Chapter VII

The Development of Industrial Policy, 1951 - 1956

In the first four years after Independence, the first Industrial Policy Statement of 1948 had been made, the Constitution adopted, the Industries Act enacted, and the Planning Commission set up. The period from 1951 to 1956, witnessed the initiation of the planning process through the formulation of the First Five Year Plan. During the course of the implementation of the First Plan, the need for a more rigorous industrial policy framework became more obvious. In a sense therefore, the First Plan period provides the background to the evolution of industrial policy which culminated in the 1956 Industrial Policy Resolution.

First Plan

In mid 1951, the Draft Outline of the First Plan was circulated. Shortly afterwards, the FICCI submitted a memorandum to the Planning Commission. (1) It welcomed the "modest targets" and the "very limited reliance" on foreign aid in the Draft Outline. The FICCI was critical of the fact that there was no discussion in the Draft regarding implications of the Plan outlay for generating additional employment and

of the physical resources necessary for implementation. Instead of the proposed reliance on revenue surpluses, FICCI wanted policies to encourage private savings.\(^2\) It was also critical of the "limited targets" for the private sector and pleaded for a more important role for this sector. FICCI advocated an upward revision in the targets of certain industries, especially pig iron and steel.

FICCI opposed the proposal for a State Trading Corporation and what it considered comprehensive controls over the mixed economy. It noted that as a number of government sponsored schemes were already underway, the Planning Commission had "little choice" in distributing financial resources, and therefore the Plan was a "draft of planned expenditure instead of a national plan for economic development."\(^3\) The FICCI noted with satisfaction that its memorandum was "widely circulated" and that the Draft Plan was being revised by the Planning Commission.\(^4\)

Later, at the FICCI Annual Meeting held from 29th to 30th March, 1952, in New Delhi, where Nehru as usual inaugurated the session in the presence of a member of his cabinet colleagues, the FICCI-government dialogue on the Plan and other industrial policy matters, was continued. The meeting, (which was also the FICCI Silver Jubilee Session), was the first held after the results of the 1952 General Elections, and in his Presidential speech, C.M. Kothari stated that though he was "gratified" at the Congress victory, he was unhappy at "the stray success of

\(^2\) FICCI, Vol. 1, 1951, p.29.
\(^3\) Ibid., p.30.
\(^4\) Ibid., p.31.
disruptive (at another point he used the term "extremist") elements, which he believed had made headway where "the populace has been suffering the most."(5) The reference was to the success, in particular, of the CPI which was returned as the second largest party in the Lok Sabha. Kothari was critical of the modest plan targets particularly in view of the existing steel shortages, and he therefore found the Planning Commission's outlook "almost pedestrian."(6) He considered the proposed Rupees two hundred crores per annum "a very low target" for the public sector and private sector combined, and cited the Bombay Plan estimates of Rupees two thousand crores per annum as more appropriate.(7)

Nehru while inaugurating the meeting, defended the Draft Plan as subject to modification.(8) With the background of the relatively good showing of the Left (Communists and Socialists) in the General Elections, he was constrained to be more critical of the private sector. He disagreed with Kothari's claim "that private enterprise is part of democracy..."but argued that,

"private enterprise is good only as long as it serves the people; and when it ceases to serve the nation, it will itself cease to exist... we are ready to view it (private enterprise) with suspicion..." He asked, "Are you not unaware that private enterprise is today the target of attacks from all sides."(9)

6. Ibid., p.12.
8. Ibid., pp.30-31.
9. Ibid., p.33.
Nehru noted the importance of creating "an atmosphere in which people can be inspired with hope and faith..." as "when they find the future holds no promise for them, they naturally will get desperate." It was, therefore, necessary to view the Plan in that context.\(^\text{10}\) He defended the lack of emphasis in the Plan on industrialisation, on the grounds that "top priority should been given to food production...\(^\text{as}\) insufficiency in food can any day endanger our national existence. Any day we may succumb to foreign pressure."\(^\text{11}\) Referring to the Bombay Plan he stated,

