The industrial policies adopted in the early years after Independence for instance, the April 6, 1948 Industrial Policy Statement, and the April 6, 1949 Statement on Foreign Investments, have to be seen in the background of the pre-Independence debates on the nature and pattern of the development that independent India would pursue. The National Planning Committee (NPC), though constituted by the Indian National Congress in 1938, could function only for a short period because its work was disrupted due to a number of political events. In early 1944, a few of the leading Indian industrialists, some of whom had participated in the deliberations of the NPC, published a document which came to be popularly known as the 'Bombay Plan'. An alternative to the Bombay Plan was provided by a plan formulated by some labour leaders affiliated to the Radical Democratic Party. The latter is popularly known as the 'People Plan'. The salient features of these two plans are briefly brought out to show the alternative frameworks which were before the national political leadership. The chapter also

1. See Chapter IV above.

presents an account of the Industrial Policy Statement, 1945; the Report of the Advisory Planning Board; and the recommendations of the AICC Economic Programme Committee. An assessment is also made of other important events pertaining to the sphere of industrial policy such as the Conference on Industrial Development in India, December 1947; the lifting and reimposition of controls on foodgrains in the immediate post-Independence period, etc. The above account should provide the background in which the nature and significance of the Industrial Policy Statement and the Statement on Foreign Investments need to be examined.

Throughout the discussion, an attempt is made to relate the events to the political conditions obtaining at the time, in particular to the relationship between Indian big business and the Congress leadership.

The Bombay Plan

The Bombay Plan presented by Purshotamdas Thakurdas, G.D. Birla, Shri Ram, Kasturbhai Lalbhai (all FICCI leaders), A.D. Shroff (also in FICCI but close to the Tatas), John Matthai (later a Union Finance Minister), Ardeshir Dalal and J.R.D. Tata; (3) can be treated as an indication of the then big business attitude towards planning and governmental control over the economy. According to the authors, the "Memorandum... (was) not in any sense a complete scheme nor... (was) its scope so comprehensive as that of the National Planning Committee." (4) Furthermore it was stated that,

3. Ibid.
"Underlying our whole scheme is the assumption that on termination of the (second world) war or shortly thereafter, a national government will come into existence at the centre which will be vested with full freedom in economic matters."(5)

The fifteen year Plan comprising three five year plans envisaged a total investment of Rs.10,000 crores.(6) Basic industries accounted for 34.8 per cent of the total outlay in the Bombay Plan. This was intended to reduce "the dependence on external finance" as "the capital equipment required by consumption goods industries would be supplied to an increasing extent by our own industries..." The proposed investment in agriculture was to be only 12.4 per cent, on education 4.9 per cent and on health 4.5 per cent of the total outlay. The proposed outlay of Rs.940 crores i.e. less than 10 per cent on communications, considering the state of the transport system, would also appear on the low side.(7) Apart from the pattern of investments, the proposed sources of funding was itself a controversial aspect of the Plan.

As evident from Table I 'created money' which was "to be created by borrowing against ad hoc securities from the Reserve Bank,"(8) constituted 34 per cent of the total finance and almost 46 per cent of the internal finance. This quantum of deficit financing, as the authors themselves noted was,

5. Ibid., p.2 (emphasis added).
6. Ibid., p.54.
7. Ibid., p.54.
8. Ibid., p.48.
"likely to lead to a gap between the volume of purchasing power in the hands of the people and the volume of goods available. How to bridge this gap and to keep prices within limits will be a constant problem which the planning authority will have to tackle. During this period, in order to prevent the inequitable distribution of the burden between different classes which this method of financing will involve, practically every aspect of economic life will have to be so rigorously controlled by government that individual liberty and freedom of enterprise will suffer a temporary eclipse."(9)

Deficit financing which is accompanied by inflation, invariably hits the lower income groups much more, and the rigorous controls that were indicated leading to a loss of individual liberties, were suspected by radical scholars, to be advocacy of an authoritarian big business controlled government. But, as Rajani Palme Dutt writing in 1947 noted, "Howsoever reactionary, the plan has attracted country-wide attention because it reflected the strong irresistible urge for industrialisation."(10)

However, the industrialist's notion of planning and of the "national planning committee" was not the same as that of the Congress.(11) The industrialists envisaged a committee "under the central government...in which the various interests concerned (obviously including business interests) will be represented."(12) The Bombay Plan's support to the state sector was extremely qualified. In Part II, it was explicitly stated that, "from the point of view of maximising social welfare, state control appears to be more important than

9. Ibid., (emphasis added).
11. See Chapter IV above.
TABLE - I
Bombay Plan: Sources of Finance

(Rs. in crores)

<table>
<thead>
<tr>
<th>Sources of Finance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Finance:</td>
<td></td>
</tr>
<tr>
<td>a) Hoarded Wealth</td>
<td>300</td>
</tr>
<tr>
<td>b) Sterling Securities</td>
<td>1,000</td>
</tr>
<tr>
<td>c) Balance of Trade</td>
<td>600</td>
</tr>
<tr>
<td>d) Foreign Borrowing</td>
<td>700</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>2,600</strong></td>
</tr>
</tbody>
</table>

| Internal Finance:          |       |
| a) Savings                 | 4,000 |
| b) 'Created Money'         | 3,400 |
| **Total:**                 | **7,400** |

**GRAND TOTAL:** 10,000

ownership or management."(13) Moreover "it does not invariably follow that all enterprises owned by the state should also be managed by it."(14) It therefore, recommended a "compromise": "the simultaneous operations of both (public and private enterprise) systems in the same industry will provide a useful incentive and corrective to each system."(15) The authors also considered a number of the controls to be "of a temporary character" and recognised that these "instituted during the planning period...(would) be similar to those which are in force at present under war conditions..." e.g. licensing, capital issues control, wage controls etc.(16)

The inegalitarian aspect of the plan is also clear from the argument,

"that although gross inequalities are undesirable, total abolition of inequalities, even if feasible, would not be in the interest of the country..., (as it was considered) desirable to leave...variations in income... to provide the necessary incentive for improvement of efficiency."(17)

The Plan argued for "a steeply graduated income tax" including taxation of "agricultural income above a certain level...," remissions for depreciation and reinvested profits in industries were however advocated.(18) To the industrialists it was "obvious that India's fiscal system will have to place more and more reliance on direct
taxation in future."(19) Baldev Raj Nayar has noted that there are obvious contradictions within the Bombay Plan, between the proposed strict regulation of the economy on the one hand, and the business commitment towards protecting profits on the other.(20) However, some of the contradictions are more apparent than real. Government controls, some of which already existed during the war period, were not supposed to operate against big business. In fact, according to the Bombay Plan, even the state sector could be managed by the private sector. The overall philosophy of the Bombay Plan was to strengthen Indian private big business. Significantly, though Nehru realised that the plan was "conditioned by the ways of thinking of big industry and tries to avoid revolutionary changes as far as possible," yet he believed that, "Revolutionary changes are inherent in the plan, although the authors may themselves not like some of them. Some of these authors... were members of the National Planning Committee and they have taken advantage of a part of its work."(21) However, it was precisely because of the criticism of the industrialists by various sections of the national movement, including within the Congress itself, that the authors of the Bombay Plan took pains to sound as "revolutionary" as possible, without actually suggesting any concrete

19. Ibid., p. 21.
21. Jawaharlal Nehru, The Discovery of India, (Bombay: Asia, 1972), pp. 500-501. He however was aware that when the big industrialists "talk of state control of industry they think of the state more or less as it is today." Ibid., p. 501.
measures that may have damaged their interests. (22)

The Bombay Plan was, as could be expected, welcomed by FICCI. Muthiah Chettiar, in his Presidential Address at the 17th Annual Meeting of FICCI on 4 March, 1944 lauded the Plan, (of which Part I had been published), as one which, "If wisely followed and firmly put into practice will... assure the happiness and welfare of the India of tomorrow..." (23) A resolution to the same effect was passed during the meeting which also endorsed the view that the establishment of a national government was essential for the economic development of India. (24)

The People's Plan

The Bombay Plan was not the only non-Congress attempt at planning. In March 1944, the People's Plan was published. Three colleagues of M.N. Roy in the Radical Democratic Party, V.M. Tarkhunde, G.D. Parikh and B.N. Banerjee prepared a ten-year plan with an investment of Rs.15,000 crores for the areas of British India, basing themselves on ideas set out by Roy earlier. (25) In contrast to the Bombay Plan, the

22 The difference between the positions of the left nationalists regarding planning and those of big business in the Bombay Plan, should be evident from the foregoing discussion. We are therefore, unable to accept Mukharjee's contention that the two were "in no significant way very different..." See Aditya Mukherjee, "Indian Capitalist Class and Congress on National Planning and Public Sector 1930-47," Economic & Political Weekly, September 2, 1978, p. 1521.


24 Ibid.

People's Plan placed its emphasis on the development of agriculture, enhanced the outlays on social services and was self financed. (26) The authors explicitly stated their belief in a Soviet-type planning under a "genuine democratic state." (27) It was categorically pointed out that,

"The problem of distribution can neither be divorced from that of production nor from that of the kind of social structure and productive relationships that will be retained in the planned economy." (28)

The land and mineral wealth were to be national property, and the heavy industries and banks subject to state control. The state was directed to promote large scale cooperative agriculture and to promote the increased productivity of labour. Further, all new industries started during the plan period which included the basic and heavy industries were to be financed, owned and controlled by the state. It was proposed that the private sector be subject to "rigid control" with the state permitting private industry a 3 per cent return on its capital. (29)

From Table II it is clear that there is virtually no dependence on external finance in the People's Plan, unlike the Bombay Plan. The differences in the respective emphasis of the two plans is clear from the following Table III.

