The evolution of the economic policies and strategies of the Congress party can be seen in terms of a historical process. It was arrived at, through a long process of interactions, compromises and the accommodation of diverse ideas and ideologies. Since its formation in 1885, the Indian National Congress was influenced by the ideologies and trends in the world economy, which reflected in its policies and strategies. It is argued that the Congress was the product of the colonial state which was itself partially a by-product of the emerging world economy. But the economic questions addressed by the Congress were not only on the basis of trends in the global economic thinking, but it also had a domestic political dimension. Domestically, the Congress as a movement for national freedom, had to protect the interests of diverse social groups in its economic policies and programmes. Thus, since the incipient stage of the nationalist movement, the Congress’ economic policies and strategies has had dual dimensions – imbibing global political and economic trends and the domestic political compulsion to protect the interests of its social constituencies. In every policy issue, it has tried to maintain this balance by evolving a consensus within it.

In the national movement, the Congress emerged as the vanguard of the freedom struggle by adopting an ‘inclusive’ agenda; fighting against the colonial exploitation and finding solutions for the vulnerability of masses and protecting the interests of various cross sections of the people. According to Shepperdson and Simmons (1988), as far as the realm of economic policy is concerned, the Congress has tended to favour two general approaches. Firstly, ‘the espousal of a set of purposely vaguely defined, relatively uncontentious and on the whole rather anodyne objectives’

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2 Shepperdson, Mike and Colin Simmons (1988), 'Introduction' in Shepperdson and Simmons, ibid., p. 21.
such as the commitment to emerge from underdevelopment, providing minimum material needs to the majority population and encouraging self-reliance all of which are consistent with the formal continuance of a pluralist society. Secondly, 'it has been to lay down an explicit programme of goals, but at the same time to build a series of officially or unofficially sanctioned 'safeguards' so as to minimize damage to the most highly prized interests and most powerful political constituencies'.

The basic idea behind the economic policies and strategies of the Congress was the attainment of a developmental/interventionist state to modernize the backward society and the welfare of its social classes. And this, even India’s dominant elites and policy makers favoured the creation of a self-reliant economy and a powerful state. The bourgeois class extended its support to the Congress for achieving an interventionist state, which, it felt, was essential for the development of the indigenous bourgeois class. The Congress, on its part, projected the attainment of an interventionist state before the masses as an instrument for development and modernization. In fact, the state visualized by the Congress had the potential to function with relative autonomy vis-à-vis the interests of the dominant class and the industrial and business groups. The multi-class, caste, regional and religious nature of the nationalist movement under Gandhi forced the Congress to arrive at a social consensus on its economic policies and programmes. The idea was to provide social, economic and political justice and to ensure the dignity of the individual.

In the 1930s, the major conflict on the economic policy was not between the socialist and the capitalist but from within the Congress between the Gandhians and the Socialists. A milestone in the Congress’ policies and strategies in the pre-independence era was the Karachi Resolution (1931) which can be viewed as a blueprint to independent India’s economic strategy. The Resolution called for an interventionist

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3 Ibid.
state that could ensure the economic rights of the people which thus gave the economic policies of the Congress a left-of-centre approach.\textsuperscript{6} With the adoption of Karachi Resolution, the socialists gained an upperhand in the economic policy of the party. However, the later years witnessed the accommodation of Gandhian ethos in the economic strategy. The All India Congress Committee (AICC) meeting held in Varanasi in 1934 had affirmed that the Congress should also encourage village cottage industries even while going for state directed industrialization. Consequently, swadeshi or self-reliance became a major theme of the Indian National Congress during the nationalist movement. The leadership of the Congress realised the need for a modern industrial economy for the achievement of economic freedom and to fulfil the aspirations of the nation. Towards this direction, there was discussions in the AICC to set up a Planning Committee aimed at giving a substantial role to the state in the development of Indian industry.

Based on the Congress Working Committee (CWC) resolution of 1937, the National Planning Committee was set up in 1938 under the chairmanship of Jawaharlal Nehru. The industrial class on its part prepared the Tata-Birla Plan, popularly known as the Bombay Plan. The Plan called for the establishment of centralized planning, the imposition of rigorous economic controls, the development of heavy industry, and the introduction of radical agricultural reforms. Thus, in general, planning was envisaged as an instrument to achieve or to ensure the material well being of the people. Again, it was considered not only as an indication of a change in the Congress' ideological preferences; it was a prelude to the multi-class character of the party.\textsuperscript{7} In fact, 'planning was not only a part of the anticipation of power by the state leadership of the Congress, it was also an anticipation of the concrete forms in which that power would be exercised within a national state'.\textsuperscript{8} The leadership believed that the only solution for problems of the world as well as that of India lay in socialism. They saw independence

\textsuperscript{6} see AICC (1954), \textit{Resolution on Economic Planning and Programme 1924-54}, New Delhi: AICC. The resolution proclaimed that ending exploitation of the masses, political freedom of the starving million. It made demand for control by the state of key industries and ownership of mineral resources and control over exchange and currency policy so as to help Indian industries and bring relief to the masses. pp. 3-6.


as a precondition for the reconstruction of both the economy and polity. So, the economic policy and strategy of the Congress during this period were aimed at achieving growth with justice. Further, the leadership felt that since good economy was a precondition for good democratic politics, the economic well being of the social groups would consolidate the role of the Congress in Indian politics.

**Nehruvian phase (1947-1967)**

The Nehruvian era can be considered as the foundational stage of institution building in independent India. The all round presence of the developmental state and the experiment of democracy gave greater impetus to the development of political institutions. These political institutions under the patronage of the developmental state provided a framework to accommodate the demands of new classes in a democratic way. The Congress transformed itself into a political party and emerged as a major political institution in India. The policies and strategies of the party were geared towards building a self-reliant modern economy in which political freedom could be made meaningful for the masses. The Congress party, which was the ruling party, in its economic policies, argued for an interventionist state which sought to take an active role in the development process. The intention for strengthening such a state by the party was due to both domestic and global factors. Domestically, the Congress wanted to project its image as the inheritor of the multi-class, multi-caste mass movement and it needed the continued support of all sections of society. Globally, it needed the assistance of the Soviet Union for the reconstruction of independent India, though India adopted a non-aligned path in the bipolarized cold-war era.