"we did experiment a bit on it, but soon realised that our circumstances have changed, and we will not be able to implement it... I think it was better if we could have taken up a part of that plan and finished it rather than giving up the whole venture."\(^\text{12}\)

Significantly, Nehru did not refer to the reactionary features of the Bombay Plan of which he must have been well aware.\(^\text{13}\) Nehru later in his speech spoke of the need for self-reliance, extending it even to the sphere of armaments.\(^\text{14}\)

While moving the vote of thanks for the PM, Thakurdas stated that the elections had "gone aright" and congratulated Nehru "for seeing that India has got a further lease of democracy under his guidance." He believed that, "As far as this Federation is concerned, we cannot expect

\(^{10}\) Ibid., p.34.
\(^{11}\) Ibid.
\(^{12}\) Ibid., p.35.
\(^{13}\) See Chapter V above.
\(^{14}\) FICCI, n.5, pp.35-36.
more from him than this."(15)

On the second day of the FICCI session, there was a discussion on FICCI's resolution on the Planning Commission's First Five Year Plan. G.L. Nanda, the then Deputy Chairman of the Planning Commission, and G.L. Mehta, (Member, Planning Commission, who was FICCI President in 1942), participated in the discussions. Nanda during his speech defended controls and the Plan Draft, but invited FICCI to discuss their suggestions with the Planning Commission.(16) Mehta claimed that,

"when you look to the Planning Commission's Report, you will find that with the exception of the Industries (Development and Regulation) Act and a reference to state trading, there is hardly anything which could arouse the apprehensions of businessmen."(17)

In preparation for meeting the Planning Commission, the FICCI representatives met at Birla House, on 13th May. Those present included G.D. Birla, Shanti Prasad Jain, Tulsidas Kilachand, B.M. Birla, G.D. Somani, Charat Ram, R. Poddar, Syamnandan Sahaya and G.L. Bansal, (then FICCI Secretary).(18) At the preliminary meeting, G.D. Birla suggested that the Commission should be apprised of the difficulties Indian industry was facing as a result of the recent fall in prices and its implications for the fulfilment of targets in the private sector industries. He saw two problems. The first, of ensuring that goods which were produced be sold so that unduly large stocks would not

15. Ibid., p.39.
16. Ibid., pp.105-112.
17. Ibid., pp.118-119.
accumulate with the manufacturers; and the second, of finding finance for industrial undertakings which he considered very difficult. After some discussion, it was decided by the industrialists present that G.D. Birla, (who held no official FICCI position, but was then, as later, regarded as one of the elder statesmen among industrialists), should act as the main spokesman of the group representing the FICCI E.C.(19)

At a meeting with the Planning Commission on May 14, the government was represented by Nanda himself, C.D. Deshmukh, G.L. Mehta, T.T. Krishnamachari and Tarlok Singh, among others. Birla stated that the main idea of the industrialists participating in the meeting "was to place the doubts and misgivings of the business community before the Planning Commission." He repeated the points he had made at the preliminary meeting and questioned the industrial targets laid down in the Draft Outline, because of the marketing difficulties.(20) He suggested "that to sustain and expand economic activity...(a) thought-out spending programme..." by the Government was necessary. He urged the Commission to allocate more expenditure on education and such items, which would lead to increased utilization of local materials and goods indigenously manufactured. He approved of the Commission's stand which accepted a modest rate of inflation as necessary to fulfill the targets.(21)

Referring to the fall in prices, Nanda pointed out that the common man "had not gained any tangible benefits of (the) price fall." To this

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20. Ibid., p.248.
21. Ibid., p.249.
Birla replied claiming that there was always a time lag between a fall in wholesale prices and a fall in retail prices. When Birla raised the possibility of deficit financing, Deshmukh expressed doubts about the viability of such a policy and warned that a further rise in prices "would not be tolerated by the common man" e.g. the recent rise in food prices. Birla claimed that the Draft outline had under-estimated the performance of Indian industries for the last few years. He cited FICCI calculations that private industrial enterprises had invested approximately Rupees four hundred and fifty crores over the previous five years. During the discussions, Deshmukh suggested that FICCI and the Planning Commission experts exchange views and information. This was welcomed by Birla.