In both relative and absolute terms, the People's Plan had a greater emphasis on agriculture. The outlays on education, health and

27. Young Indian, n.25, D72, D74.
28. Ibid., D74.
29. Ibid., D76-D81.
**TABLE - II**

**PEOPLE'S PLAN : SOURCE OF FINANCE**

( In Rupees Crores)

<table>
<thead>
<tr>
<th>Source of Finance</th>
<th>Amount (Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sterling Balances</td>
<td>450</td>
</tr>
<tr>
<td>Initial Finance: Estate Duty, Inheritance Tax, Death Duties etc.</td>
<td>810</td>
</tr>
<tr>
<td>Income from nationalized land in the pre-first year of the Plan</td>
<td>90</td>
</tr>
<tr>
<td>Income from agriculture for re-investment during the period of the Plan</td>
<td>10,816</td>
</tr>
<tr>
<td>Income from industries for re-investment during the period of the Plan</td>
<td>2,834</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15,000</strong></td>
</tr>
</tbody>
</table>

Source: Young Indian, Special Independence Number 1972, Vol.II Nos. 34-40, D.94.
### TABLE - III

**Showing Pattern of Investments under the Bombay & People's Plans**

(Rs. in crores)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Sector</th>
<th>Bombay Plan</th>
<th>%</th>
<th>Peoples Plan</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agriculture</td>
<td>1,240</td>
<td>12.4</td>
<td>2,950</td>
<td>19.7</td>
</tr>
<tr>
<td>2</td>
<td>Industry</td>
<td>4,480</td>
<td>44.8</td>
<td>5,600</td>
<td>37.3</td>
</tr>
<tr>
<td>3</td>
<td>Communication</td>
<td>940</td>
<td>9.4</td>
<td>1,500</td>
<td>10.0</td>
</tr>
<tr>
<td>4</td>
<td>Health</td>
<td>450</td>
<td>4.5</td>
<td>760</td>
<td>5.1</td>
</tr>
<tr>
<td>5</td>
<td>Education</td>
<td>490</td>
<td>4.9</td>
<td>1,040</td>
<td>6.9</td>
</tr>
<tr>
<td>6</td>
<td>Housing</td>
<td>2,200</td>
<td>22.0</td>
<td>3,150</td>
<td>21.0</td>
</tr>
<tr>
<td>7</td>
<td>Misc.</td>
<td>200</td>
<td>2.0</td>
<td>---</td>
<td>---</td>
</tr>
</tbody>
</table>

**Total** 10,000 15,000

**Sources:**
housing etc., were also substantially greater. This was apparently in consonance with the stated objectives of the plan.

The People's Plan while providing a radical alternative to the Bombay Plan, was by no means as important as the latter. By 1944, M.N. Roy, though prominent as a founder of the Indian communist movement, and the Radical Democratic Party founded and led by him, were not a major political force. (30) The People's Plan therefore, was virtually ignored by Indian big business interests.

The People’s Plan together with the recommendations of the National Planning Committee, and the Advisory Planning Board, provided alternative frameworks to that put forward by Indian big business in the Bombay Plan.

**Business & The Industrial Policy Statement, 1945**

Representatives of FICCI and big business participated in the Industrial Policy Committee set up by the British colonial government in October 1944. They included G.D. Birla, Shri Ram, Walchand Hirachand, Purshotamdas Thakurdas, Kasturbhai Lalbhai, (the FICCI President), Padampat Singhania (all associated with FICCI), and John Matthai, Ardeshir Dalal, (both associated with Tatas, although Matthai also maintained regular contact with FICCI), and J.R.D. Tata himself. (31)

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30. Karnik, who was the first General Secretary of the Radical Democratic Party admits that Roy's attitude towards World War II, "made him very unpopular and he become the target of many abusive and malicious attacks." Karnik, n.25, p. 95.

However, both the FICCI and the Tata group representatives made explicitly clear their commitment to a national government, which they realized would replace the colonial government, sooner rather than later. Ardeshir Dalal however, joined as a Member for Planning and Development in the British Viceroy's Executive Council in August 1944.(32)

At its Annual Meeting in March 1945, FICCI passed a resolution expressing anxiety over the absence of a well defined industrial policy, and calling for an early declaration of the same by the government.(33)

On April 23, 1945, the colonial government's Planning and Development Department issued a statement of India's future industrial policy. The objectives of Indian industrial development were stated to be: (a) to increase national wealth by the maximum exploitation of the country's resources; (b) to make the country better prepared for defence; and (c) to provide a high and stable level of employment.(34)

The main features of the Industrial Policy Statement were as follows:

(1) About twenty major industries were proposed to be brought under the control of the Central Government;

32. This precluded him from being a signatory to the second part of the Bombay Plan.
(2) Basic industries of national importance i.e. aircraft, automobiles and tractors, chemicals and dyes, iron and steel, prime movers, transport vehicles, electric machinery, machine tools, and electro-chemical and non-ferrous metal industries -- would be nationalised if adequate private capital was not forthcoming, as it was considered as essential in the national interest to promote such industries;

(3) All remaining industries were to be left for private enterprise under varying degrees of control. The coal industry was to be examined and dealt with separately;

(4) In order to regulate industrial development in the national interest, the Central Government would have to take powers to license industrial undertakings. Control would also be required to secure for the workers a fair wage and decent conditions, to prevent excessive profits to private capital, and to ensure the quality of industrial products;

(5) The Central Government was to have the primary responsibility for assisting industrial progress by development of transport facilities, development of power, provision of facilities for industrial and scientific research, and provision of facilities for technical education. The Central Government could also assist industry by helping to raise capital, by tariff and taxation policy, and by the procurement of capital goods from abroad. (35)

Badridas Goenka, the FICCI president, in a Press Statement on 28 April, 1945, while finding "the fundamental objective of industrialization and economic development as laid down by (the) Government commendable," stressed that "there are certain essential pre-requisites for the fulfillment of these objects." For this,

"the first necessary condition... is the establishment of a National Government representative of and responsible to the people...(and) fully autonomous to pursue national economic policies in the interest of India, untramelled by controls from Whitehall or constitutional restrictions on its sovereignty." (36)

Significantly however, Goenka went on to state that the "fundamental issue for India today is not that of State-versus-private enterprise but

35. Ibid., p.48.

of paramountcy of national interest." He went on to criticise the "system of controls and restrictions which... only tend to hamper industrial progress and dampen initiative and enterprise..." in the absence of a constructive plan.(37) He made pointed criticism of the silence of the Industrial Policy Statement

"in regard to the important problem of safeguarding Indian industries also from internal competition of non-Indian interests. There is no assurance on the part of the (colonial) Government that they will not permit foreign enterprises from establishing themselves in India behind tariff walls to compete unfairly with or even destroy Indian industries."(38)

Regarding the Statement's objective of "prevention of concentration of industries in the hands of a few persons or of a special community", Goenka argued,

"that while everyone would appreciate Government helping backward communities in participating in the industrial development of the country, the condition stipulated by Government would in effect retard industrialization unless particular communities come forward to undertake the risks of industrial enterprise."(39)

These positions were to form a more or less constant refrain in the FICCI's reactions to government policy even after Independence. The criticism of controls, of anti-monopoly measures and of the government's latitude towards private foreign capital was to continue throughout the period studied in this chapter. Therefore, it is not quite correct to infer as Kidron has, from some of the earlier statements in the Bombay Plan, that the FICCI "switched to an anti-controls policy" at its 19th Annual Meeting in March 1946.(40) In fact by 1944, the trend as regards

37. Ibid., pp. 125-126.
38. Ibid., p. 126.
39. Ibid.
India's political future was clear (as we have seen above).

Therefore, as noted above, the demands that FICCI was to make in the post-Independence period were already articulated, though sometimes in a 'radical' guise. Earlier, G.D. Birla's speech while moving a resolution on "the Industrial Development of India" at the March 1946 Annual Meeting, largely repeated the earlier sentiments expressed by Badridas Goenka in his April 1945 statement (see above). Birla alleged that through

"the guise of planning... and in the name of targets, Government has adopted a policy of allocation under which they decide as to which party and at what place a certain factory should be erected. The result is that nepotism and corruption are encouraged. I am therefore, dead against Government deciding where and who should build up a certain industry."(41)

Similarly, in their reactions to the Budget, the FICCI E.C. in their Press Statement of 4th March 1946, welcomed the tax concessions given i.e. withdrawal of the excess profits tax, the reintroduction of the special initial depreciation allowance, and reliefs on earned income. FICCI however urged the abolition of the control on capital issues.(42) This was of a piece with the general FICCI attitude: concessions were welcome, controls were not.

Advisory Planning Board

In the last week of October 1946, the Advisory Planning Board of the Interim Government was appointed. K.C. Neogy was appointed Chairman, and members included Dr. Meghnad Saha, K.T. Shah, Dr. Zakir

41. FICCI, Vol. III, 1946, p.23
Husain, Nawab Ali Nawaz Jung and G.L. Mehta (FICCI), apart from half a dozen government officials. Although the Advisory Planning Board's Report evoked little response in view of the prevailing political uncertainty, (with the Muslim League having made its demand for the partition of the country) (43), its recommendations were an important indicator of the direction of the industrial policy of the later national government which was to be formalised in the 6th April 1948 Industrial Policy Statement. According to the terms of reference of the Board, it was to make its recommendations in the light of its review of the work of the National Planning Committee and other Congress proposals regarding planning.(44)

Of interest to our study, are the Report's recommendations regarding the nationalisation of certain basic industries. The Report warned

"that if at the present juncture the state attempted to take into its own hands the ownership and management of a large range of industries, the industrial development of the country might not be very rapid."