As has been pointed out earlier, the policies and strategies of a party evolves necessarily as an outcome of the compulsions of domestic as well as global factors. In fact, four sets of political factors can affect the choice of national strategies, viz. development policy making, pressure emanating from the international system, domestic political coalition, domestic political institutions and the influence of ideology. The dominant thinking among the policy makers of the newly independent nation states was the vital role the developmental state could play in institution-building

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during the formative years of development. Mainly, two events had contributed to the strengthening of a strong developmental and interventionist state in their economic strategy in the post second world war period. Firstly, the strong nationalistic and anti-colonial nature of the movement, the Great Depression of the 1930s, the rise of Keynesian economic thinking and the Second World War revived the questions of the state, government policies, state-market relations, growth-distributive justice, etc. Secondly, the success of state planning in achieving rapid industrialization in the Soviet Union greatly influenced policy makers in the 1950s. Subsequently, in the 1940s and early 1950s, ‘development economics’ emerged as a sub discipline in analyzing the dominant role of the state in the economic development of the developing countries. The state assumed the role of a ‘visible hand’ in the nation-building process by acting as an agency for the welfare of the people.

The Congress party, under the leadership of Nehru, was influenced by the success of the Soviet experiment of centralised planning and by the emergence of ‘developmentalism’ as a new philosophy of economic policy. However he argued that India must evolve a model of her own, which was based on democratic socialism and aimed at mixed economy and economic planning. The AICC meeting of November 1947 held at Delhi, a resolution concerning the socio-economic policies of the Congress was passed. The resolution stressed the need to establish an economic structure based on maximum production without the operation of the monopolies and concentration of wealth. Another major step in the Congress’ economic policy was taken on January 1948 at the AICC’s Economic Programme Committee which met under the chairmanship of Nehru and proposed radical measures ‘to bring about equitable distribution of the existing income and wealth and prevent the growth of disparities with the process of industrialisation’. The Industrial Policy Resolution of 1948 was another significant development in this direction. It emphasized, among

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10 Dessai, op. cit., pp. 51-52.
11 see AICC (1947), Economic Resolution, Congress Bulletin, New Delhi: AICC.
12 AICC (1948), Report of the Economic Programme Committee, New Delhi: AICC.
other things, a progressively active role for the state in the development of industries coupled with a valuable role for private enterprises, properly directed and regulated.\textsuperscript{13} It reflected each of the ideological tendencies in the Congress party and government.\textsuperscript{14}

The Delhi Congress Session of 1951 declared that the Congress stood for progressive extension of public sector to various fields of economic activity. Further, the private sector was to function in close accord with the public sector for the fulfilment of common national objectives. On 21 December, 1954, Nehru stated in the Lok Sabha that ‘the objective of our economic policy should be a socialistic pattern of society’.\textsuperscript{15}

However, the official confirmation of the party’s stand was made at the Avadi session of the AICC in 1955. The Avadi session adopted a resolution stating that the establishment of a ‘socialist pattern of society’ was the party’s objective. And the party reached a consensus regarding its policies and strategies based on this objective. The aim was to create a mixed economy, a mixed polity and a mixed society.\textsuperscript{16} However, the post-independence economic policy developed from a complex interaction between economic and political factors, and mirrored a corresponding set of economic and political objectives.\textsuperscript{17} It may be recalled that even before independence, when Congress formalized its economic strategy for the post independent India, political considerations were also a determinant factor along with economic calculations. For instance, the political circumstances after independence forced Nehru to move towards left-oriented policies. Politically, the Congress party under Nehru had to counter the Swantantra party for its pro-liberal, and market-oriented approach.\textsuperscript{18}

The development strategy of India in the post-independence period was a synthesis of all the major ideological currents that were in existence within the Congress party. The Indian development strategy was moulded into form by

\textsuperscript{13} see Government of India (1948), \textit{Industrial Policy Resolution 1948}, New Delhi: Ministry of Finance.
synthesizing mainly three basic streams of thought within the Congress. They were the Gandhian philosophy of Sarvodaya that advocated a self-sufficient village economy based on small-scale industries; the socialist doctrine as advocated by the western educated Congressmen like Nehru who wanted heavy industrialization and the dominance of the public sector and the third approach advocated by Patel and Rajendra Prasad based on private capital and market economy.19

Nehru synthesized these three major ideological currents of the 1950s – the unrestrained free-market capitalism, modified welfare capitalism and the more radical communist model20 - into his vision of economic development and political democracy. The ideological principles that shaped the Congress’ policy were based on Nehruvian socialism. Socialism became virtually the national ruling ideology of the Congress during the Nehru era. Consequently, the ideological base of the Congress’ policies and strategies in the Nehruvian era was the left-of-centre policy. It was based on the framework of Nehruvian twin consensus – institutional and ideological. The left-of-centre approach of the party was aimed at strengthening the development state which indirectly sought to strengthen the party.

The underlying philosophy and ideology of the party and its policies and strategies during the Nehruvian era were to give more role to the state in economic development and a subservient role to the ‘market’. Towards this direction the party geared towards centralised planning, commanding heights of public sector in the mixed economy and provision for public subsidies to various groups. Nehru conceptualized planning as the first step towards the goal of a socialist society. At the same time he regarded the democratic values of the capitalist society as indispensable for the full growth of a just society. He, therefore, tried to reconcile the virtues of these two extremes and arrived at a vision of a new society based on democratic socialism. The Second Five Year Plan laid the foundation for economic development known for its Nehru-Mahalanobis strategy. It envisaged a significant role for the public sector and

stressed the need for heavy industrialization. The domestic and small-scale industries were given protection from competition. The Industrial Policy Resolution of 1956 was another significant development in demarcating the role of public and private sectors in Indian development. The basic objectives of the economic policy as explicated in the Industrial Policy Resolution of 1956 were 'the commanding heights of the public sector over the private sector, faster expansion of basic and key industries, prevention of concentration of economic powers in private hands, regional balance and promotion of small-scale industry'.

