also had remained at the same level of six per cent per year. The rupee value for both income and expenditure was about 4.4 times higher in 1941.[27]

Another study shows that the share of wages in the net output of factory establishments has taken a zigzag course, but it has tended to decline up to the year 1956 and has shown slight recovery in 1957 but still remains below the 1950 level[28] (see Appendix D, Table No. III). The Report of the Second Agricultural Labour Enquiry is as yet not out, but from the reply to a question in the Parliament it is clear that the per capita annual income of an agricultural labourer in 1956-57 was lower than in 1950-51. This trend is accentuated with the conversion of payments in kind into cash payments. The mounting criticism that under Indian planning the rise in national income has meant a greater maldistribution of income and wealth has led the Government of India to set up a committee to study the problem of the distribution of income.

Out of this balance sheet of Indian planning, grows a firm belief that in spite of failures and serious mistakes Indian planning has inaugurated a developing economy out of an economy which was stagnant for centuries. There has also been growing recognition of the view that a sound

27 P. C. Mahalanobis, 'Labour Problems in a Mixed Economy', *The Indian Journal of Labour Economics*, Vol. III, No. 1.
28 P. D. Shrimali, 'Share of Wages in National Income', *Ibid.*

foundation for a self-sustaining economic growth is the laying down of basic industries under direct state control. This view is fully reflected in the *Draft Outline of the Third Five Year Plan.*

IV. THIRD FIVE YEAR PLAN

The Third Five Year Plan has been formulated with the following aims:

(i) to secure during the plan period a rise in national income of over 5 per cent per annum, the pattern of investment being designed also to sustain this rate of growth during subsequent plan periods; (ii) to achieve self-sufficiency in foodgrains, and increase agricultural production to meet the requirements of industry and exports; (iii) to expand basic industries like steel, fuel, and power and establish machine-building capacity, so that the requirements of further industrialisation can be met within a period of 10 years or so mainly from the country's own resources; (iv) to utilise to the fullest extent possible the manpower resources of the country and to ensure a substantial expansion in employment opportunities; and (v) to bring a reduction of inequalities in income and wealth and a more even distribution of economic power.[29]

The priorities in the Third Plan are not as rigidly defined as in the Second Plan, because with the progress already realised in agriculture, industry and social services the future development has to be more balanced. But the obvious priorities are basic industries, agriculture and social services. The distribution of the Plan outlay in the public sector of the Second and Third Plans are given on the following page.

A study of the outlays in the public sector under Second and Third Plans shows that the allotments for agriculture and irrigation have increased from 21.3 per cent to 23.1 per cent; those for industry, power and transport (including inventories) have diminished from 60 per cent to about 59 per cent and for social services from 18.7 per cent to 17.2

29. *The Third Five Year Plan: A Draft Outline* (Delhi, 1960) p. 11.

DISTRIBUTION OF PLAN OUTLAY IN PUBLIC SECTOR

Items	Outlay (Rs. crores) Second Plan	Third Plan	Percentage distribution Second Plan	Third Plan
1. Agriculture and minor irrigation	320	625	6.9	8.6
2. Community development & cooperation	210	400	4.6	5.5
3. Major and medium irrigation	450	650	9.8	9.0
Total 1 to 3	980	1675	21.3	23.1
4. Power	410	925	8.9	12.8
5. Village & small-industries	180	250	3.9	3.4
6. Industry & minerals	880	1500	19.1	20.7
7. Transport & communications	1290	1450	28.1	20.0
Total 4 to 7	2760	4125	60.0	56.9
8. Social services	860	1250	18.7	17.2
9. Inventories	Nil	200	Nil	2.8
Grand total	4,600	7,250	100	100

per cent. These allotments may have been in response to the criticism against the Second Plan which was supposed to have 'neglected' agriculture and minor irrigation. But the emphasis on industrialisation, with heavy industries as the hub, continues to be the basic feature of the Indian Plan.

The financial resources of the public sector in the Second and the Third Plans may be seen in the table on the following page.

There seems to be agreement that taxation and profits from public enterprises should play a more important part in the Third Plan than in the Second. But what will be the pattern of taxation? Here one is inevitably reminded of the urgency of implementing the tax reforms proposed by Professors Kaldor and Kalecki. In 1956 Kaldor suggested modifications in income tax so as to include capital gains

FINANCIAL RESOURCES

	Second Plan	Third Plan
1. Balance from revenues on the basis of existing taxation	(—)100 (—2.17)°	350 (4.83)°
2. Contribution of the railways on the existing basis	150 (3.26)	150 (2.7)
3. Surplus of the public enterprises on the existing basis	Nil	440 (6.07)
4. Loans from the public	800 (17.39)	850 (11.72)
5. Small savings	380 (8.26)	550 (7.59)
6. Provident funds, betterment levies, etc.	213 (4.63)	510 (7.03)
7. Additional taxation	1000 (21.74)	1650 (22.76)
8. Budgetary receipts corresponding to external assistance	982 (21.35)	2,200 (30.34)
9. Deficit financing	1175 (25.54)	550 (7.59)
Total	4,600	7,250

° Figures in parentheses indicate percentages.

in it and eliminate evasions (which are pretty high); wealth tax; gift tax; replacement of estate duty by inheritance tax; and expenditure tax. In 1960 Professor Kalecki[30] suggested progressive land tax; tax on agricultural rents; raising of import duties to mop up importer's profits; taxes on commercial premises, factory buildings and high class residential buildings; and higher excise duties, on selected *non-essentials.* Along with these reforms Professor Kalecki suggested agrarian reforms and certain curbs on the private sector. These reforms, if implemented, would no doubt raise huge internal resources and give a concrete shape to the socialist pattern of society.