It was, however, felt by the majority that "some basic industries" should be nationalised. These would include,

"apart from Defence Industries; any industry or branch of any industry which might be found desirable to start as a state enterprise through the reluctance of private capital to undertake it, the nationalization of the following should be considered: Coal, mineral oils, iron and steel, motor, air and river transport."(45)

43. Roy, n. 34, pp. 57-58.
44. Ibid., 57.
It must be noted here that the majority desired nationalisation of industries wherever private capital was reluctant to invest.

However, G.L. Mehta (a FICCI member) disagreed with these recommendations as,

"any proposals for nationalisation are likely to retard industrial development and hamper initiative and enterprise...I believe that the machinery of the state can be more usefully and constructively employed in far more urgent tasks such as, for example, the development of water resources and electric power as well as improvement and coordination of the transport system, apart from provision of technical aid and encouragement of scientific and industrial research."

He again reiterated that, "at the present juncture, it would... be impracticable to launch upon any programme of nationalisation or specify any industries... as suitable for nationalisation."(46) As noted earlier, this attitude against government control over, or ownership of, certain vital industries, was characteristic of the industrialists' views even in the Bombay Plan. Thus G.L. Mehta was only, somewhat bluntly, reiterating the FICCI position.

K.T. Shah on the other hand was critical of the majority view for not going far enough in the matter. He argued,

"I have no doubt about the rapid industrialisation of the country being promoted, rather than retarded, by a policy of planned, intensive, universal socialisation. I would not confine the programme of nationalisation to 'basic industries' or Defence industries only; but extend the regime to every item in the field of production. Nor would I wait upon the readiness of private capital to take up any industry. Without public ownership, national control over industry would be nominal -- if even that, and, without effective and rigid control of all productive enterprise, the success of any planned programme will be illusory."

46. Ibid. p. 28 (emphasis added).

47. Ibid, pp. 46-47 (emphasis added).
Shah's positions though similar to those in Nehru's most radical rhetoric in the 1933-36 period,(48) were obviously too concretely 'socialistic' to be acceptable to the large bulk of the Congress itself.

The Chairman of the Planning Advisory Board, K.C. Neogy took a moderate stance relative to the majority. In principle he was in favour of state ownership (and some form of state management) of certain key industries. But,

"in the interest of rapid industrialisation....I should not like to make nationalisation a condition of development in certain spheres...I should like to take advantage of private enterprise for speeding up industrial progress, leaving it open to Government to acquire such industries as may be found appropriate and desirable, at a later date."(49)

Neogy's position was in essence much closer to that of G.L. Mehta and of FICCI, as it proposed a larger, leading role for private enterprise.

The Industries Conference

Shortly after Independence, a "Conference on Industrial Development in India" popularly known as the "Industries Conference" was held in New Delhi on 15th and 16th December, 1947. The FICCI, which was invited by the Ministry of Industry and Supply to nominate a representative, nominated G.D. Birla as their representative.(50) However a large number of industrialists associated with FICCI were present at the Conference in other capacities. They included apart from Birla, A.D. Shroff, Shri Ram, Padampat Singhania, S.P. Jain, Lalji Mehrotra and

48. See Chapter IV above.

49. Report of the Planning Advisory Board, n. 45, p.28. See also Roy, n. 34, p.62.

Kasturbhai Lalbhai. (51) As the FICCI's own Report on the Conference shows, the recommendations were quite acceptable to the industrialists. (52) As the Report put it,

"The present crisis is described as essentially a crisis of confidence. Frequent conflicting pronouncements by Ministers of the Centre and Provinces, threats of nationalization, vascillating and indefinite (sic.) Government policies, wild attacks on the industrial community in general, political uncertainties arising out of the Kashmir and Hyderabad problems have all combined to discourage private enterprise and to cause serious lack of confidence which acts for the low tempo in business activity in the country." (53)

To resolve the crisis of confidence, among other recommendations was the imposition of a ceiling on prices implying a control also over the distribution over essential commodities, which the industrialists noted "has become unavoidable." (54) The industrialists present, must have been reassured by Nehru's statement,

"that far too much attention is often paid to acquiring existing industries... But it seems to me a far better approach to the problem for the State to concentrate more and more on new industries of the latest type and to control them in a large measure, because then the resources of the State go towards further... and controlled progress, instead of merely trying to get hold of something which exists." (55)

The industrialists also accepted a ceiling on dividends which was not to exceed the average of the past three years, and 6 per cent in the


52. FICCI, Ibid., pp. 164-168.

53. Ibid., pp. 164-165.

54. Ibid., p. 166.

case of companies which had not earlier paid dividends. However, the business community obtained vital concessions from the Government. The most important was stated thus in the Report:

"The power vested in government to nationalize certain industries at the end of 10 years has proved a serious deterrent to the expansion of such industries. The removal of the time limit is recommended." (57)

Together with this,

"The Government should provide incentives both for expansion of the existing industries and the creation of new ones by permitting special depreciation allowances to meet the higher replacement costs of plants and machinery. In case of new industries, relief from Income Tax should be granted for the first 5 years." (58)

The Conference recommended a three-year industrial truce which was accepted by the trade unionists present. This idea had been suggested by G.D. Birla earlier in the year in his 18th April speech at the Fourth Ordinary General Meeting of the United Commercial Bank, wherein he had suggested that there be no strikes or lockouts for a specified period. (59) The recommendations of the Conference were welcomed by the big business controlled Press. (60)

Removal of Controls

The war-time controls on a number of commodities including foodgrains, sugar, cotton and cloth were lifted in the period between

56. FICCI, n. 51, Ibid., p. 166.
57. Ibid., p. 167.
58. Ibid.
60. See for instance Eastern Economist, 9 January 1948, article on "The Industries Conference".
December 1947 and January 1948. This was despite the "categorical recommendations" (61) of the Commodity Prices Board comprising A.D. Gorwala and D.R. Gadgil. The Board had stated that, "not abolition but the improvement of the system of controls would have to be undertaken especially as our long-term plans involved regulation and direction of economic activity by the state." (62) Earlier in late September 1947, the Government appointed a Foodgrains Policy Committee under the Chairmanship of Purshotamdas Thakurdas. Its members included G.D. Birla and Shri Ram, apart from Dr. V.K.R.V. Rao, R.L. Gupta, D.S. Bakhle, S.Y. Krishnaswami and Dr. Ram Manohar Lohia. (63) In view of the strong representation of FICCI stalwarts, it is not surprising that in its Interim Report of December 1947, the majority including the FICCI members and Dr. V.K.R.V. Rao, recommended an "orderly and planned" liquidation of existing controls. (64) In late November 1947, Dr. Rajendra Prasad, the Food Minister, had apparently received assurances from K.K. Birla in reference to the proposed sugar decontrol "that no undue advantage would be taken." (65) In December 1947, the Government removed controls from sugar and foodgrains. In January 1948, controls were lifted on cotton and cloth. This was hailed by the Eastern Economist as "the one and only straight decision." (66)

62. Quoted after Ibid.
63. Ibid., pp. 46-47.
64. Ibid., pp. 45-46.
65. This was reported to D.G. Mulharker of FICCI by Rajendra Prasad when they met on 5 December 1947 cf. FICCI, Vol II, 1947, pp. 180-181.
C.D. Deshmukh has, in his Memoirs, admitted that "the removal of controls... was a political derivative of this pressure..."(67) i.e. pressure from businessmen who cited Gandhi's criticism of controls as leading to dishonesty and corruption. However, as Frankel has noted, "since the business community was not noticeably influenced by Gandhi's moral injunctions in other cases when their vital economic interests were opposed, it is difficult to interpret their deference to Gandhi's wishes on the issue of decontrol as anything but expediency."(68)

Because of this decontrol there was a "spectacular" rise in prices and profits.

"From December 1947 to July 1948, the wholesale price index for foodgrains rose by nearly 58 per cent. The prices of all other consumer goods increased by about 33 per cent. In the two years between November 1947 and November 1949, the general price index was permanently inflated by some 23 per cent to 29 per cent."(69)

Dr. S.P. Mookerjee, the Minister for Industry and Supply, admitted in Parliament, that despite increased production of cotton textiles since December 1947, prices had increased from 50 per cent to 200 per cent. The government could not take effective steps to check profiteering under the system of decontrol.(70) The Government was thus forced to reimpose controls: on cloth in July, on cotton in August, on foodgrains in September, and on sugar in December 1948.(71)


69. Ibid., p. 76.

70. Eastern Economist, 20 August 1948.

71. Frankel, n. 68. p. 76, See also Deshmukh, n. 67, pp. 54-57.
The removal of controls and the other concessions to business were accompanied by assurances to the business community. Sardar Patel addressing businessmen at a Calcutta Club luncheon on 5th January 1948 stated that,

"our Finance Minister (Shanmukham Chetty) belongs to your class... we deliberately appointed him to create confidence in the industrial future of India... Our Commerce Minister (C.H. Bhabha) is also an experienced industrialist. Syama Prasad Mookerjee, the Minister for Industry and Supply, is not a Congressmen... I am quite certain that all these Ministers would like to secure your co-operation in making India industrially great."(72)

Economic Programme Committee

The euphoria generated by the Industrialists Conference was short-lived. Barely a month later in late January 1948, the Report of the Economic Programme Committee of the A.I.C.C., of which Nehru himself had been Chairman was released. The immediate background to this Committee's deliberations was provided by the "Resolution on Objectives" passed at the A.I.C.C. Meeting held in New Delhi on 17th November 1947.(73) The resolution stated that,

"Our aim should be to evolve a political system which will combine efficiency of administration with individual liberty, and an economic structure which will yield maximum production without the operation of private monopolies and the concentration of wealth and which will create a proper balance between urban and rural economies. Such a social structure can provide an alternative to the acquisitive economy of private capitalism and the regimentation of a totalitarian state."(74)


73. Young Indian, Special Independence Number 1972, Vol. 2, Nos. 34 to 40, D. 98. The full text of the Report is reproduced on pages D98-D103.