It can be seen that 'the process of accommodation began with the formulation of the Second Five Year Plan and became fully established with the proclamation of the Industrial Policy Resolution of 1956'. Though, the Industrial Policy Resolution of 1956 set out some principles of Nehru's philosophy, it retained sufficient ambivalence to placate the uncommitted elements.

**Patronage politics and party mobilisation**

The Congress party gained its strength and domination in Indian politics by placing the state as an active agent for development. As a state-centred party, its mobilisation, ideology and electoral strength depended on the positive role of the state in development. The domination of the party in the electoral landscape continuously from 1947 to 1967 added to its image as the prime promoter of the developmental state. By reaffirming its strong commitment to a socialistic pattern of society and placing the public sector at the commanding heights of the economy, it strengthened the developmental state. The economic policies and strategies of the party, at this time, were geared towards attaining this goal. It was oriented towards arriving at a consensus on developmental policy and sharing resources to the diverse social groups that it represented.

The active role of the state in the economy enabled the Congress to meet the mounting demands of various social groups. When the state is the sole agency for development, the party, which exercised state power over years, had control over the

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public resources. The state controlled the allocation of resources, the production priorities and the mobilization of resources, internally through heavy taxation and externally through 'aid' and foreign investment. It is argued that 'the combined effect of developmentalism and democratic mobilization was a rapid penetration of the state into a domain of society hitherto untouched by the state'. Thus, the support base of the interest groups is neither based on ideological affinities nor any policy preferences. Instead, it is based on the capacity of the party to channel direct economic benefits to interest groups. Further, it is argued that 'competition in the Congress was not organized around the left-right economic policy dimension, but focused more on access to the state and appropriating the state resources'.

The Congress, when it came into power, developed an elaborate structure of patronage distribution in a multi-class coalition in independent India. The elaborate network of patronage in the forms of subsidies, credits and public sector envisaged within the political economy under the purview of the developmental state enabled the party to co-opt and absorb diverse social groups. By influencing the distributive policies of the government, the party could meet the demands of its social constituencies and this contributed to broaden its mass base. The government's soft budget constraints and the provision of public subsidies, to various sectors and the generation of employment through an expansive state sector, expanded the party support in different spheres of the society. For example, the provision of large input subsidies to the farm sector in the form of fertilizers, power, seeds, irrigation and support prices for farm products helped the party to ensure the support of the agricultural communities.

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25 For example, the Soviet policy of external aid and assistance to India was a means towards this end. see Swamy, Dalip S. (1994), *The Political Economy of Industrialisation: From Self-reliance to Globalisation*, New Delhi: Sage Publications, p. 52.


28 Chhibber, op. cit., p. 76.


Planned development was a crucial part of the legitimating ideology of the Congress in power; and 'planning' as a domain outside politics, became an essential instrument for patronage politics.\(^{31}\) It helped to find areas for resource allocation and overall development of certain regions. The institution of development and planning and other development programmes, by extending active agencies for development of the society, provided new social and economic opportunities. The introduction of poverty alleviation programmes, the adoption of redistributive measures, the launching of employment generation schemes, the high expenditure on the poor, programmes intended to empower socially marginalized sections, rural development schemes, high allocation in social expenditure, distribution of essential commodities through fair price shops to the poor, etc. had helped the local leadership of the party to approach the common masses and to expand its support base at the local level.\(^{32}\) The disbursement and distribution of resources to the intended and unintended beneficiaries were done through various levels of government structures like the state governments and local institutions like Panchayati Raj, most of which were dominated by the Congress party.\(^{33}\) Moreover, an elaborate network of patronage created by the party through the programmes of development planning enabled it to bargain with various social strata in rural and urban areas for political support.\(^{34}\) Thus, the programme of development and planning thus can be seen as one of the three ways by which the Congress established its dominance and the progressive expansion of its social base.\(^{35}\)

While acknowledging the public sector enterprises, it strengthened the role of the private sector in the economy, it. The wide-ranging public sector provided job

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\(^{35}\) According to Kothari, the Congress party established its dominance in the political system in the early decades of development by a process of progressive expansion of its social base in three ways. Firstly, soon after independence, it engaged in a process of ‘displacement’ of its own elite structure by taking the socially and economically entrenched groups into its organization. Secondly, it initiated a process of social cooption, supplementing the higher caste, new sections were recruited and penetrated into local regions and strongholds of traditional authority. Thirdly, through its extended programmes of development and planning.

opportunities and recruitment to professionals and developed the patronage of the bureaucracy committed to the party. The provision of affirmative action policies in the public sector stand a testimony to the government's commitment to the deprived sections of the society and established its linkage with these groups. It is considered that 'the pressure to use public revenues as patronage not only stems from the heterogeneous nature of India's dominant classes but also originates in the need to maintain electoral support in a democratic polity'. It has been argued that this strategy of consolidation depended on a dispersal of power and patronage than it did on ideological appeal or organizational loyalties. Moreover, the network of patronage and distribution of resources, made it difficult to other parties to compete with the Congress. Its implication for the party politics was that the policies of the Congress not only developed a character of 'one party dominance' but also countered the opposition parties electorally despite India being a multi party system.