There is also an appreciation of the fact that the magnitude of deficit financing in the Third Plan is less than in the Second. In case agricultural and industrial production is to increase by 30 and 70 per cent respectively there is no

30 Kalecki, *op. cit.*

harm in resorting to deficit financing, within limits, of course. The internal imbalance (through deficit financing in the Second Plan) is sought to be shifted to the external side *via* large external assistance. This is one of the most alarming features of the Third Plan. The magnitude of external assistance has risen from about one-fifth in the Second Plan to about one-third in the Third Plan. There is nothing inherently wrong in taking foreign assistance for economic development. India, in fact, is in a unique position to take foreign assistance from socialist as well as the capitalist countries. But the trouble arises with *private* foreign capital either in the public or in the private sector, for it tries to disrupt the policies of the national governments, which do not suit it.[31] Therefore, the real question is how to eliminate the influence of foreign private capital.[32] Moreover, there is also the problem of repayment out of the net earnings in the national economy and its consequential impact on the rate of investment from the internal sources. Andrew Shonfield, economic editor of the *Manchester Guardian*, in a study of the underdeveloped countries, made on behalf of the Ford Foundation, has presented the case for reducing India's dependence on further foreign capital. He starts with the pertinent remark that it is a pity that the underdeveloped countries have begun to worry seriously about their ability to repay loans, just when the lending countries are willing to lend them more. He emphasises that the danger of borrowing too much is real enough.

31 At present the representatives of foreign private capital in India are busy negotiating deals with the Government. But their strategy is to discourage state undertakings and give loans to the private sector so that the control of foreign private capital may be maintained. Thus B. K. Nehru, in the course of a recent UN debate said: '...the ideology, philosophy and even the theology of the group in control' (of the World Bank) is reflected in the loans. Organisations of this type, he said, 'could not serve the needs of the underdeveloped countries, which did not subscribe to these philosophies.. . They could not and would not (for example) provide for the establishment of a steel plant in the public sector.'

32 See the recommendations made by the National Planning Committee published in *Industrial Finance* (Bombay, 1948), pp. 38-42.

These issues should be viewed in the context of the agencies that are likely to give external assistance. These agencies are: (1) the World Bank (over which the US has a dominant influence); (2) the capitalist governments; (3) private foreign entrepreneurs and (4) the socialist countries. If foreign assistance is received only on governmental level the problem would surely be simplified. The socialist countries have set almost an ideal for giving assistance. This will no doubt have its impact on the terms offered by capitalist countries.

Another controversial aspect of the Third Five Year Plan is its size. A good many economists have argued that in view of the rising prices and growing population the present financial outlay is inadequate for the realisation of the physical targets. For example, Professor A. K. Das Gupta writes:

> The determination of the size of investment for a plan may rest on a number of considerations. One may relate it to an income target or an employment target; one may also derive it from the achievement of past plans, or from the rate of progress realised in other economies in similar circumstances. In any case, some kind of a target is to be kept in view with reference to which resources—financial and physical—are mobilised. It is a wrong procedure in planning to start from the availability of finances, if only because it may degenerate into acceptance of a line of least resistance.[33]

Dr. Surendra J. Patel is another Indian economist who has been arguing in favour of a higher rate of investment and growth. His starting point is that there is *prima facie* feasibility for a higher rate of growth for India. Firstly, the sectorial targets in the *Draft Outline of the Third Plan* (income as well as expenditure flows) imply an annual rate of output growth of 7.5 to 8 per cent. Secondly, the economic history of countries with varying socio-economic systems (for example, USSR Yugoslavia, West Germany and

33 Das Gupta, *op. cit.*

Japan) suggest that in the postwar period these countries have attained a high rate of growth. The saying of the *Bible* 'Unto every one that hath shall be given', holds good for all countries in respect of a higher rate of growth. Thirdly, the immense technological possibilities that have developed following the World War II have rendered it easier for the underdeveloped countries to utilise them with proper economic organisation, for a higher rate of growth.