74. Ibid., (emphasis added).
The Economic Programme Committee met in New Delhi on 22nd and 25th January 1948 to prepare a final report on the basis of the reports of its sub-committee. (75) Of particular importance was the sub-committee headed by Gulzarilal Nanda as Convener, which included Jaya Prakash Narayan, Shankarrao Deo and Dr. John Matthai as members. This sub-committee was "to consider (a) ownership development and control of large-scale industry including transport, (b) coordination of large-scale industry with cottage industry, (c) priorities in planning and (d) industrial relations." (76) The main committee included apart from Nehru who was the Chairman, Maulana Azad, J.C. Kumarappa, N.G. Ranga, John Matthai and Shankarrao Deo as members, and therefore represented important elements of the Congress leadership. The major recommendations with respect to the industrial sector were the following:-

1) Industries producing/manufacturing food articles, clothing and consumer goods were "for the most part to be run on cottage or small-scale basis." (77)

2) Where large-scale industry competed with the cottage and small scale industries, the former was to be brought under "state control" (78)

75. Ibid., D.99.
76. Ibid.
77. Ibid., D101.
78. Ibid., D102.
3) "New undertakings in defence, key and public utility industries should be started under public ownership. New undertakings which are in the nature of monopolies or in view of their scale of operation serve the country as a whole or cover more than one Province should be run on the basis of public ownership." This was subject to the limitations of the state's resources and capacity and "the need of the nation to enlarge production and speed up development."(79)

4) The existing undertakings in the areas reserved for the state would be transferred to public ownership after 5 years. "In special cases" the transfer could be effected earlier.(80) This transition to public ownership would "be controlled so as to avoid the dislocation of the economic life in the country, fall in production, uneconomic acquisition of inflated assets and the diversion of valuable resources from more urgent to less urgent uses." To ensure this the acquisition should take place after the existing "excessive" profits had fallen due to decreased prices "or under pressure of appropriate legislation or administrative measures."(81)

5) The managing agency system was to be abolished "as early as possible." Further, the necessary regulations and controls "needed for the realisation of the objective of national policy in the matter of industrial development" were to be imposed.(82)

6) A maximum of 5 per cent dividend in terms of capital employed (capital plus reserves) was also recommended. Surplus profits were to be shared between workers and shareholders "in proportions to be fixed by Government."(83)

7) It was further recommended that, "All resources available for investment should be subject to the control and direction of the State...(which) should set up Finance Corporations for financing industries." To ensure this, it was necessary that "Banking and Insurance should be nationalised."(84)

79. Ibid.
80. Ibid.
81. Ibid.
82. Ibid.
83. Ibid., D102-103.
84. Ibid., D103.
8) A cooperative distribution system for consumer goods was envisaged as "necessary to secure a balanced progressive economy." In fact "cooperative consumer societies" were to be given government assistance "to control all large and growing volume of the retail trade in the necessities of life of the humbler section of the population." (85)

9) "To implement the (above) programme... a permanent Central Planning Commission should be appointed to advise and assist the Congress Governments in the practical steps that should be taken." (86)

10) The country's foreign trade, the Report recommended, should be directed in a manner "to make it possible for the nation to provide its primary needs and thus buttress its independent position."

11) Finally, regarding foreign capital, the Report recommended that "the place of foreign capital should be carefully examined so as to ensure that the economic controls remain with the nationals of the country." (87)

The Report of the Economic Programme Committee generated a storm of protest. M.A. Master, the FICCI President, on behalf of the FICCI E.C., sent a long telegram on 3rd February 1948, protesting against the Report to Nehru, Patel and other members of the Cabinet. (88) In the telegram it was stated that the Report's recommendations made FICCI, "very apprehensive about the future economic structure and the industrial development of this country." (89) While FICCI recognized that the Report had not been submitted to the government but was only a Congress Party document it felt that as Nehru himself was a party to the recommendations, it was "likely to substantially influence the future economic and industrial policy of the Government of India." The

85. Ibid.
86. Ibid.
87. Ibid.
89. Ibid., p.179.
proposed reservation of the food processing, clothing and other consumer goods industries for the cottage and small-scale sector was opposed for ignoring the imperatives of increased production and for preventing "the equitable and natural expansion of large-scale industries because of state action." (90) The recommendations for establishment of the new undertakings in the defence and key industries and in public utilities in the public sector only, as well as the transfer of the existing undertakings in these industries to state ownership, after 5 years, was strongly opposed. The acquisition of privately owned industries after their profits declined was decried as "tantamount to an act of virtual expropriation." (91)

The FICCI,

"Deeply regretted that when some of the responsible Cabinet Ministers, for instance, the Finance Minister, (Shanmukham Chetty—a former FICCI E.C. member)... were trying to revive the incentive to private enterprise by assuring the country that for many years to come there was need and scope for private enterprise in industry...", the Economic Programme Committee should have made recommendations to the contrary. (92) The proposed state control over investment resources including the nationalisation of banking and insurance, it was claimed would "seriously retard the future industrial growth of India..." The proposed controls on the distribution and division of profits between the workers and the investors, FICCI warned, would have "serious and far reaching effect on the flow of capital..." (93) The FICCI argued that

90. Ibid.
91. Ibid., p. 180.
92. Ibid., pp. 180-181.
93. Ibid., p. 181.
the Economic Programme Committee recommendations were virtually "short-circuiting... Resolutions passed at the Industries Conference..." to which the Government of India was itself a party. The telegram concluded with a dire warning, that if the recommendations of the Committee were followed they would have "far reaching and disastrous effect on the Economic and Industrial structure of this country."(94)

The FICCI, therefore, suggested an early conference of all the concerned interests to evolve a suitable policy.(95)

In particular the proposed dominance of state sector, in terms of both ownership and control of a fairly large number of industries including consumer goods industries, was considered an immediate threat to the private sector. The setting up of a co-operative distribution system as envisaged in the Report, would have severely limited the role of private trade. In view of the fact that a number of industrial groups associated with the FICCI had extensive trading interests,(96) FICCI was bound to be perturbed by the limitation on the sphere of operation of private capital in trade. The abolition of managing agencies and nationalization of banks and insurance was another major threat to the larger houses, as these proposed measures would have struck at the very roots of large-scale private enterprise. Thus, the very strong, even strident reaction, from FICCI and industry to the E.P.C. Report.

94. Ibid., p. 181.
95. Ibid.
FICCI reactions to the E.P.C. Report were not confined to written representations. Their representatives met various members of the Cabinet and a number of important bureaucrats in order to effect a reversal of the stated policy. (97)

The Political Balance of Forces

The mobilisation by the FICCI against the recommendations of the E.P.C. Report must be viewed in the context of the actual balance of political forces in the country at the time. On the one hand, as indicated earlier, there were close relations between important sections of the Congress leadership and the FICCI. For instance, after the assassination of Mahatma Gandhi, Nehru wrote to G.D. Birla regarding the acquisition of Birla House as a national monument. In his reply to Nehru on 12th May 1948, Birla pointed out that the Birla House was not only associated with Gandhi but it was a nerve centre of all nationalist activity. Apart from Gandhi, others who had resided at Birla House included Patel, Rajendra Prasad, Gobind Ballabh Pant, Bhulabhai Desai, K.M. Munshi, Shankarrao Deo and Balasaheb Kher. Even Nehru himself had resided there "for a few days." (98) Birla further pointed out that,

"Many important political decisions of far-reaching consequences have been taken in this house... Many important meetings of the (Congress) Working Committee were held... (as well as later) the first meeting of the Congress Cabinet... immediately (after) the Congress assumed power in 1946." (99)


99. Ibid., p. 70.
Patel was able to enlist the support of C. Rajagopalachari in opposing the proposed acquisition of Birla House. (100) In a letter to Nehru on 13th May, Patel wrote to Nehru that,

"I have known Ghanshyamdas (Birla) through Bapu (Gandhi) for more than 25 years. The relations between Bapu and him were those of father and son... But never throughout our long connections has he taken any undue advantage of these ties or exploited them."

Later in the same letter, Patel referred to his "very close and intimate connections with Birla." (101) He also admitted the validity of Birla's claim of having hosted "so many prominent personalities... Through many years of valuable contacts with men, prominent in business and public life." (102) Despite Patel's claim to the contrary, the extent of Birla's influence with him and other prominent leaders of the Congress that was a subject of public criticism, should be evident. (103)

Patel's attitude towards business circles is reflected in his concern over the powers given to the Income-Tax (Investigation) Commission in 1948. (Although the matter was finally resolved after the 1948 Industrial Policy Statement, the attitude of the government and of Patel in particular, is indicative of the influence that business circles were able to wield in the government. This would enable us to appreciate the conditions that proved conducive for the jettisoning of major recommendations of the E.P.C. Report). On 27th January 1948,

101. Ibid., p. 72.
102 Ibid., p. 73.
103. See Chapters II & IV above.
Patel wrote to Nehru referring to the minutes of the Cabinet meeting of the 19th January, in which he claimed that,

"the powers which we have now given to the Income-Tax (Investigation) Commission are rather drastic and will have an unsettling effect on business. We can ill-afford to upset seriously the business world at this time of crisis. On the one side, we are straining every nerve to stimulate production by carrying the employers with us. If, on the other side, we make such drastic changes, it would virtually mean not only upsetting what we have so far succeeded in achieving in restoring confidence, but also creating further lack of confidence."