The Nehruvian consensus which combined the social and ideological consensus on development policy was another reason for the domination of the party. By consolidating power after independence, the Congress sought to achieve a national consensus through the accommodation and absorption of dominant social elements that kept aloof from the nationalist movement. Various caste groups and village leaders, landlords and businessmen made their way into the Congress. The Congress' image as a 'party of consensus' by mobilizing diverse social constituencies and assimilating them under a common platform, helped to sustain a coalition necessary for ruling a diverse social milieu like India. One can find a duality in the nature of the Congress system, it was, at one level, ruled by a single political party, but, in fact, inside, it was a coalition. Thus, the Congress has emerged as more of a framework of consensus than

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37 Kohli (1987), 'The Political Economy . . .', *op. cit.*, p. 239.

a discrete political party.\textsuperscript{42} The party’s mobilisation strategy strengthened the relationship between the state and society. It was a dynamic relationship: when the party distributed resources to the social groups, they, in turn, extended their political support to the party. Such a distribution of resources among the existing and potential clients in exchange for political support strengthened the position of the Congress party in the political scenario.\textsuperscript{43}

Under the strength of developmental state, the party not only provided ‘accommodation’ but also maintained its accountability to various social groups. In the post independence period, especially during the Nehruvian era even though the government came under pressure from the global free market economy, the party rationalized its economic policy to adjust with the pulse of the poor sections of the society. This was due to the developmental consensus built by the party in relation to the interests of diverse social groups. In every new policy, it tried to balance the interest of the social forces with its own interests. While, the party was forced to formulate certain radical and socialist policies, it could accommodate traditional elite groups by giving other types of incentives. In fact, the policy of consensus and accommodation practiced by the Congress helped them to dominate the Indian political spectrum for quite some time. No doubt, the all round presence of the developmental state and its capacity to distributive incentives to the social groups enabled the Congress to arrive at a consensus in Indian politics. As Kothari (1988), rightly put it, ‘one party dominance’ as found in India was based on consensual authority and not simply on civil or military power.\textsuperscript{44}

The Congress party, with its strong commitment to the developmental state, by imbibing and assimilating diverse ideologies and ideas from around the globe and by highlighting the legacy of the freedom struggle, laid the foundation for the modernization project in India. The modernization process initiated by the Congress had some peculiar characteristics vis-à-vis those initiated in other newly independent

\textsuperscript{42} Kothari (1970), op.cit., p. 176.
\textsuperscript{43} Manor, op.cit., p. 66.
\textsuperscript{44} Kothari, Rajni (1988), \textit{State Against Democracy: In Search of Humane Governance}, New Delhi: Ajanta Publication, p. 27.
countries of the decolonised era. It had a kind of relative autonomy both at the domestic level as well as global level. Domestically, the ‘all-inclusive’ character of the Congress helped to bargain with the traditionally upper and dominant castes and classes in the process of modernisation. Due to the western influences elite sections in the Congress craved for modernization process in India. The impact of modern western education among the elite sections resulted in and advocacy of modernization process in India. The spread of modern western education among the elite sections within the Congress during the freedom struggle was an important phase in the socio-cultural dynamics of Indian society. The western values of enlightenment such as individualism, rationalism, humanism and utilitarianism, though antithetical to the traditional Indian values like hierarchy, holism and continuity, were imbibed by the modernization process in India.

Thus, the basic assumption underlying the economic policies and strategies of the Congress party in the Nehruvian era was that since the state was needed for the party to dominate the political system, its aim was to strengthen the developmental state. Further, the continued support of various social groups to the Congress and its domination in Indian politics during the Nehru regime depended on the sustainability of the developmental state.

Post-Nehru phase

In the post-Nehruvian phase, the Congress’ economic policies and strategies entered into an era of crisis. The slowdown in economic growth and the subsequent recession shocked the economy. The state dominance in the economy, planning mechanism and the regulative and protective measures came under severe attack. The economic crisis had broken the twin components of Nehruvian consensus – ideological and institutional. Ideologically, the crisis demanded an overall restructuring of the socialist pattern envisaged by the Nehruvian model of development. For the first time, the consensus between the dominant social classes and political classes broke down. Though, norms, values and constraints had substantial influences in the political life in the early two decades after independence. Though they were abandoned, new structures
and reformulated norms were not developed to take their place.\textsuperscript{45} The political implication of the economic crisis was that the state-society relations underwent strains and conflicts. The politics in India entered into a ‘decade of institutional erosion’ which was more manifested in the crisis of the hegemony of the Congress party, the dominant political institution in Indian democracy. Since the capacity of the state to provide resources to the social groups had shrunk, the party found it difficult to maintain the support of its social constituencies. Like the state-party and party-society linkages, party-government linkage is essential for the domination of a political system. The post-Nehru period witnessed the erosion of this vital linkage between the party and government. The party was not only unable to influence the government but it was also uninterested in continuing the flow of patronage.\textsuperscript{46} Thus, the post Nehruvian phase can also be seen as a transitional phase; the crisis of the old model and the beginning of a new era in the economic policies and strategies of the Congress party.

**Indira Gandhi Period (1966–1977)**

Indira Gandhi assumed office as the Prime Minister of India in 1966 after a brief interval of the ministry led by Lal Bahadur Shastri. The policies and strategies of the Congress Party underwent drastic changes during her tenure in office. The external pressure tightened its grip over economic policy by stating that the protective and regulative economy was no longer conducive to Indian development. Some even felt that the policy changes after the death of Nehru in the mid-1960s was largely due to the American and the World Bank intervention in Indian development policy.\textsuperscript{47} The multilateral agencies pressurized India to liberalise its economy and adjust to the market forces. The planning process was diluted and the role of the World Bank in the formulation of India’s development policy increased. The ‘key pillars of Nehru’s strategy of self-reliant growth and social transformation through the expansion of basic and heavy industries in the public sector and land reforms and co-operative


\textsuperscript{47} Corbridge and Harriss, *op.cit.*, p. 69.
reorganisation in agriculture were virtually overturned". The World Bank proposed certain measures to the government which included relaxation of industrial controls, import liberalisation and the devaluation of rupee to recover India's lost financial health. Faced with the worsening economic crisis, the government was forced to devalue the rupee by 57.5% in June 1966. The devaluation attracted a fresh build up of foreign capital which enabled the western capital to influence the Indian economy decisively. But the business community, which demanded more protective and restrictive measures in the initial stages of development supported the government move for devaluation. The devaluation was followed by the policy of import liberalization and reduction in the role of economic planning, public investment and public sector.