Dr. Patel's analysis of the Third Plan reveals that Indian economy can attain 8 to 9 per cent rate of growth. At compound rate of growth, he argues, if the per capita output increases at the rate of 3 per cent per year, then in a period of 20 years the per capita output will increase by 80 per cent; and if the per capita output increases at the rate of 6 per cent per year then in a period of 20 years the per capita output will increase by 222 per cent. The choice of a higher rate of growth is full of promises for human welfare. This cannot be neglected.[34]

V. PROSPECTS

This analysis of Indian planning reveals certain inherent weaknesses. The dimunition in the optimism, with which we started the second Five Year Plan, may be ascribed to the long gestation period of the Second Plan; a sustained rise in prices, specially of the primary commodities and a fall in agricultural production. But this is not to deny the effectiveness of present planning in India. In sheer size the Third Plan is bigger than the Second Plan. At the time of writing (15 January 1961) the size of the Third Plan has been further increased by the National Development Council by about Rs. 250 crores. A review of the resources that could be mobilised indicates that the Plan can further be increased.

As the opposition to planning grows the faith in planning is also increasing. Even Big Business does not oppose plan-

34 Dr. Patel's lectures in the Department of Economics, Lucknow University, Lucknow, in December 1960.

ning as such; all that they demand is a bigger share for the private sector. Since it is vocal and own the major media of communication and in the absence of *constructive* socialist opposition, Big Business has succeeded in getting large concessions. Reflecting on the relative shares in the investment during the Third Plan, Professor Das Gupta rightly says: 'The distribution may appear to some to be a little too generous towards the private sector, considering the fact that the goal of Indian economic policy is still recognised to be the establishment of a socialist state.'[35]

The crucial point in ensuring the success of Indian planning lies in a conscious effort to see that more and more recognition is given to the view that without land redistribution, cooperative farming and state trading it is not possible to win on the agricultural front, which in turn will decide the success on other fronts too. The theoretical strategy of the Second Plan, which has come to stay, is to expand the public sector (state and cooperative enterprises) which will certainly bring a fundamental change in the property relations. Thus 99 per cent of the population—the entire peasantry, the artisans, the small manufactures, traders, and the middle classes—can be brought in the cooperative sector. In the state as well as in private undertakings the participation in management of the workers and village Panchayats would create a democratic atmosphere. Thus the scope of Indian planning is quite comprehensive even from the viewpoint of a social revolution.

This view of Indian economic development does not, however, rest on the assumption that *all* the forces are operating in the desired direction. Vested interests are doing all that is in their power to misdirect our efforts. There are tendencies towards socialism, as also counter-tendencies. But the people and the Government of India are committed to planned economic development of the country. To what extent this programme will succeed depends on the active

35 Das Gupta, *op. cit.*

participation, supervision, guidance and vigilance of the working people and the progressive intelligentsia, for which opportunities as well as possibilities exist. The gigantic effort of 400 million people towards the reconstruction of their economy for socialism, democracy and peace need a sympathetic understanding, appreciation and fraternal aid from all those countries who aspire and struggle for these goals.

Appendix A

GOVERNMENT OF INDIA
MINISTRY OF INDUSTRY AND SUPPLY
RESOLUTION

6 April 1948

THE Government of India have given careful thought to the economic problems facing the country. The nation has now set itself to establish a social order where justice and equality of opportunity shall be secured to all the people. The immediate objective is to provide educational facilities and health services on a much wider scale, and to promote a rapid rise in the standard of living of the people by exploiting the latent resources of the country, increasing production and offering opportunities to all for employment in the service of the community. For this purpose, careful planning and integrated effort over the whole field of national activity are necessary; and the Government of India propose to establish a National Planning Commission to formulate programmes of development and to secure their execution. The present statement, however, confines itself to Government's policy in the industrial field.

2. Any improvement in the economic conditions of the country postulates an increase in national wealth; a mere redistribution of existing wealth would make no essential difference to the people and would merely mean the distribution of poverty. A dynamic national policy must, therefore, be directed to a continuous increase in production by all possible means, side by side with measures to secure its equitable distribution. In the present state of the nation's economy, when the mass of the people are below the subsistence level, the emphasis should be on the expansion of production, both agricultural and industrial; and in particular on the production of capital equipment, of goods satisfying the basic needs of the people, and of commodities the export of which will increase earnings of foreign exchange.

3. The problem of state participation in industry and the conditions in which private enterprise should be allowed to operate must be judged in this context. There can be no doubt

that the state must play a progressively active role in the development of industries, but ability to achieve the main objectives should determine the immediate extent of State responsibility and the limits to private enterprise. Under present conditions the mechanism and the resources of the state may not permit it to function forthwith in industry as widely as may be desirable. The Government of India are taking steps to remedy the situation; in particular, they are considering steps to create a body of men trained in business methods and management. They feel, however, that for some time to come, the state could contribute more quickly to the increase of national wealth by expanding its present activities wherever it is already operating and by concentrating on new units of production in other fields, rather than on acquiring and running existing units. Meanwhile, private enterprise, properly directed and regulated, has a valuable role to play.