Patel therefore urged further discussion in the Cabinet "so that, if necessary, we could make suitable changes to relax the rigours of the law." (104)

Earlier, on 10th January 1948, the Secretary of the Income-Tax (Investigation) Commission had written to FICCI referring to the proposed amendments of Sections 34 and 46 of the Income Tax Act. (105)

After receipt of this letter, it is virtually definite that FICCI representatives including Birla would have approached senior Congress and government leaders, including Patel himself. Patel's letter to Nehru was probably occasioned by such a representation which made him aware that businessmen were "upset seriously", and which led him to place the latter's case so forcefully to Nehru. The Prime Minister in his reply the next day, referred to the earlier discussion in the Cabinet where both Shanmukham Chetty and Justice Varadachari, the Chairman of the Commission, had urged that the Commission be given "additional powers" without which it would be "completely helpless".

Nehru also explained to Patel that to wind up the "Commission at this

104. Durga Das, n. 98, p. 278.
105. FICCI, n. 88, pp. 65-71.
stage... would create a very bad public impression". In view of the "full consideration" of the matter, Nehru expressed his doubts about the likelihood of any changes being made after another Cabinet meeting. (106) After this, Patel had no choice but to agree though he "still felt" that "the cumulative effect would be some lack of confidence in the business world." (107)

On the 5th February, C.H. Bhabha, (108) then Commerce Minister wrote to Patel, after his earlier letter to Chetty of 27th January had elicited no reply. Bhabha referred to an earlier assurance by Liaquat Ali Khan that, "the names of the parties whose cases would be referred to the Investigation Commission... would be put up to the Cabinet for approval." He also urged that "a few businessmen" be consulted before the proposed amendments were placed before the Constituent Assembly. (109) Later in June-July, Patel corresponded with K.C. Neogy, Bhabha's successor as Commerce Minister, and Chetty, in order to force the withdrawal of cases against "leading industrialists" from the Investigation Commission. (110) Patel also brought Nehru around to his

108. Bhabha himself was linked with a number of companies. In 1948 he was Chairman of the Sholapur Spinning and Weaving Co. and of Apollo Mills Ltd., and a Director of the following concerns; Oriental Government Security and Life Assurance Co., Central Bank of India, Mill and Rubber Produce Co., Rajagiri Rubber Produce Co., New Galen Estate, and Barrackpur Electric Co., cf. Times of India, India and Pakistan Year Book and Who's Who, 1948, (Bombay : Bennett-Coleman, n.d.), p. 1143.
110. Ibid., pp. 281-284.
point of view. (111) Patel's letters to Chetty were in some cases quite peremptory. On 16th July, Patel wrote to Chetty advising him to ensure "that the harassment of innocent persons is avoided." The letter made it clear that Chetty should "set matters right" by withdrawing some of the cases.(112)

Later on 27th July, Patel wrote to Chetty enclosing a copy of a telegram he had received from Kasturbhai Lalbhai (of FICCI). The telegram warned that if Section 34 of the Income Tax Act was amended by the Select Committee, it would "seriously interfere (with) business and industrial enterprises."(113) Patel asked Chetty "whether there is any force in what he (Lalbhai) says?"(114) However, as it turned out, Patel's insistence on the withdrawal of cases succeeded. On 19th February 1948, Chetty after consultations with the Chairman of the Central Board of Revenue, issued oral instructions with the actual written order issued only later on 12th March.(115) However, since he had not informed the Constituent Assembly of the proposed withdrawals, nor had he referred the matter to the Investigation Commission, Chetty was forced to resign as Finance Minister on 15th August, 1948. Nehru accepted his resignation the next day.(116)

111. See below.
113. Ibid., pp. 286-287.
114. Ibid., p. 286.
This episode demonstrates Patel's control over the Congress Party and his sympathies with the industrialists. In fact Patel had himself selected Chetty as the Finance Minister, only after another FICCI representative G.L. Mehta had refused.(117) Chetty had earlier on a number of occasions made his sympathies for private enterprise quite clear.(118) He promised the Indian Merchants' Chamber (IMC), an important constituent of FICCI, on 29th September 1947, that he would "not be a party to any policy of taxation that will discourage private enterprise."(119)

The above discussion lends substance to what is a fairly common, though debatable, view that "by 1946 the most powerful man inside the Congress Party organisation was neither Gandhi nor Nehru... (but) Sardar Vallabhbhai Patel..."(120) Patel's position of strength within the party organisation enabled him to even overrule Gandhi and Nehru, in some vital instances. When Acharya J.B. Kripalani resigned as Congress President in 1947, Gandhi's suggestions that either Jayaprakash Narayan or Acharya Narendra Deva be elected to replace him, were rejected by the Congress Working Committee.(121) This was done despite Nehru's support

118. See above.
119. Quoted after Venkatasubbiah, n. 117, p. 75.
120. Frankel, n. 68, p.72.
121. Ibid., Myron Weiner, Party Politics in India -- The Development of a Multi-Party System, (Princeton: Princeton University Press 1957), p. 58. However, as we have seen above in Chapter IV, Gandhi's influence within the Congress had diminished by 1947.
to Gandhi. The relative strength of the conservative section of the Congress leadership was largely due to the relative weakness of the leftists within the party.\(^{(122)}\)

**Weakness of the Left**

In 1939, the events at the Tripuri Session of the Congress forced the resignation of Subhas Bose.\(^{(123)}\) Bose's decision to lead his followers out of the Congress to form the Forward Bloc, weakened the strength of the leftists within the Congress.\(^{(124)}\)

Earlier, the June 1939 A.I.C.C. meeting in Bombay had adopted "far reaching changes in the Congress constitution"\(^{(125)}\) which restricted admission to the party, and which were suspected to be directed against radical elements.\(^{(126)}\) Unfortunately for the Left, the Socialists and the Communists had their own conflicts and were unable to unite.\(^{(127)}\) In the struggle between Bose and the conservative leadership, the

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122. See also Chapter IV above.


125. Sitaramayya, n.123, p.120.


Socialist group had played an "ambivalent" role. Interestingly, a government Intelligence Report in 1940, also assessed the Leftists strength in the A.I.C.C. as being of only 26.6 per cent of the members, while the Rightists had the support of 73.4 per cent. The Report also noted that the "Congress Socialists at present are for all practical purposes closely allied to the right wing..." After the expulsion and forcing out of Communists in 1940 and 1945, the strength of the Socialists declined further. Although outside the Congress, the Communist Party strength had increased with a membership of 89,263 by the Second Congress of the CPI in February 1948, it was to decline very sharply thereafter. The CPI at its second Congress followed "a full fledged left-sectarian, dogmatist and left-adventurist line" which led the party "to the verge of total collapse" by January 1950. The CPI termed Independence in 1947 as a "fake independence", and treated the Congress leadership as "collaborationist", (with British Imperialism), and therefore the "spearhead of counter-revolution".

In this political background, the balance of political forces did not favour radical, anti-big business elements. On the contrary, as we have briefly sketched out above, the political scenario in the immediate post-Independence period favoured the conservative sections within the Congress led by Patel. Representatives of the Socialist group in the

130. See P.C. Joshi's (then General Secretary, CPI), statement of 5th October 1945, reprinted in Ibid. p.165.
131. Adhikari, Sen, et. al., n. 126, pp. 76-81.
E.P.C. e.g. Jayaprakash Narayan, N.G. Ranga and others were able to make the Committee pass radical, even revolutionary programmes and formulations. They were unable however to force their implementation.

In fact, from at least as early as 1936, when it became obvious that the Congress was likely to come to power after the provincial elections, a large number of the more prosperous rural elements joined the party. Almost half of all Congressmen who joined in the mid-thirties were from landed peasant castes, with land holdings between twentyone and a hundred acres.(132) By 1948, the Congress General Secretary received hundreds of complaints regarding bogus membership.(133) The A.I.C.C.'s attempt to curb bogus membership, by eliminating the four-anna fee for primary membership through an amendment of the party Constitution in 1948, actually backfired. Between 1945-46 and 1949-50, primary membership of the Congress increased phenomenally from 55 lakhs to 170 lakhs.(134) The increased weight of these new land-holding peasants in the Congress membership, acted against the radical elements in the party organization.

The final blow to the socialist group was dealt by Patel in the second half of February 1948, shortly after Gandhi's death. Under Patel's influence, the A.I.C.C. approved an amendment to the party Constitution which barred all Congressmen from membership "of any other political party, communal or other which has a separate membership,

133. Ibid., p. 215.
134. Ibid., p. 222.
constitution, and programme."(135) This was a direct attack on the Congress Socialist Party (CSP). Shortly thereafter in March 1948, at the Socialist Party Convention at Nasik, the majority voted to sever their connections from the Congress and to form a new party.(136) Thus at this stage, as Frankel has noted, "Nehru's socialist support inside the Congress Party was sharply attenuated."(137)

Nehru-Patel Relations

Nehru's lack of support within the Congress, complicated the problems of his relations with Patel within the Cabinet. Though Nehru was Prime Minister, he only held the portfolios of External Affairs and Commonwealth Relations. Patel, the Deputy Prime Minister held the more important portfolios of Home Affairs, States and Information and Broadcasting. Correspondence between Nehru and Patel between December 1947 and January 1948, centred around the precise delineation of their tasks. Patel even objected to Nehru's dispatching his principal private secretary, H.V.R. Iengar to Ajmer, in order to report on the communal rioting there.(138) As Patel put it, there were "such vital differences of opinion" between the two relating to "the fundamental question of our respective spheres of responsibility, authority and action..."(139)

135. Quoted after Frankel, n. 68, p. 72.
137. Frankel, n. 68, p. 72.
Gandhi intervened in the dispute, as both Patel and Nehru sought his guidance. In a note dated 6 January 1948, Nehru referred to Patel and his "difference in approach... to economic and communal matters..." which had persisted "ever since we worked together in the Congress." (140) Nehru believed, that as Prime Minister he was called upon "to play an outstanding role..." as the Minister "more responsible than anyone else for the general trend of policy and for the co-ordination of the work of various Government departments." This role of "a co-ordinator and a kind of supervisor..." Nehru believed, was essential if he was not to be reduced to "only a figurehead..." (141) As was his wont, Nehru graciously offered to resign if a compromise was not acceptable. (142) Of course, Nehru was aware that his resignation could not be accepted. This was however, a threat he had employed before and was to use again. In the same note, Nehru also expressed his concern that, "We have delayed too long already in laying down an economic policy and this has led to differing interpretations and statements by Ministers." (143)