The economic crisis of the mid-sixties and the measures for the economic restructuring evoked a mixed response in the politics of India in general and party politics in particular. The basic tenets of the Congress' policies and strategies that included socialism, self-reliance, commanding heights of the public sector and the left-of-centre approach with regard to economic policies were on the decline. The economic crisis and the resultant shift in policy had its implications in the institutional and ideological consensus, the state-society relations and the domination of the Congress party itself. The devaluation of the rupee in 1966 caused intense and widespread political reaction not only from the opposition parties but also within the Congress itself. The advocates of the left-of-centre approach in the party resisted the

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50 The leaders of the two big business groups, the Tatas and the Birlas, welcomed devaluation, chiefly in the hope that it marked the beginning of a trend towards a less controlled economy. For example, the President of FICCI, Ramanbhai Amin, welcomed the measure mainly because it was the most realistic and timely in our present economy and it would also unable the market to have a free play in bringing about the necessary adjustments in our economy" (see Eastern Economists, 15 July, 1966).
51 For example, Hiren Mukherjee (CPI) described the decision as the government's latest surrender to western capitalist interests. A. K. Gopalan (CPIM) observed that devaluation shows that India was yielding more and more to external pressure and U. S. imperialism. C. Rajagopachari of Swartra party viewed that the big aid from the World Bank and U. S. might be saved from sinking along with the Fourth Plan. Within the Congress party, V. K. Krishna Menon said that apart from adverse effect both internally and externally, the devaluation would undermine the confidence of the people on government. Kamalnayam Bajaj, a leading industrialist and Congress Member of Parliament said that the devaluation of rupee had made the country more dependent on foreign aid, which was not desirable.

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dilution of planning and opposed the devaluation attempt. The political fallout of the economic crisis and the devaluation of 1966 resulted in a sharp decline in the popular support for the Congress party.

The crisis of the developmental state owing to the failure of the state capacity to maintain the social balance and the breakdown of social configurations in the sixties strained the state-society relationships. The eventual political fallout of the crisis was a realignment of political and ideological forces.\(^{52}\) The shift in economic strategy and the breakdown of the Nehruvian consensus generated a feeling among the excluded and newly emerged sections that the state shied away from the patronage due to them and was being monopolised by elite groups.\(^{53}\) And this was a time when the new social forces claimed their due share from the developmental state. The growing unemployment and poverty caused by the deepening of the economic crisis, the industrial stagnation and price inflation and the extension of state patronage to the rich alienated the masses from the political system. The failure of the political system in delivering goods in socio-economic terms raised discontent and unrest within the democratic process. Thus, the economic discontent got politicized and the system began to show signs of shrinkage and stagnation.\(^{54}\)

Further, the economic crisis and the popular discontent eroded the institutional consensus.\(^{55}\) The breakdown of the Nehruvian consensus followed by the exodus of social groups from the development model led to an institutional crisis which was explicated in the Congress party. The economic policies and strategies went against the proclaimed approach of the party - both the 'left-of-centre' policy and the policy of the socialistic pattern of society - and thus led to a crisis within the party. Moreover, the ideology of nationalism had begun to wane, a new generation of leadership emerged within the Congress party and the decline of political consensus was obvious. The trend

\(^{54}\) Ibid.
manifested in the form of a crisis of the internal mechanism of democratic consensus and collective decision-making within the Congress. The mediation between divergent social groups was undermined when the ability of the government to mediate between conflicting interests was much reduced. The abandonment of left radicalism in the economic policy by the party shrunk its socio-political base in Indian politics.

The economic crisis was transformed into a legitimacy crisis as the Congress party met with its electoral disaster. The fourth general election of 1967 was an indicator of the shrinking political space of the Congress party. The popular vote for the party declined from 44.73 percent in 1962 to 40.73 percent in 1967. In the case of share of seats in the Lok Sabha, its majority got reduced from 361 to 283. The stature of the Congress as a national political party was challenged, though it could control power at the Centre. The party lost its hegemony over the Indian political system and regional political parties came to power at the state levels. In eight states Congress governments were replaced by the non-Congress ones. Another significant trend in the aftermath of the election was the emergence of a new generation of non-Congress leaders at various states. Their leadership came into conflict with Indira Gandhi's charismatic leadership. It proved that a nation wide consensus on key economic policies was difficult due to the multiple power centres at the regional level. The election illustrated the mutually reinforcing relationship between type of regime and of politics on the one hand and economic performance on the other.

The deviation from the party's left-of-centre policy and the discontent of the social groups over the new priorities of the party can be seen as one of the reasons for its setback. Some argue that the economic crisis and the attempt to shift from the

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Nehruvian development model adversely affected the party in the 1967 election. It was evident that whenever the economic policies and strategies of the party undermined the authority of the developmental state by shifting from its left-of-centre approach and a reversal of the Nehruvian consensus, it led to the decline of the social and ideological consensus and thus to an institutional crisis and finally to the alienation of social groups from the party. This was visible in the wearing away of Congress support base and the emergence of new social groups and political formations at the state level. Dissatisfied with the power equation within the Congress and its shift in policy changes, a new regional elite emerged at the state level. They resorted to regional identity to mobilize popular support against the Congress. Though they were committed to technological modernity, they did not adopt the cognitive component of modernization. They demanded increase in subsidies, investment in agriculture sector and favoured support price mechanism for agricultural products. They continued to demand the expansion of public sector and reservation in bureaucracy. The accommodative politics of the Congress party could not cater to their aspirations for political power. Thus, at the political level, the 1967 general election marked the beginning of a transformation of the Indian political system from a dominant one-party system to a multi-party system.