In the concluding part of the discussion, Deshmukh and Mehta argued that although FICCI had every right to point out defects or dangers in government policy or legislation, once a policy decision was taken or legislation enacted, it should be accepted by FICCI and the latter should make efforts to find the best working methods under the circumstances. Mehta referred to the FICCI criticism of the Industries Act and characterised it as "futile". Shanti Prasad Jain in reply assured the members of the Planning Commission "that they (FICCI) were doing their best to make constructive suggestions." Jain thanked

22. Ibid., p.250.
23. Ibid., pp.250-251.
24. Ibid., p.253. Deshmukh repeatedly made this proposal in the meeting; cf. Ibid., p.225.
25. Ibid., p.256.
Nanda and the Commission members for organising the meeting and hoped that such exchanges of views would be more frequent as they "would help both government and the business community."(26)

After the preparation of the final draft of the First Plan, Nanda wrote to Shanti Prasad Jain, the FICCI President, on 26th October, 1952. In his letter, Nanda referred to the FICCI's "valuable suggestions" at the earlier meeting and asked for further suggestions by the 7th November as the National Development Council was to meet on 8th November to finalise the plan.(27)

The revised First Plan provided for the major role in industrialisation to be played by the private sector. While envisaged investment in public sector industries was Rs.173 crores, the planned investment in private sector industries was of the order of Rs.477 crores.(28) Moreover, it was explicitly stated that "the rate of investment, and therefore of development in this (industrial) sector as a whole, will depend however primarily on the implementation of the working plans of private industries..."(29) As it turned out, of the total fixed investment amounting to Rs.293 crores made in the manufacturing sector during the First Plan period, as much as Rs.233

26. Ibid.
29. Ibid., p.81.
crores was in the private sector, and only Rs.60 crores in the public sector. (30)

The FICCI reply dated 6th November, welcomed the fact that the revised Plan was "somewhat bolder" than the Draft Plan. (31) This was a reference to the considerable increase in the total outlay, and the increased allocation for industry. The FICCI reiterated its earlier criticisms on the Draft Outline as the revised Plan had taken full note of their suggestions. It argued for increased expenditure outlay as this was considered necessary for unemployment which was "rising", leading to "intense... and unrest..." among the "middle and lower classes." It again reiterated the need for deficit financing. (32) It advocated import of foodgrains i.e. wheat, because of the prevailing high prices of foodgrains in the domestic market. FICCI as usual criticised existing controls, (33) and opposed the proposal for state trading. (34) In reply, Nanda's private secretary stated that Nanda was "grateful for the letter... (which) will of course receive careful consideration in the Planning Commission." (35)

32. Ibid., p.262.
33. Ibid., pp.263-264.
34. Ibid., p.270.
The revised Plan as it was passed by the National Development Council, must have been a cause for some satisfaction to the entire business community. As a number of scholars have noted, in the Plan the "Major reliance for development was placed on the private sector."(36) The ideological formulations in the Plan were also far from 'socialistic'. The government Resolution of March 1950 setting up the Planning Commission referred to the "Directive Principles of State Policy" stating that the state,

"shall direct its policy towards securing, among other things, (a) that the citizens, men and women equally, have the right to an adequate means of livelihood; (b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good; and (c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment."(37)

This section was drafted by Nehru himself.(38) It however was a considerably diluted version of the draft proposed earlier by Nanda which had been rejected by the Congress Working Committee.(39) Moreover though the Plan was intended to reduce "economic inequalities", it categorically stated that,


"while it would be wrong...to condone the existence or accentuation of sectional privileges, it is no less important to ensure a continuity of development without which, in fact, whatever measures, fiscal or other, might be adopted for promoting economic equality might only end up in dislocating production and even jeopardizing the prospects of ordered growth."(40)

As in Nehru's earlier speeches in the Constituent Assembly, the emphasis was on increased production, which through a 'trickle down' effect, would in turn raise the living standards of the masses.