Patel in his own note to Gandhi differed with Nehru's interpretation. He argued that the PM had "no over-riding powers over his colleagues..." as that would render "a Cabinet and Cabinet responsibility... superfluous". He offered his own resignation, if

140. Nehru's note to Gandhi, dated 6 January 1948, Ibid., p. 17.
141. Ibid., pp. 17-18.
142. Ibid., pp. 19-20.
143. Ibid., p. 18.
matters came to that. (144) Once Gandhi died, Nehru and Patel decided to sink their differences and work together. Both generally accepted that public discussion of their differences were, in Patel's words, "bad for the country." (145) Despite this compromise, the differences in the "Diumverate" were of political significance as Patel not only provided an alternative focus of power within the Cabinet, but as we have seen earlier, he was able to wield considerable influence over his colleagues. Patel was also influenced by some important bureaucrats, generally sympathetic to business. C.D. Deshmukh, who was Governor of the Reserve Bank in 1948-49, was in regular contact with Patel. During this period Chetty had tentatively proposed to nationalise the Imperial Bank, but this was opposed by Patel on the basis of Deshmukh's "confidential advice... that the time was not ripe for such a step." (146)

To sum up the above discussion, by February 1948, in the mobilisation and counter mobilisation by various political forces, those sympathetic to private enterprise appear to have gained the upper hand. Thus efforts by pro-business forces, including FICCI itself, succeeded in whittling down the recommendations of the E.P.C. shortly after they were made. The following discussion treats briefly with the events which highlighted the dilution of Congress 'radicalism', culminating in the April 1948 Industrial Policy Statement.

146. Deshmukh, n. 67, p. 155.
Nehru & the E.P.C. Report

On 17th February 1948, Kazi Syed Karimuddin moved a private members resolution in the Constituent Assembly stating:

"This Assembly is of the opinion that the economic pattern of this country shall be socialist economy based on the principle of nationalization of key industries and co-operative and collective farming and socialization of the material resources of the country and that the Government of India shall adopt the said principle immediately." (147)

Karimuddin cited the Report of the E.P.C. in his support (148) and stated that his purpose in moving this resolution was to ensure "a declared and definite (economic) policy on the part of the Government of India." (149)

Nehru strongly argued against the adoption of the above resolution. (150) He repeatedly stressed the importance of increasing production. As he put it, "everything that we do should be judged from the point of view of production first of all as well as other points of view." (151) He warned that "such steps may often lead to some kind of petty disaster... (and) graver crisis may follow." Further "in an attempt to change the economic system you may have a period of semi-disaster." (152) Nehru emphasised the tentative nature of the E.P.C. Report, pointing out that it had not received "the final sanction" of the A.I.C.C. Even if it had, the A.I.C.C. would only have laid down "the

148. Ibid., p. 826.
149. Ibid., p. 827.
150. Ibid., pp. 828-834.
151. Ibid., p. 829.
152. Ibid.
general policy", leaving it to the Government to decide priorities.(153) Nehru interpreted the Report as stating that the state's limited resources would be utilised in starting new industries or projects e.g. hydroelectric projects, big reservoirs, irrigation canals, malaria prevention, prevention of erosion etc., rather than being wasted in nationalising existing industries. This would also permit private enterprise to continue production in various fields.(154) He specifically referred to the proposed five-year period after which certain industries were to be taken over as of "little significance in the present changing dynamic world." Because of the unpredictability of changes "in the political or economic domain..." in the near future, this time period merely gave "some picture in our minds to which we can work up to." In fact, the proposed five year period was intended to reassure "those who might be somewhat put out by the prospect of these changes."(155) Later in the speech, Nehru explicitly stated that, "Obviously we want the good-will of the industrialists of the country."(156) Nehru finally assured the Assembly that the government was "very anxious" to draw up an industrial policy statement.(157) While concluding, he appealed to Karimuddin "not to press a resolution which on the face of it cannot be given effect to."(158) In response to

153. Ibid., pp. 830, 832-833.
154. Ibid., 830-31.
155. Ibid., p. 831.
156. Ibid., p. 833.
157. Ibid.
158. Ibid., p. 834.
Nehru's appeal, Karimuddin withdrew his resolution. (159) This speech was, as can be expected, welcomed by the financial press. The Eastern Economist in an article on "Nationalization" referred to,

"Nehru's speech on economic policy... (as) very welcome, as it finally lays at rest any suspicion that Government may be committed to hasty and ill considered decisions on purely doctrinaire, or ideological considerations... the P.M.'s speech will go a long way towards creating the right atmosphere which had deteriorated because of the rather drastic steps recommended by the Economic Programme Committee."

It expressed the "hope (that) the Government will soon make a detailed announcement of their economic policy." (160)

FICCI's 21st Annual Session was held on 28th and 29th March, 1948, virtually on the eve of the Industrial Policy Statement. In his Presidential Address, M.A. Master expressed the business community's "earnest anxiety to know where the private enterprise stands in the future industrialization of this country..." (161) He also urged that the industrial policy be announced "at an early date." (162)

Nehru in his reply reassured the industrialists present. Referring to the question of nationalisation, he averred that, "In India today we cannot adopt any one "ism"... We do not have the strength to nationalise big industry... we have to think and consider what to nationalise and what not to." (163) Nehru referred to the Karachi

159. Ibid., p. 836.
162. Ibid., p. 18.
163. Ibid., pp. 26 (emphasis added). Nehru spoke mostly in Hindi. As there is no official translation, we have translated the speech.
Congress resolution wherein it was stated that big industry should belong to the state as "theoretical talk." He stressed that "In our nation private enterprise has a definite role."(164)

In his inaugural speech at the FICCI session, Nehru clearly indicated the shape of things to come. He stated that the government had classified industries into three broad categories. The first was of industries like the defense industry, in which the private sector would not be permitted. The second group of industries would be those which would, gradually over a period of time, come under government control. The third group of industries would be wholly for the private sector.(165)

In the two categories of industries in which the state would participate, Nehru felt that the government should not bother taking over the existing old privately-owned enterprises run "in an old fashioned manner." The government on its part, should be interested in setting up new enterprises.(166)

While stressing the need for cottage industries, Nehru clarified that he had "never considered them as something opposed to large-scale industry."(167)

164. Ibid., (emphasis added).
165. Ibid.
166. Ibid.
167. Ibid., p. 30 (in English).
Significantly, Nehru stated that even those industries that were nationalised, should be run in the manner of private enterprise. Nationalised industries should be made into corporations, run as efficiently as private industry. (168)

As for the problem of inequality, Nehru noted, as usual, that the country's wealth was in the hands of a select few. He however, argued that to increase national wealth it was necessary not to cut the pockets of the rich, but that all work. He therefore stressed the need for increased productivity.

Nehru's speech in effect outlined the Industrial Policy Statement that was to follow in a few days. The sentiments expressed must have greatly reassured FICCI and the business community.

At the FICCI Annual Session, a number of resolutions were moved opposing the recommendations of the E.P.C. (169) While moving a resolution on the "Government's Policy of Nationalization -- Need for clear-cut Pronouncement", the mover Chunilal Mehta approvingly referred to Nehru's speech at the Constituent Assembly in reply to Karimuddin's resolution. (170) Mehta however referred to Press reports that the forthcoming Industrial Policy Statement would increase the period for transfer of private undertakings to the state, from 5 to 10 years. This increased period was also considered too little. (171)

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168. Ibid., p. 27. Also p. 31 (in English).
169. Ibid., pp. 57-69; 69-73.
170. Ibid., pp. 72-73.
171. Ibid., p. 72.
Therefore, after Nehru's speech, the publication of various Press reports, and their own discussions with the political leadership and bureaucracy, (172) the industrialists had considerable, if not complete, information about the nature of the forthcoming Industrial Policy Statement. As stated earlier, this must have considerably reassured big business, and in itself was an indication of their influence with government.

1948 INDUSTRIAL POLICY STATEMENT

The Statement on Industrial Policy followed a few days later. Dr. Syama Prasad Mookerjee, the Minister for Industry and Supply placed the Statement (see Appendix A) before the Assembly. (173) The Statement formalised the shift in government policy from the recommendations of the E.P.C., indicated by Nehru's 17th February speech. The basic premise of the Statement was that, "a mere redistribution of existing wealth would make no essential difference to the people and would merely mean the distribution of poverty." Emphasis, therefore, was given to all measures necessary for a "continuous increase in production" which alone could create conditions for the satisfaction of "the basic needs of the people." In view of existing constraints, the state could not intervene in industry "as widely as may be desirable." Therefore, it was believed,

172. Mehta in his speech referred to a "deputation of prominent businessmen" who had met Nehru and other Ministers after the E.P.C. Report was published. Ibid.

173. CAD (Legislative), III, Pt. 2., 1948, pp. 3293-3297.
"that for some time to come, the state could contribute more quickly to the increase of national wealth by expanding its present activities wherever 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 regulate, has a valuable role to play."(174)

The industries to be the "exclusive monopoly of the Central Government" included (1) the manufacture of arms and ammunition; (2) the production and control of atomic energy; and (3) the ownership and management of railway transport. The industries where "new undertakings" were to be exclusively reserved for the state included:

(1) Coal;
(2) Iron and Steel;
(3) Aircraft Manufacture;
(4) Ship building;
(5) Manufacture of telephone, telegraph and wireless apparatus, excluding radio receiving sets; and
(6) Minerals Oils.