4. On these considerations the Government have decided that the manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and management of railway transport should be the exclusive monopoly of the Central Government. Further, in any emergency, the Government would always have the power to take over any industry vital for national defence. In the case of the following industries, the state—which, in this context, includes Central, Provincial and State governments and other public authorities like municipal corporations—will be exclusively responsible for the establishment of new undertakings, except where, in the national interest, the state itself finds it necessary to secure the cooperation of private enterprise subject to such control and regulations as the Central Government may prescribe:

1 coal (the Indian Coalfields Committee's proposals will be generally followed);
2 iron and steel;
3 aircraft manufacture;
4 shipbuilding;
5 manufacture of telephone, telegraph and wireless apparatus, excluding radio receiving sets;
6 mineral oils.

While the inherent right of the state to acquire any existing industrial undertaking will always remain, and will be exercised whenever the public interest requires it, Government have decided to let existing undertakings in these fields develop for a period of ten years, during which they will be allowed all facilities for efficient working and reasonab'e expansion. At the end of this period, the whole matter will be reviewed and a decision taken in the light of circumstances obtaining at the time. If it is decided that the state should acquire any unit, the fundamental rights guaranteed by the Constitution will be observed and compensation will be awarded on a fair and equitable basis.

Management of state enterprise will, as a rule, be through the medium of public corporations under the statutory control of the Central Government, who will assume such powers as may be necessary to ensure this.

5. The Government of India have recently promulgated a measure for the control by the state of the generation and distribution of electric power. This industry will continue to be regulated in terms of this measure.

6. The rest of the industrial field will normally be open to private enterprise, individual as well as cooperative. The state will also progressively participate in this field; nor will it hesitate to intervene whenever the progress of an industry under private enterprise is unsatisfactory. The Central Government have already embarked on enterprises like large river valley developments, which are multi-purpose projects of great magnitude, involving extensive generation of hydro-electric power and irrigation on a vast scale, and are calculated in a comparatively short time to change the entire face of large areas in this country. Projects like the Damodar Valley Scheme, the Kosi Reservoir, the Hirakud Dam, etc., are in a class by themselves and can stand comparison with any of the major schemes in America or elsewhere. The Central Government have also undertaken the production of fertilizer on a very large scale, and have in view other enterprises like the manufacture of essential drugs, and of synthetic oil from coal; many Provincial and State governments are also proceeding on similar lines.

7. There are certain basic industries of importance, apart from those mentioned in paragraph 4, the planning and regulation of which by the Central Government is necessary in the national interest. The following industries whose location must be governed by economic factors of all-India import, or which require considerable investment or a high degree of technical skill, will be the subject of Central regulation and control:

1 salt
2 automobiles and tractors
3 prime movers
4 electric engineering
5 other heavy machinery
6 machine tools
7 heavy chemicals, fertilizers and pharmaceuticals and drugs
8 electro-chemical industries
9 non-ferrous metals
10 rubber manufactures
11 power and industrial alcohol
12 cotton and woollen textiles
13 cement
14 sugar
15 paper and newsprint
16 air and sea transport
17 minerals
18 industries related to defence.

The above list cannot obviously be of an exhaustive nature. The Government of India, while retaining the ultimate direction over this field of industry, will consult the governments of the Provinces and States at all stages and fully associate them in the formulation and execution of plans. Besides these governments, representatives of industry and labour will also be associated with the Central Government in the Industrial Advisory Council and other bodies which they propose to establish, as recommended by the Industries Conference.

8. Cottage and small-scale industries have a very important role in the national economy, offering as they do scope for individual, village or cooperative enterprise, and means for the rehabilitation of displaced persons. These industries are particularly suited for the better utilisation of local resources and for the achievement of local self-sufficiency in respect of certain types of essential consumer goods like food, cloth and agricultural implements. The healthy expansion of cottage and small-scale indutries depends upon a number of factors like the provision of raw materials, cheap power, technical advice, organised marketing of their produce, and, where necessary, safeguards against intensive competition by large-scale manufacture, as well as on the education of the worker in the use of the best available technique. Most of these fall in the Provincial sphere and are receiv-

ing the attention of the governments of the Provinces and States. The Resolution of the Industries Conference has requested the Central Government to investigate how far and in what manner these industries can be coordinated and integrated with large-scale industries. The Government of India accept this recommendation. It will be examined, for example, how the textile mill industry can be made complementary to, rather than competitive with, the handloom industry, which is the country's largest and best organised cottage industry. In certain other lines of production, like agricultural implements, textile accessories, and parts of machine tools, it should be possible to produce components on a cottage-industry scale and assemble these into their final production at a factory. It will also be investigated how far industries at present highly centralised could be decentralised with advantage.

The Resolution of the Industries Conference has recommended that Government should establish a Cottage Industries Board for the fostering of small-scale industries. The Government of India accept this recommendation and propose to create suitable machinery to implement it. A Cottage and Small-scale Industries Directorate will also be set up within the Directorate General of Industries and Supplies.