The post-election scenario witnessed both upheaval and introspection within the party. The electoral setback forced the party to revert to its socialistic and left-of-centre approach to economic policy. To prevent further ideological polarization within the party and broaden its shrinking mass base, Indira Gandhi brought an economic package which was popularly known as the Ten Point Programme. It was endorsed by the AICC session of June 1967 in Delhi which reaffirmed the party’s commitment to more radical and socialistic reforms and policies. The party once again sought the help of

61 The Ten Point Programmes include: (i) social control of banks (ii) nationalization of general insurance (iii) progressive expansion of state trading in imports and exports (iv) public distribution of food grains (v) the organization of consumer co-operatives in rural and urban areas for supplying essential commodities at fairs prices (vi) effective curbs on monopolies and concentration of power (vii) provision of minimum needs for everyone (viii) limits on urban income and urban property (ix) rural work programme for providing employment to landless labour and (x) implementation of land reforms.
the developmental state and disbursed the resources in the form of distribution of loans, foods and subsidies to the socially deprived sections to regain its lost mass base in the election. It also tried to counter the growth of the regional parties by utilizing the developmental state and its patronage politics.

The deviation of the party from its left-of-centre policy and the subsequent setback in the election in 1967 gave a boost to the resurgent left wing which criticized the party’s strategy and tactics and caused the split in the party in 1969 into the organisational wing (led by party president Nijalingappa) and the parliamentary wing (under Prime Minister Indira Gandhi). The split was considered to be the result of the breakdown of the Nehruvian consensus in general and the institutional consensus in particular. After the formal spilt, there was an attempt to put off the agenda of economic liberalization temporarily and to re-orient towards radical way. The AICC session held on 28 December 1969 at Bombay reaffirmed its faith in socialist policies and called for the implementation of radical reforms.

Politics of radical populism

The compulsions of democratic politics and demand for discipline for attaining fiscal health of the economy forced Indira Gandhi to shift towards a pragmatic approach. The transition from ‘inclusive’, ‘consensual’ and ‘mass politics’ to ‘exclusivist’, ‘confrontational’ and ‘elite’ politics which was accelerated by the economic crisis and the split in the Congress party in the late 1960s moved the Congress to radical populist politics to attract the alienated sections to the development process. Indira Gandhi, in order to win back the party’s image of left-of-centre, adopted the radical populist programme which gave a new twist to the Congress’ economic policy and strategy. Her radical measures were to convince the people that her government’s socialist commitment was intact even after the socialist group broke away from the party. The implementation of populist measures and the political rhetoric for equity and justice were considered as instruments to regain support.62

The subsequent period witnessed a trend towards the regaining of nationalistic and socialistic spirit in the economic management of the government. The government

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embarked on a policy of nationalization in key sectors of economy. On 14 July, 1969, the government nationalized fourteen commercial banks and the process of nationalization continued for some time with the nationalization of general insurance in May 1971, coal mines in October 1971, Indian Iron and Steel Company in July 1972 and 46 textile mills in 1972. In 1969, the Monopoly Restrictive and Trade Practices (MRTP) Act was introduced in an attempt to prevent the concentration of economic power and restrictions were imposed on new licenses for the larger industrial houses. The Foreign Exchange Regulation Act (FERA) was revised in 1973 to curb excessive remittance of profits from abroad. It is argued that the nationalization and the regulating legislations against monopoly like FERA and the MRTP Act were the political instruments that were used by Indira Gandhi to project herself as a socialist and a radical, and to show her opponents as reactionaries and supporters of capitalists.  

The industrial class did not protest against the socialistic programmes of Indira Gandhi because they knew that their interests would be well-served as long as they donated funds to the Congress-I coffers. She combined the politics of populism, with her goal of centralization of political and economic power.

The diminishing strength of the Congress party in the Indian political scene was temporarily taken care of the radical populist policies of Indira Gandhi. In fact, the period after the setback of the Congress in the general election in 1967 to 1980 is a period of co-option and mediation. The Congress party under Indira Gandhi tried to bring back its alienated social groups like the rich peasantry by giving economic benefits like subsidies and loans and efforts were made to co-opt the rich peasantry into the ruling coalition. The new programmes (garibi hatao, nationalization of commercial banks, abolition of privy purses etc...) initiated by the Indira Gandhi government in the post election scene in 1967 strengthened the position of the Congress party in Indian politics and finally secured its astounding victory in the 1971 general elections. This shows the realignment of alienated social forces back into the party due to the effect of radical populism. Though, the radical populism of Indira Gandhi helped the party to

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win the 1971 and 72 elections, such a populism provided the ground for rapid centralization.\(^{67}\)

After the 1971 election, Indira Gandhi consolidated her position within the party and the government; she initiated a policy of consolidating power and resources in the hands of the central government. In July 1975, the government announced a twenty-point programme to bring back the important social classes to the fold of the party. The programme identified some priority areas by providing the necessary framework which was designed to accelerate growth with justice. But, three months later the government liberalized industrial controls and the FERA of 1973 in order to attract foreign capital and incentives.

Subsequently, the government came under pressure from both global and domestic changes. In the early 1970s, the South-East Asian countries moved towards more market oriented development strategies from the import-substituting economy. India was under tremendous pressure to shift from its inward looking and state centred development. Domestically, there was an urge for greater opening up of the economy and relaxation of regulation. It has also been argued that the indigenous and independent capitalist class who got strength by making use of the regulative and restrictive measures of the economy in the formative years of the development had reached a level where it could compete with global capitalism. They pressurized the government to liberalise the economy and remove the regulative mechanism in a limited sense so that they would compete with global capitalism. By the late 1970s, the newly emerged capitalist class wanted the Indira Gandhi government to adopt the policy of liberalization.\(^{68}\) This group lobbied not only on the government policies but also gave a new direction to the economic policies and strategies of the Congress party.