Even for these industries the possibility of private enterprise was not wholly excluded as,

"in the national interest, the state itself...(could find) it necessary to secure the co-operation of private enterprise subject to such control and regulation as the Central Government may prescribe."

The E.P.C. Report recommendation of a five year period before takeover was replaced by the following, highly qualified statement:

"Government have decided to let existing undertakings in these fields develop for... ten years, during which they will be allowed all facilities for efficient working and reasonable 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."(175)

174.Ibid., (emphasis added). See Appendix A, para. 3.
175.Ibid., (emphasis added). See also Appendix A, para 4.
The state had already invested in a number of very large multi-purpose projects including the Damodar Valley Scheme, the Kosi Reservoir, the Hirakund Dam etc. (176) Apart from the above industries which were reserved for the state it was stated that,

"The State will also progressively participate in this field (of industries left open for private enterprise); nor will it hesitate to intervene wherever the progress of an industry under private enterprise is unsatisfactory." (177)

In view of the several assurances given by Nehru and others before, this was not taken too seriously, particularly by the business community.

Another 18 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," were to be subject to "Central regulation and control." This list which was not "exhaustive" included:

(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) Rubber manufacturers;
(9) Non-ferrous metals;

(10) Electro-chemical industries;
(11) Power and industrial alcohol;
(12) Cotton and woolen textiles;

(13) Cement;
(14) Sugar;
(15) Paper and newsprint;

(16) Air and sea transport;
(17) Minerals; and
(18) Industries related to defence.

176. Ibid., p. 3295. Also Appendix A, para 6.

177. Ibid., pp. 3294-3295. Also Appendix A, Ibid.
For the direction of these industries, the government decided to associate "representatives of Industry and Labour... in the proposed Industry Advisory Council as recommended by the Industries Conference." (178)

The Statement referred to the Resolution passed at the Industries Conference dealing with the relations between labour and management. It proposed to strengthen the Industrial Relations Machinery and to establish permanent Industrial Tribunals "for dealing with major disputes." (179)

Regarding foreign capital, it was

"recognised that (while) 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".

For this legislation was to be introduced to

"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." (180)

The Statement proposed to establish "a National Planning Commission to formulate programmes of development and to secure their execution" as "careful planning and integrated effort over the whole field of national activity are necessary..." (181)

178. Ibid., p. 3295. See Appendix A, para 7.
179. Ibid., p. 3296. Also Appendix A, para. 9.
180. Ibid., pp. 3296-3297. Also Appendix A, para 10.
181. Ibid., p. 3294. Also Appendix A, para. 1.
The Statement on Industrial Policy concluded with the government's "hope that this elucidation of their intentions on fundamental aspects of industrial policy will remove all mis-apprehensions."(182) In the case of the business interests, this hope was largely justified as we shall see presently.

While introducing the statement, Dr. Mookerjee noted that it envisaged "a mixed economy". He disregarded the ideological question of "ism" as "hardly necessary in the present context of things". He hoped that in the case of the industries which might be taken over after ten years, "the representatives of the industries concerned, some of whom are extremely powerful in this land will reciprocate this gesture of the Government."(183) Mookerjee also referred to the provision for "a fair and equitable" compensation, pointing out that the government "obviously... cannot go further than that."(184) He denied that the Statement was "at variance with the policy enunciated by the Economic (Programme) Committee of the Congress."(185) Minoo Mansi welcomed "this statement of policy because I consider it and understand it to be a categorical rejection of communism."(186) He thought it a "sound" policy if flexibly administered.(187) Others including K.

182.Ibid., p. 3297. Also Appendix A, para 12.
183.Ibid., p. 3390 (emphasis added).
184.Ibid., p. 3391.
185.Ibid., p. 3395.
186.Ibid., p. 3401.
187.Ibid., p. 3402.
Santhanam,(188); N.G. Ranga,(189) Khandubhai Desai,(190) and Renuka Ray(191) supported it. Jawala Prasad Srivastava who quite openly professed, "to place before the House the point of view of the much maligned and much abused class of capitalists and industrialists..."(192) did not find the Statement "one-sided."(193) Though Srivastava believed the policy "is unduly biased against the capitalist," he had little criticism to make of the Statement.(194)

The most trenchant criticism of the proposed industrial policy was made by K.T. Shah, who as we have seen earlier, had been instrumental in the deliberations of the National Planning Committee.(195) Shah categorically expressed his "utter disappointment with everything that is contained in this Resolution."(196) He noted that the N.P.C.'s lists of industries proposed "to be exclusively under state management have been grievously curtailed." He regretted that Nehru who had chaired the N.P.C. should have "subscribed" to the Statement.(197) He enumerated

188. Ibid., pp. 3396-3398.
189. Ibid., pp. 3405-3409.
190. Ibid., pp. 3409-3410.
191. Ibid., pp. 3411-3413.
192. Ibid., p. 3414.
193. Ibid., p. 3415.
194. Ibid., p. 3414-3415.
195. See Chapter IV above.
196. CAD, n.173, p.3402.
197. Ibid., p.3403.
the three industries selected for state ownership and rather caustically stated that,

"it could not have been selected with greater care to make state enterprise the most objectionable, meddlesome, losing inefficient concern that could ever be imagined, because the worst examples are left to the state and the best examples are selected to be reserved for the capitalist profit-seeker."(198)

He was critical of the policy statement for proposing the takeover of only the "new undertakings (and) new units" in the six industries that were to be exclusively developed by the state. This, he argued, showed that the state would take up only such areas in which private capital was not interested.(199)

Shah further argued that the policy left the large bulk of industry; "the total industry... in the hands of the capitalists."(200) He noted that despite "all the tall talk about equality... no mention has been made of any limitation of profit." He was skeptical about the proposed time limit of ten years for the takeover of state reserved industries, stating that, "if the capitalists think it so proper we may have the chance of getting a few more crumbs from their overladen table; but not otherwise." This particular statement was to prove prophetic as we shall see later on. Shah characterised the policy as "a charter of exploitation for the vested interests who will take the kernel and leave the husk to posterity."(201)

198. Ibid., p.3404.
199. Ibid.
200. Ibid.
201. Ibid., p.3405.
Others who would have criticised the Statement e.g. Kazi Syed Karimuddin and Maulana Hasrat Mohani, did not get permission to speak in view of the limited time for discussion. (202) As Shah noted at the outset of his speech, the three and a half hours allotted for debate on this important issue was not sufficient time for such an important matter. (203) Despite this no extension was given.

Nehru sought to rebut Shah's criticism in his concluding remarks. He claimed, as he had on an earlier occasion, that in view of the country's limited resources it was not possible to "acquire a large number of industries." (204) Referring to the proposed ten year period before takeover, he stressed the highly qualified nature of the proposition as "nobody can guarantee what will happen and when it will happen..." He stressed that this policy gave industrialists "a fair chance, a fair field and a fair profit." (205)

Nehru's assessment of the Statement on Industrial Policy was, to a large measure, shared by business interests. Lalji Mehrotra in a Press Statement on 7th April on behalf of the FICCI E.C., (206) stated that the E.C. was "Happy to note..." the government's stress on "increased production". To this, the FICCI assured its "whole-hearted co-operation and support". The proposed setting up of the Planning Commission was

202. Ibid., p.3395.
203. Ibid., p.3402.
204. Ibid., p.3420.
205. Ibid., p.3421.
"indeed welcome". The FICCI however "viewed with apprehension" the proposed progressive increase in state participation in the sector left for private enterprise. Mehrotra sought an assurance that the state would not participate in this sector unless private enterprise was "found wanting." (207) The FICCI wanted the proposed ten year time period for takeover of private enterprises in the six industries extended to twenty years, so that private industrialists would be able to expand their activities in that sector. The Press Statement urged incorporation in legislation, of the market value and goodwill etc., for the payment of compensation in the event of a takeover. (208) The FICCI also noted that there were indications in the Statement "that the ultimate objective is the nationalization of all industrial activities in the country." This had caused "disappointment" in private industrial circles. (209)

An editorial in Commerce stated that the Statement "has dispelled certain apprehensions..." with its "right emphasis on the expansion of production." It cited approvingly the government's statement that it should concentrate on expanding the production of state units "rather than on acquiring and running existing units," and its recognition of the "valuable role" of the private sector. (210) Sir Ardeshir Dalal, a signatory of the Bombay Plan and a Director of Tata Sons, was quoted as stating that, "I do not consider an industry like steel to be capable of

207. Ibid., p.203.
satisfactory management through a public corporation." Dalal further stated that "it would be far better for the present Government to omit all reference to a period after which the position of existing units in the industry will be considered." (211) In view of the Tata investments in the Tata Iron and Steel Company (TISCO), Dalal's concerns are quite understandable. As it turned out, the government obliged. But we shall examine that later. Capital in its editorial statement noted that,

"Those branches of industrial activity which the state reserves exclusively are, for the most part, spheres from which new private enterprise has long since withdrawn. Those industries in which the state reserves new enterprises to itself, but has decided to let existing undertakings develop for a further period of 10 years, call for the employment of capital on a scale which, in the present depressed condition of the market, it would be very difficult to mobilise through unaided private effort."

Thus it believed that,

"the Cabinet has obviously recognised the limitations of its administrative and financial resources and, whilst adhering to long-term objectives of socialisation, has had the good sense not to commit itself to impracticable proposals at this stage." (212)

From the above discussion, it should be clear that the 1948 Statement on Industrial Policy must have come as a considerable relief to business circles. A large number of the concessions that they had sought were granted. The period for takeover was extended to ten years, and even that, it had been made clear, was not an inflexible deadline. The largest possible area had been left open for the private corporate sector. Areas that were taken over, were as Capital had noted, industries where private capital was 'shy'. Moreover, in the unlikely event of takeover, industrialists were promised "fair and equitable"

211. Ibid.

212. Capital, 15 April 1949.
compensation. The Congress's radical pronouncements, as we have noted earlier, had made way for measures designed to develop capitalism. And this was what big business organised in FICCI had sought.