One of the main objectives will be to give a distinctly cooperative bias to this field of industry. During and before the last war, even a predominantly agricultural country like China showed what could be done in this respect, and her mobile industrial cooperative units were of outstanding assistance in her struggle against Japan. The present international situation is likely to lessen to a marked degree our chances of getting capital goods for large-scale industry, and the leeway must be made up by having recourse to small-size industrial cooperatives throughout the country.

9. The Government, however, recognise that their objective, viz., securing the maximum increase in production, will not be realised merely by prescribing the respective sphere of the state and of private enterprise in industry: it is equally essential to ensure the fullest cooperation between labour and management and the maintenance of stable and friendly relations between them. A resolution on this subject was unanimously passed by the Industries Conference which was held in December last. Amongst other things, the Resolution states:

. . . The system of remuneration to capital as well as labour

> must be so devised that, while in the interest of the consumers and the primary producers, excessive profits should be prevented by suitable methods of taxation and otherwise. both will share the product of their common effort, after making provision for payment of fair wages to labour, a fair return on capital employed in the industry and reasonable reserves for the maintenance and expansion of the undertaking.

Government accept this Resolution. They also consider that labour's share of the profits should be on a sliding scale normally varying with production. They propose, in addition to the over-all regulation of industry by the state, to establish machinery for advising on fair wages, fair remuneration for capital, and conditions of labour. They will also take steps to associate labour in all matters concerning industrial production.

The machinery which Government propose to set up will function at different levels, central, regional and unit. At the centre, there will be a Central Advisory Council which will cover the entire field of industry, and will have under it committees for each major industry. These committees may be split up into subcommittees dealing with specific questions relating to the industry, e.g., production, industrial relations, wage fixation, and distribution of profits. The regional machinery under the Provincial governments will be Provincial Advisory Boards which, like the central Advisory Council, will cover the entire field of industry within the province; they will have under them provincial committees for each major industry. The provincial committees may also be split up into various subcommittees dealing with specific questions relating to production, wage fixation and industrial relations. Below the provincial committees will come the works committees and the production committees attached to each major industrial establishment.

The works committees and the production committees will be bipartite in character, consisting of representatives of employers and workers only, in equal numbers. All other committees will be tripartite, with representatives of Government, employers and workers.

Government hope that the machinery proposed will substantially reduce the volume of industrial disputes. In the case of unresolved conflicts, Government trust that management and labour will, in their own interests and in the larger interests of the country, agree to settle them through recognised channels of conciliation and arbitration, which will be provided by Government. The Industrial Relations Machinery, both at the Centre and in the Provinces, is being strengthened, and permanent Industrial Tribunals are being established for dealing with major disputes.

The Government of India are also taking special steps to improve industrial housing as quickly as possible. A scheme for the construction of one million workers' houses in ten years is under contemplation, and a Housing Board is being constituted for this purpose. The cost will be shared in suitable proportions between Government, employers and labour, the share of labour being recovered in the form of a reasonable rent.

In order to ensure quick decisions on the various matters arising out of the Industrial Truce Resolution, Government are appointing a special officer.

10. The Government of India agree with the view of the Industries Conference that, while it should be recognised that participation of foreign capital and enterprise, particularly as regards industrial technique and knowledge, will be of value to the rapid industrialisation of the country, it is necessary that the conditions under which they may participate in Indian industry should be carefully regulated in the national interest. Suitable legislation will be introduced for this purpose. Such legislation will provide for the scrutiny and approval by the Central Government of every individual case of participation of foreign capital and management in industry. It will provide that, as a rule, the major interest in ownership, and effective control, should always be in Indian hands; but power will be taken to deal with exceptional cases in a manner calculated to serve the national interest. In all cases, however, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon.

11. The Government of India are fully alive to their direct responsibility for the development of those industries which they have found necessary to reserve exclusively for State enterprise. They are equally ready to extend their assistance to private or cooperative enterprise in the rest of the industrial field, and in particular, by removing transport difficulties and by facilitating the import of essential raw materials to the maximum possible extent. The tariff policy of Government will be designed to prevent unfair foreign competition and to promote the utilisation of India's resources without imposing unjustifiable burdens on the consumer. The system of taxation will be re-

viewed and readjusted where necessary to encourage saving and productive investment and to prevent undue concentration of wealth in a small section of the population.

12. The Government of India hope that this elucidation of their intentions on fundamental aspects of industrial policy will remove all misapprehensions and they are confident that a joint and intensive effort will now be made by labour, capital and the general public, which will pave the way for the rapid industrialisation of the country.

Appendix B

*PRIME MINISTER'S STATEMENT ON NON-INDIAN CAPITAL AND INVESTMENT**

MEMBERS will have noticed that no specific provision relating to participation of foreign capital in nuustres has been made in the Bill. We had thought at first that it would be necessary to make some specific provision, but we find on further examination that such regulation as is necessary can be secured through existing laws. The policy as regards participation of foreign capital has already been announced in broad terms in Government's Resolution of 6 April 1948. The stress on the need to regulate, in the national interest, the scope and manner of foreign capital arose from past association of foreign capital and control with foreign domination of the economy of the country. But circumstances today are quite different. The object of our regulation should therefore be the utilisation of foreign capital in a manner most advantageous to the country. Indian capital needs to be supplemented by foreign capital not only because our national savings will not be enough for the rapid development of the country on the scale we wish but also because in many cases scientific technical and industrial knowledge and capital equipment can best be secured along with foreign capital.