The significant political event in the history of Indian democratic process was the declaration of emergency in June 1975. It created resentment among the various social groups supporting the party. The united opposition brought together all

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\(^{67}\) Alam, op.cit., p. 1144.

disgruntled groups who were against the subversion of democracy. The period saw the realignment of political forces against the Indira Gandhi government and the Congress party. The political fallout of emergency and the new economic programme and the centralization of decision-making alienated the masses from the party. The business class shifted their loyalty to the non-Congress parties like Janata Party and the religious groups (especially the upper caste Hindus) shifted their loyalty to parties like Jana Sangh. In the general election in 1977, the party lost its control over the Centre for the first time in India. The Janata Party formed the government at the Centre by ending the three-decade-old dominance of the Congress. But, the factional feud within the party brought down the Janata government in 1979.

Indira Gandhi phase (1980-1984)

After the Janata interlude, Indira Gandhi returned to power with 43 percent of the popular vote in 1980. The astounding majority strengthened her authority both in the party and in government. It also signalled the return of centralisation in Indian politics. The period saw a shift in Indian polity under her as 'from the 'Congress System' to the 'Indira System' of Authoritarian Democracy'. It also reflected a break in India's "political idiom" from "one of conciliation to one of conflict". The second term of the Indira Gandhi period saw a rightward shift in both politics and economics as against the radical politics and economics in her first term. Indira Gandhi attempted to bring back the two alienated sections – the business groups and religious groups – by adopting liberalization and a pragmatic Hindu agenda to build her support in the Hindi heartland. She adopted a policy of Hindu chauvinism and a pro-business attitude by shifting away from the formula of secularism and socialism. The neo-liberal policies of Thatcherism and Reaganomics influenced the policy making process leading to gradual erosion in the dominant ideology of the development policy and the state. Economic restructuring which swept the world (including the communist China under Den Xiopeng in the late 1970s) further accelerated the process. The period saw the gradual opening up of the

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69 Swamy, op. cit., p. 160.
70 Corbridge and Harriss, op. cit., p. 68.
71 Frankel, op. cit., p. 433.
economy and the privatization of government sectors. This was due to the pressure exerted on the Indian state by the World Bank and the IMF. Stemming from these international developments, most of the studies on the political economy of development initiated during the 1980s found fault with the model of development and suggested drastic economic restructuring. 73

Indira Gandhi realized that the socialistic rhetoric would not bring political gain and hence wanted to limit it. The programme of *garibi hatao* and the anti-poverty policies were altered and she moved towards a more ‘pragmatic’ and ‘less ideological’ approach. The thrust was on greater marketisation and liberalisation by encouraging foreign private capital and technology and by loosening the control and regulation on the economy. The President Neelam Sanjiv Reddy’s address to the joint session of Parliament on 23 January, 1980 outlined the government’s priorities of the time. According to him, the 20-point economic programme which had proved a boon to the poor, the landless, the artisans, handloom weavers, scheduled castes, scheduled tribes and other socially backward sections will be revitalized and implemented in a dynamic manner. 74

The major policy documents of the government showed the shifting ideology of the government’s new economic strategy. The Industrial Policy statement of 1980 emphasised the need for promoting competition in the domestic market, technological upgradation, exports and foreign investment in high technology areas. 75 It undermined the supremacy of the public sector and was in favour of liberalization and export orientation. The import policy for 1980-1981 announced on April 1980 offered several incentives to the export industries. It allowed duty-free import of raw materials against replenishment licenses on a selective basis. 76 The government’s policy changes were mostly explicated in the Sixth Five Year Plan (1980-1985) which called for the ‘directional changes’ in industrial policy. 77 The objectives and strategies of the Sixth Five Year Plan was an indication of the government’s new shift towards economic

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73 For example, see Jha, P. S. (1980), *India: A Political Economy of Stagnation*, Delhi: Oxford University Press.
76 *The Times of India*, 16 April, 1980.
liberalization. It is argued that the alteration in the socialist rhetoric shows Indira Gandhi’s ‘rightward’ shift when compared to her earlier term in office as the Prime Minister.  

The fast changing global political economy and the domestic compulsion can be seen as a government’s response to move towards the liberalization of economy. Globally, the pressure was from the IMF and World Bank to liberalise economic activities and unfold the liberalization and privatisation of the economy. These international financial institutions imposed conditionalties for lending loans and imposed their agenda over the nation’s agenda. Internally, the various committees appointed during her second innings provided the groundwork for the liberalisation of the economy. Mainly, three committees were set up by Indira Gandhi to design a mechanism to liberalise the financial sector, foreign trade sector and public enterprises. In May 1980, the government announced a more liberal approach towards FERA by allowing MNCs to retain higher levels of equity in contrast to the 1956 Industrial Policy Resolution. Changes have been brought out to bring the MRTP Act in tune with the changes announced in the industry policy resolution of 1980 and the some recommendation of the Tandon Committee. Further, there was a change in the attitude of government on public subsidies especially on agriculture subsidy. It was considered as a fiscal burden on the government as it was counter productive to sustained economic growth. The agriculture minister, Rao Biredra Singh, informed in Lok Sabha on 1 December, 1980 that the government proposed to bring down the burden of subsidy on food grains over a period of time, though not withdrawing completely.

The role of the public sector in the economy was undermined by facilitating the corporate private sector. The public sector which was long perceived as the engine of growth was opened up for foreign private participation. Foreign investment and