Statement on Foreign Investments in India

Exactly a year after the Statement on Industrial Policy, on 6th April 1949, Nehru made a "Statement on Foreign Investments in India."(213) In it he stated the principles that would govern the official policy in future.(214) The earlier regulation of foreign capital was discarded as that, "arose from (the) past association of foreign capital and control with foreign domination of the economy of the country. But circumstances today are quite different...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."(215)

The salient features of the policy were: (1) Existing foreign investments would be treated on par with similar Indian enterprise; (2) New foreign capital would be encouraged "on terms and conditions that are mutually advantageous." (3) Profits and remittances abroad as well as capital remittances of concerns "compulsorily acquired" would be paid "if and when foreign enterprises are compulsorily acquired." (4) Although majority ownership by Indians were preferred, "Government will


214. Unlike the Industrial Policy Statement which was a policy document put before the Constituent Assembly (Legislative), this was a verbal statement by the Prime Minister which was made available in written form only later.

not object to foreign capital having control of a concern for a limited period, if it is found to be in the national interest...

(6) Although "vital importance" was given to the employment of Indian 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..." (216)

The shift therefore, in the official policy was quite marked. The earlier Industrial Policy Statement in the brief paragraph on foreign capital had explicitly stated that legislation would ensure "that, as a rule, the major interests in ownership and effective control, should always be in Indian hands..." (217)

FICCI reacted very strongly to the new policy on foreign capital. In a letter to the Ministry of Finance, the E.C. cited the earlier Industrial Policy Statement and the 1946 Report of the Planning Advisory Board, in support of the FICCI argument that the new government policy was "a tragedy". (218) As the letter noted,

"The policy of the Indian National Congress has all along been to encourage national enterprise and even boycott foreign goods. It is really a strange turn of the wheel, that a Government representing that very national Congress is now inviting foreign capital to manufacture those goods here, the sure result of which would be that Indian enterprises would never be able to produce the same."

It therefore urged the government to reconsider its policy. (219) The

216. Ibid., p. 2386.
217. See above; see Appendix A, para 10.
219. Ibid., pp. 369-370 (emphasis added).
Indian government however, as Kidron has noted, adopted this policy largely because of economic constraints. Poor harvests together with the loss of food-marketing areas (to Pakistan), necessitated large-scale imports of foodgrains, rising from less than 1 million tons costing Rs. 26 crores for undivided India to a peak of 5-1/4 million tons valued at Rs. 254 crores in 1951-52. (220) Largely because of sharply increased consumer imports, India had a deficit of some 200 million dollars in 1948-49. The earlier lifting of controls over foodgrains, sugar, cloth and cotton had culminated in the general price index being inflated by approximately 23 per cent to 29 per cent between November 1947 and November 1949. (221) The Congress's publication, Second Year of Freedom August 1948 - August 1949, considered that,

"The most serious problem before the government was the stagnation in the capital market resulting from a deep underlying fear about the future of that market. Unless this stagnation was checked and conditions were created in which the incentive to save and invest was revived, the industrial expansion in the country and the execution of the plans intended to raise the living standards of the people in general were bound to be delayed." (222)

This lack of capital investment, forced the Government to turn towards foreign capital. (223) The urgency increased as the Congress leadership was aware that "something had to be done to start Indian industry moving lest social and political chaos engulf the country..." (224)

221. See above.
222. Quoted after Frankel, n. 68, pp. 76-77.
223. This was also noted in the report in Capital, 22 September 1949.
224. Kidron, n. 40, p. 98. As noted earlier during this period militant armed struggle led by the CPI was underway in the Telengana area. The CPI was preparing for a nation-wide insurrection. cf. Adhikari, Sen et. al., n. 126.
Under these circumstances, the government was not inclined to reconsider its policy towards foreign capital despite FICCI pressure. It was also evident that even within FICCI, some of the larger industrial houses were not too perturbed about the new policy. The Eastern Economist, as we have cited earlier, had in February 1950, referred approvingly to Nehru's Statement. (225) Even earlier in his Chairman's Report to the Annual General Meeting of the United Commercial Bank, G.D. Birla welcomed the policy as he was ready to "supplement internal sources of capital with foreign capital... in our mutual interests." (226) In a paper for the India-America Conference later that year Birla wrote:

"I visualise collaboration only in big tasks, that is, things like steel, heavy chemicals, heavy engineering and things of that nature where large-scale investment...(of) a few scores of crores is needed and also where necessary technical skill is wanted in India... The collaboration which I visualise is between agencies of private enterprise on both sides." (227)

In view of the above constraints the Ministry of Finance in its strictly confidential reply to the FICCI representation, rejected the latter's arguments against foreign capital. (228) It categorically stated that,

225. See above.
"The Government of India do not think that permission to retain majority non-Indian interests in ownership and effective control in some cases, can be considered ipso facto as detrimental to the interests of the country."(229)

The government therefore only promised to leave "a fair field" for "Indian industries" and trusted that FICCI would "agree that this is as far as the Government can go consistent with their responsibilities to the country as a whole."(230) It was in fact claimed that foreign investment including the growth of foreign controlled concerns would be "advantageous to the country...(and) in the interest of the Indian industrialists in the long run."(231)

As it turned out, the second half of the above statement was to be accepted by industrialists some years later. In the immediate post-Independence period, Indian businessmen feared the competition of foreign capital which was already well entrenched in the Indian economy. In spheres where Indian capital was not interested, foreign capital was welcome. Kidron has put it succinctly, "Business saw reason to attract foreign capital but still wishes to be protected against it."(232)

In response to the strong criticism from business lobbies, leading Cabinet members sought to reassure industrialists. In January 1950, Sardar Patel appealed for support for Swadeshi.(233) H.K. Mahatab assured the National Chamber of Industries that Swadeshi "would be the

229. Ibid., p. 372.
230. Ibid., p. 373.
231. Ibid., p. 374.
guiding policy of the Government of India today; and accordingly the entire policy will be formulated."(234) He further promised Indian industrialists that they would be consulted prior to any invitation to a foreign investor and that their agreement would be necessary before any foreign enterprise could be granted "national treatment."(235) These assurances together with a few instances of the withdrawal by government from proposals for ventures with foreign capital did not mollify industrialists. Their protests, as well as those from the Left, continued.(236)

However, despite the protests from FICCI, the Nehru government's policy towards foreign capital, was in no way anti-big business, much less anti-capitalist. This fact was apparently appreciated as we have seen above, by no less a big business leader, than G.D. Birla himself. In view of the paucity of internal resources, of capital and technology, the dominant Congress leadership considered the import of foreign capital necessary for the development of capitalism in India.(237) The necessity for the inflow of foreign capital was later recognised by FICCI itself, whose own policy changed to come into conformity with that of the government, as we shall see below.(238)

234. Statesman, 28 June 1950, quoted in Ibid.
235. Foreign Commerce Weekly (Washington), 12 September 1949, quoted in Ibid.
236. Ibid., pp. 105-109.
237. Ibid., pp. 97-103.
238. See Chapter VI below.
Conclusions

At the time of Independence, two broad alternatives in the field of economic, particularly industrial, policy could be said to exist. The first, represented by the deliberations of the NPC, the People's Plan and the recommendations of the Planning Advisory Board, envisaged a major, even predominant role for the state, and concomitantly, a substantially limited role for the private sector. The second alternative provided by the Bombay Plan proposed a very substantial role for the private sector, including its management of state-owned companies.

Socio-political conditions at the time of Independence and immediately thereafter, provided a rather grim background for the official formulation of industrial policy. The Partition and the massive migrations that followed, the disruptions in economic life that were a consequence of both the Second World War and Partition, rendered the task of economic development even more daunting. In the political sphere, the strength of the Left and anti-big business forces, both inside and outside the Congress, was sharply attenuated.

Indian big business had already established its influence with the Congress leadership. This relationship apparently bore fruit. At the December 1947 Industries Conference, Nehru clarified that the government's intentions were to concentrate on the development of new industries and undertakings rather than to nationalise existing ones. Shortly thereafter, the wideranging recommendations of the EPC were

239. See Chapter IV above.
published, in late January 1948, which envisaged a predominant role for the state, with large areas of private sector activity being nationalised. Nehru however, reassured irate industrialists that the EPC Report's recommendations were not mandatory and binding on the government.

The Industrial Policy Statement announced on April 6, 1948 clearly opted for a much larger role for the private sector, at the cost of the activities of the state. It therefore corresponded more to the industrial policy frameworks symbolised by the Bombay Plan. Nehru, in his defence of the Statement, referred to the existing socio-economic constraints:

"after all that has happened in the course of the last seven or eight months, one has to be very careful of what step one might take which might injure the existing structure too much. There has been destruction and injury enough and certainly...I am not brave and gallant enough to go about destroying much more."(240)

Indian big business circles welcomed the Statement, and FICCI assured its "whole-hearted co-operation and support."(241) As a business circles were concerned, the official policy was a very marked improvement on earlier efforts.

Similarly, the shortage of capital, among other factors, forced the Government to adopt a liberal policy towards foreign capital, that was explicated in the April 6, 1949 Statement on Foreign Investments. In this particular case, Indian big business was evidently dissatisfied with the even-handed treatment proposed to be meted out to foreign

240. CAD, n. 173, p. 3417.
capital. FICCI was however, unable to obtain a reversal of this policy.

In a word therefore, the close relationships that the Indian big business stratum had been able to establish with the political leadership, together with the circumstances obtaining at the time, which not only enabled but also encouraged the latter to make concessions, led to the formulation of an industrial policy framework which, in Nehru's words, gave the private sector, "a fair chance, a fair field and a fair profit." (242)