In this context, foreign investors would no doubt wish to have some clear indication of our policy on certain matters, like the repatriation of capital, the remittance of profits and the treatment of foreign enterprises *vis-a-vis* Indian enterprise. We propose to make the policy of Government quite clear in this matter.

In the first place, I would like to state that Government would expect all undertakings, Indian or foreign, to conform to the general requirements of their industrial policy. As regards existing foreign interest, Government do not intend to place any restrictions or impose any conditions which are not applicable to similar Indian enterprise. Government would also so frame

* Text of the statement made by Jawaharlal Nehru in the Constituent Assembly on 6 April 1949.

their policy as to enable further foreign capital to be invested in India on terms and conditions that are mutually advantageous.

Secondly, foreign interests would be permitted to earn profits, subject only to regulations common to all. We do not foresee any difficulty in continuing the existing facilities for remittance of profits and Government have no intention to place any restrictions on withdrawal of foreign capital investments, but remittance facilities would naturally depend on foreign exchange considerations. If, however, any foreign concerns come to be compulsorily acquired, Government would provide reasonable facilities for the remittance of proceeds.

Thirdly, if and when foreign enterprises are compulsorily acquired, compensation will be paid on a fair and equitable basis as already announced in Government's statement of policy.

Government have stated before that, as a rule, the major interest in ownership and effective control of an undertaking should be in Indian hands. They have also stated that power will be taken to deal with exceptional cases in a manner calculated to serve the national interest. Obviously there can be no hard and fast rule in this matter. Government will not object to foreign capital having control of a concern for a limited period, if it is found to be in the national interest and each individual case will be dealt with on its merits. In the matter of employment of personnel, Government would not object to the employment of non-Indians in posts requiring technical skill and experience, when Indians of requisite qualifications are not available, but they attach vital importance to the training and employment of Indians even for such posts in the quickest possible manner.

I should like to add a few words about British interests in India, which naturally form largest part of foreign investments in India. Although it is the policy of the Government of India to encourage the growth of Indian industry and commerce (including such services like banking, shipping and insurance) to the best of their ability, there is and will still be considerable scope for the investment of British capital in India. These considerations will apply equally to other existing non-Indian interests. The Government have no desire to injure in any way British or other non-Indian interests in India and would gladly welcome their contribution in a constructive and cooperative role in the development of India's economy.

Appendix C

GOVERNMENT OF INDIA INDUSTRIAL POLICY RESOLUTION

30 April 1956

THE Government of India set out in their resolution dated the 6th April, 1948, the policy which they proposed to pursue in the industrial field. The resolution emphasised the importance to the economy of securing a continuous increase in production and its equitable distribution, and pointed out that the state must play a progressively active role in the development of industries. It laid down that besides arms and ammunition, atomic energy and railway transport, which would be the monopoly of the Central Government, the state would be exclusively responsible for the establishment of new undertakings in six basic industries—except where, in the national interest, the state itself found it necessary to secure the cooperation of private enterprise. The rest of the industrial field was left open to private enterprise though it was made clear that the state would also progressively participate in this field.

2. Eight years have passed since this declaration on industrial policy. These eight years have witnesssed many important changes and developments in India. The Constitution of India has been enacted, guaranteeing certain Fundamental Rights and enunciating Directive Principles of State Policy. Planning has proceeded on an organised basis, and the First Five Year Plan has recently been completed. Parliament has accepted the socialist pattern of society as the objective of social and economic policy. These important developments necessitate a fresh statement of industrial policy, more particularly as the Second Five Year Plan will soon be placed before the country. This policy must be governed by the principles laid down in the Constitution, the objective of socialism, and the experience gained during these years.

3. The Constitution of India, in its preamble, has declared that it aims at securing for all its citizens

Justice, social, economic and political;
Liberty of thought, expression, belief, faith and worship;

Equality of status and opportunity;
and to promote among them all
Fraternity assuring the dignity of the individual and the unity of the Nation.

In its Directive Principles of State Policy, it is stated that

> The State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life.

Further that

> The State shall, in particular, direct its policy towards securing
> (*a*) that the citizens, men and women equally, have the right to an adequate means of livelihood;
> (*b*) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;
> (*c*) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment;
> (*d*) that there is equal pay for equal work for both men and women;
> (*e*) that the health and strength of workers, men and women, and the tender age of children are not abused and that citizens are not forced by economic necessity to enter avocations unsuited to their age or strength;
> (*f*) that childhood and youth are protected against exploitation and against moral and material abandonment.

4. These basic and general principles were given a more precise direction when Parliament accepted in December 1954, the socialist pattern of society as the objective of social and economic policy. Industrial policy, as other policies, must therefore be governed by these principles and directions.