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78 see Manor (1988), op. cit.
79 In 1980, the Indira Gandhi government appointed various committees intended to the deregulation of industries, decontrol of process, liberalization of imports, tax reductions and increase in direct spending. These include the Pande Committee on National Transport Policy, the Tandon Committee on Exports, the Rajadhyaksha Committee on Power, the Hussain Committee on Trade Policies, the Narasimham Committee on the principles of a possible shift from physical to financial controls, the Chakravarty Committee favouring the monetarist rule of a steady growth in money supply, the Acharya Committee on export and import policy, the Jha Committee for replacing direct measures of industrial control by indirect fiscal measures and the Arjun Sengupta Committee on public sector reform etc.
80 *The Hindu*, 2 December, 1980.
foreign collaboration were sought to aid development. The government turned to the
corporate private sector, with the public sector's role now conceptualized as one
facilitating private growth. The new philosophy of development policy shifted its
focus from the state to the market. During her last term as the Prime Minister, the
government set up a Committee to Review Policy for Public Enterprises under the
Chairmanship of Arjun Sengupta. The Committee was entrusted to analyse the
performance of public enterprises, identify its constraints and to suggest measures to
improve their functioning. It can be said that the genesis of the policy of deregulation
and liberalisation goes back to the mid-1960s. However, the two oil shocks, severe
drought and political instability forced into abeyance these policies and they came back
when political stability was restored in 1980. It is argued that the Indira Gandhi period,
as the consolidation phase, which witnessed greater challenges for the Nehruvian model
of economic planning and state regulation for economic development and justice.
But some others feel that 'the shift in economic policy under Indira Gandhi is best
understood as an integral part of her overall political strategy, which was aimed at
strengthening her support in "soft areas".

On 9 November, 1981 the IMF approved a loan of 5 million Special Drawing
Rights (SDRs) to India for meeting the Balance of Payment (BoP) crisis. It was the
largest multilateral loan in Indian history and carried tough conditions including
directly enforceable "performance clauses" – relating to national, fiscal, monetary and
economic policies. In the context of the IMF loan, a 48-page assessment by the Asian
and exchange and trade relations department of the IMF underlines the message that
"the economic strategy and policies negotiated with the Indian government through
several discussions made a sharp shift in the 'pragmatic' conservative direction and in
boosting the private sector, India and foreign, in the economy at large".

The IMF loan further accelerated a debate over the economic policy of the
government. Discussions over the conditionality clauses of the loan and the secret
negotiations with the IMF shadowed in the political circles. On defending the

81 Nayar, (1990), op. cit., p. 34.
82 Bhambhri, C. P. (1997), 'The Indian State: Journey from Intervention to Liberalisation', Indian
83 Kohli (1990), op. cit., p. 314.
84 The Hindu, 11 November, 1981.
government’s action for seeking loan from the IMF, the Prime Minister asserted that there was no question of accepting any programme which was incompatible with the policies, declared and approved by Parliament. It was inconceivable that anybody should think that India would accept assistance from any external agency, which dictated terms which were not in consonance with such policies.85 Intervening in the six-hour debate on the loan in Rajya Sabha, Indira Gandhi on 3 December, 1981 declared that the country had not deviated from the declared policies while going in for the loan. The Prime Minister reminded that the government was pursuing its declared policy of self-reliance and betterment of the poor and downtrodden.86

Liberalisation and radical populism

Although, the changes in the global economy marked by the influence of Thatcherism and Reagonomics and the pressure from the World Bank and International Monetary Fund internationally and the recommendations by the various committees domestically, compelled the government for more liberalization, the government, on its part, was restricted by an ‘invisible hand’ in pursuing vigorous economic reforms. The compulsions of democratic politics and the diverse social character of the ruling party forced the implementation of reform programmes in a half-hearted way.

Indira Gandhi mixed both liberalization and radical populism as a strategy to satisfy different interests and to pre-empt electoral adversities. In the midst of her liberalization agenda, she followed the radical programmes in the form of nationalization of six commercial banks87 and the launching of poverty alleviation programmes. The Prime Minister announced a “new” 20-point programmes to commemorate the second anniversary of her return to power in 1980. According to her, the “old” 20-point programmes of 1975 had to be “recast and redefined” because many of its targets had been fulfilled, changes taken place in the life of the people and also “new challenges” had arisen. However, it seemed very much a case of old wine in a new bottle. Fourteen out of the 20-points in the 1975 programmes were repeated in the

85 The Hindu, 4 December, 1981.
86 Ibid.
87 On 15 August 1980 six leading commercial banks with deposits of Rs. 200 crore and above were nationalized. They were the Andhra Bank, Corporation Bank, New Bank of India, Oriental Bank of Commerce, Punjab and Sindh Bank and Vijaya Bank.
new programme.\textsuperscript{88} The intention behind this was basically political, rather than economic. Thus, politics in this period is increasingly a politics of survival rather than a politics of development.\textsuperscript{89} The strategy was of strengthening her position within the party and once she could strengthen her position, she hoped to implement more pro-liberalization and market reforms. Her radical populism was a preparatory ground for later liberalization policies. She saw that by controlling the organizational wing of party she could avoid major criticisms levelled against her reform process. Some argue that the motive force behind such a move was ‘related more to specific class interests rather than motivated by a generalized ideological thrust’.\textsuperscript{90} Thus, while ideology played a critical role in the leftist approach of Nehru, political factors forced Indira Gandhi to a leftist ideological direction in the early tenure of her term and the retreating from the same in the last tenure of her term.\textsuperscript{91} Moreover, it conveyed a political message to the initiators of the reforms in future that politics had a decisive role in the process of economic reforms.

To sum up, the economic policy and strategy of the Congress, since the nationalist movement to the period of Indira Gandhi is a long process of development. It was subject to both national and international pressures. It underwent a process of convergence, consolidation and crisis at various stages. While the party’s vision for the developmental state in the nationalist movement mobilized cross-sections of the people, its commitment to strengthening the developmental state after independence, through its policies and strategies, ensured its dominant position in Indian politics. When the government strengthened the state, the party benefited from it. Any attempt to limit the authority of the state resulted in the alienation of different social groups and the crisis of the party. Whenever the party faced the discontent of its social constituencies due to the failure of distributing benefits it resorted to pronounce populist slogans. The populist policies temporarily benefited the party by attracting alienated social groups; but it forgot that long-term strategies to strengthen the developmental state was the essential base for its consolidation.

\textsuperscript{88} The Hindustan Times, 15 January, 1982.  
\textsuperscript{89} Kohli, Atul (1980), ‘Democracy, Economic Growth and Inequality in India’s Development’, World Politics, Vol. XXXII, No. 4, 1 July, p. 629.  
\textsuperscript{91} Ibid.