5. In order to realise this objective, it is essential to accelerate the rate of economic growth and to speed up industrialisation and, in particular, to develop heavy industries and machine making industries, to expand the public sector, and to build up a large and growing cooperative sector. These provide the economic foundations for increasing opportunities for gainful employment and improving living standards and working conditions for the mass of the people. Equally, it is urgent, to reduce disparities in income and wealth which exist today, to prevent

private monopolies and the concentration of economic power in different fields in the hands of small numbers of individuals. Accordingly, the state will progressively assume a predominant and direct responsibility for setting up new industrial undertakings and for developing transport facilities. It will also undertake state trading on an increasing scale. At the same time, as an agency for planned national development, in the context of the country's expanding economy, the private sector will have the opportunity to develop and expand. The principles of co-operation should be applied wherever possible and a steadily increasing proportion of the activities of the private sector developed along cooperative lines.

6. The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the state, in present circumstances, could provide, have also to be in the public sector. The state has therefore to assume direct responsibility for the future development of industries over a wider area. Nevertheless, there are limiting factors which make it necessary at this stage for the state to define the field in which it will undertake sole responsibility for further development, and to make a selection of industries in the development of which it will play a dominant role. After considering all aspects of the problem, in consultation with the Planning Commission, the Government of India have decided to classify industries into three categories, having regard to the part which the state would play in each of them. These categories will inevitably overlap to some extent and too great a rigidity might defeat the purpose in view. But the basic principles and objectives have always to be kept in view and the general directions hereafter referred to followed. It should also be remembered that it is always open to the state to undertake any type of industrial production.

7. In the first category will be industries the future development of which will be the exclusive responsibility of the state. The second category will consist of industries, which will be progressively state-owned and in which the state will therefore generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supple-

ment the effort of the state. The third category will include all the remaining industries, and their future development will, in general, be left to the initiative and enterprise of the private sector.

8. Industries in the first category have been listed in Schedule A of this Resolution. All new units in these industries, save where their establishment in the private sector has already been approved, will be set up only by the state. This does not preclude the expansion of the existing privately owned units, or the possibility of the state securing the cooperation of private enterprise in the establishment of new units when the national interests so require. Railways and air transport, arms and ammunition and atomic energy will, however, be developed as Central Government monopolies. Whenever cooperation with private enterprise is necessary, the state will ensure, either through majority participation in the capital or otherwise, that it has the requisite powers to guide the policy and control the operations of the undertaking.

9. Industries in the second category will be those listed in Schedule B. With a view to accelerating their future development, the state will increasingly establish new undertakings in these industries. At the same time private enterprise will also have the opportunity to develop in this field, either on its own or with state participation.

10. All the remaining industries will fall in the third category, and it is expected that their development will be undertaken ordinarily through the initiative and enterprise of the private sector, though it will be open to the state to start any industry even in this category. It will be the policy of the state to facilitate and encourage the development of these industries in the private sector, in accordance with the programmes formulated in successive five year plans, by ensuring the development of transport, power and other services, and by appropriate fiscal and other measures. The state will continue to foster institutions to provide financial aid to these industries, and special assistance will be given to enterprises organised on cooperative lines for industrial and agricultural purposes. In suitable cases, the state may also grant financial assistance to the private sector. Such assistance, especially when the amount involved is substantial, will preferably be in the form of participation in equity capital, though it may also be in part in the form of debenture capital.

11. Industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the state and will be subject to conrtol and regulation in terms of the Industries (Development and Regulation) Act and other relevant legislation. The Government of India, however, recognise that it would, in general, be desirable to allow such undertakings to develop with as much freedom as possible, consistent with the targets and objectives of the national plan. When there exist in the same industry both privately and publicly owned units, it would continue to be the policy of the state to give fair and non-discriminatory treatment to both of them.

12. The division of industries into separate categories does not imply that they are being placed in watertight compartments. Inevitably, there will not only be an area of overlapping but also a great deal of dovetailing between industries in the private and the public sectors. It will be open to the state to start any industry not included in Schedule A and Schedule B when the needs of planning so require or there are other important reasons for it. In appropriate cases, privately owned units may be permitted to produce an item falling within Schedule A for meeting their own requirements or as by-products. There will be ordinarily no bar to small privately owned units undertaking production, such as the making of launches and other light-craft, generation of power for local needs and small scale mining. Further, heavy industries in the public sector may obtain some of their requirements of lighter components from the private sector, while the private sector in turn would apply with even greater force to the relationship between large scale and small scale industries.

13. The Government of India would, in this context, stress the role of cottage and village and small scale industries in the development of the national economy. In relation to some of the problems that need urgent solutions, they offer some distinct advantages. They provide immediate large-scale employment; they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country.

14. The state has been following a policy of supporting cottage and village and small-scale industries by restricting the

volume of production in the large scale sector, by differential taxation, or by direct subsidies. While such measures will continue to be taken, whenever necessary, the aim of the state policy will be to ensure that the decentralised sector acquires sufficient vitality to be self-supporting and its development is integrated with that of large scale industry. The state will, therefore, concentrate on measures designed to improve the competitive strength of the small scale producer. For this it is essential that the technique of production should be constantly improved and modernised, the pace of transformation being regulated so as to avoid, as far as possible, technological unemployment. Lack of technical and financial assistance of suitable working accommodation and inadequacy of facilities for repair and maintenance are among the serious handicaps of small scale producers. A start has been made with the establishment of industrial estates and rural community workshops to make good these deficiencies. The extension of rural electrification and the availability of power at prices which the workers can afford will also be of considerable help. Many of the activities relating to small scale production will be greatly helped by the organisation of industrial cooperatives. Such cooperatives should be encouraged in every way and the state should give constant attention to the development of cottage and village and small scale industry.

15. In order that industrialisation may benefit the economy of the country as a whole, it is important that disparities in levels of development between different regions should be progressively reduced. The lack of industries in different parts of the country is very often determined by factors such as the availability of the necessary raw materials or other natural resources. A concentration of industries in certain areas has also been due to the ready availability of power, water supply and transport facilities which have been developed there. It is one of the aims of national planning to ensure that these facilities are steadily made available to areas which are at present lagging behind industrially or where there is greater need for providing opportunities for employment, provided the location is otherwise suitable. Only by securing a balanced and coordinated development of the industrial and the agricultural economy in each region, can the entire country attain higher standards of living.

16. This programme of industrial development will make large demands on the country's resources of technical and

managerial personnel. To meet these rapidly growing needs for the expansion of the public sector and for the development of village and small scale industries, proper managerial and technical cadres in the public services are being established. Steps are also being taken to meet shortages at supervisory levels, to organise apprenticeship schemes of training on a large scale both in public and in private enterprises, and to extend training facilities in business management in universities and other institutions.

17. It is necessary that proper amenities and incentives should be provided for all those engaged in industry. The living and working conditions of workers should be improved and their standard of efficiency raised. The maintenance of industrial peace is one of the prime requisites of industrial progress. In a socialist democracy labour is one of the prime requisites of industrial progress. In a socialist democracy labour is a partner in the common task of development and should participate in it with enthusiasm. Some laws governing industrial relations have been enacted and a broad common approach has developed with the growing recognition of the obligations of both management and labour. There should be joint consultation and workers and technicians should, wherever possible, be associated progressively in management. Enterprises in the public sector have to set an example in this respect.

18. With the growing participation of the state in industry and trade, the manner in which these activities should be conducted and managed assumes considerable importance. Speedy decisions and a willingness to assume responsibility are essential if these enterprises are to succeed. For this, wherever possible, there should be decentralisation of authority and their management should be along business lines. It is to be expected that public enterprises will augment the revenues of the state and provide resources for further development in fresh fields. But such enterprises may sometimes incur losses. Public enterprises have to be judged by their total results and in their working they should have the largest possible measure of freedom.

19. The Industrial Policy Resolution of 1948 dealt with a number of other subjects which have since been covered by suitable legislation or by authoritative statements of policy. The division of responsibility between the Central Government and the State governments in regard to industries has been set out in the Industries (Development and Regulation) Act. The

Prime Minister, in his statement in Parliament on the 6 April 1949, has enunciated the policy of the State in regard to foreign capital. It is, therefore, not necessary to deal with these subjects in this resolution.

20. The Government of India trust that this statement of their Industrial Policy will receive the support of all sections of the people and promote the rapid industrialisation of the country.

Schedule A

1 Arms and ammunition and allied items of defence equipment.
2 Atomic energy.
3 Iron and steel.
4 Heavy castings and forgings of iron and steel.
5 Heavy plant and machinery required for iron and steel production, for mining, for machine tool manufacture and for such other basic industries as may be specified by the Central Government.
6 Heavy electrical plant including large hydraulic and steam turbines.
7 Coal and lignite.
8 Mineral oils.
9 Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.
10 Mining and processing of copper, lead, zinc, tin, molybdenum and wolfram.
11 Minerals specified in the Schedule to the Atomic Energy (Control of Production and Use) Order, 1953.
12 Aircraft.
13 Air transport.
14 Railway transport.
15 Shipbuilding.
16 Telephones and telephone cables, telegraph and wireless apparatus (excluding radio receiving sets).
17 Generation and distribution of electricity.

Schedule B

1 All other minerals except 'minor minerals' as defined in Section 3 of the Minerals Concession Rules, 1949.
2 Aluminium and other non-ferrous metals not included in Schedule 'A'.
3 Machine tools.
4 Ferro alloys and tool steels.
5 Basic and intermediate products required by chemical industries such as the manufacture of drugs, dyestuffs and plastics.
6 Antibiotics and other essential drugs.
7 Fertilizers.
8 Synthetic rubber.
9 Carbonisation of coal.
10 Chemical pulp.
11 Road transport.
12 Sea transport.

Index