This approach was evident also in the section "Fiscal Policy as an Instrument of Planning". Here it was stated that,

"Direct taxation of the rich is likely to impinge more on their savings than on their consumption. There is a need for balancing the advantages of a greater equality of incomes and wealth against the disadvantage of a possible fall in private savings and capital formation."(41)

In the matter of controls the Plan warned against "a doctrinaire approach..."(42) It is clear that ideologically there was nothing in the Plan that could be to the dislike of businessmen, as G.L. Mehta had told the FICCI representatives earlier.

FICCI had however, wanted even greater financial support for the private sector. This was to be a constant refrain. This apart, prominent FICCI leaders welcomed the revised Plan. Tulsidas Kilachand in his Chairman's Address at the Annual General Meeting of the Bank of Baroda on 2nd May 1953, stated, "It is admitted by all sections (sic.) that the targets and priorities fixed in the plan are more realistic now

40. Ibid., p.31.
41. Ibid., p.40.
42. Ibid., p.42.
then they were while in the draft stage..."(43) Speaking about the plan, G.D. Birla stated that,

"I am glad the Government have confined their task to the undertaking of a few economic programmes of basic and public character... Excepting the branches of economic activity, agriculture, irrigation and transport reserved for its work it has left the entire field of economic enterprise to private effort. And this is a right thing that they have done..."(44)

The policy orientation explicit in the First Plan clearly corresponded more to that expressed in the Bombay Plan, rather than to the consciously egalitarian, distribution-oriented strategies expounded in the National Planning Committee, the Advisory Planning Board, and the People's Plan.(45) The emphasis in the First Plan, as in the 1948 Industrial Policy Statement, was on increased production, at the cost of the radical anti-big business measures suggested earlier. The notion of planning that was incorporated in the First Plan therefore, had much more in common with that of Indian big business, than with the radical tradition within the Congress. Nehru's praise for the Bombay Plan can therefore be taken as an indication of the similarity of official and big business positions on the content of Indian planning.

The business press also praised the Plan. The Eastern Economist, stated that,


44. G.D. Birla's speech to the Annual Meeting of the United Commercial Bank, quoted in Ibid.

45. See Chapters IV & V above.
"It (the Plan) has given confidence and courage to both Bombay and Calcutta. There is even greater optimism to be found in the sound approach which Ministers of economic affairs in Delhi are now displaying...implementation here at least is in good hands. C.D. Deshmukh, Mr. T.T. Krishnamachari and Mr. Rafi Ahmed Kidwai present together the ablest triumvirate which has ever held sway over India's economic policy." (46)

The lavish praise is an indication of the happiness with which big business viewed the First Plan and the activities of the Ministers in charge of the important economic portfolios.

The 1952-53 Economic Crisis and Indian Business

Around February 1952, consequent to a recession in the capitalist world economy, there was a marked slump in commodity prices in the Indian economy. (47) (Birla had raised this in the FICCI discussions with the Planning Commission, as we have seen earlier). This "spectacular break in prices which...has all the appearance of a crash...", (48) caused considerable worry to both the capitalists as well as to the government. The crisis did not lift as was expected, after a few months, but continued well into 1953. In July 1953, the Eastern Economist again referred "to the new and unexpected crisis which is coming over our economic affairs." (49) Capital expressed similar sentiments in a leading article in August. (50)

46. Eastern Economist, 12 December 1952.
47. Ranadive, n.43, p.1.
48. Eastern Economist, 7 March 1952; See also Capital, 13 March 1952.
50. Capital, 13 August 1953.
The crisis of the domestic market again forced FICCI to sharpen its criticism of the government's policy towards foreign capital. At its 26th Annual Meeting, the FICCI adopted a "Swadeshi Resolution" in which it deplored "the present indifference to the importance of Swadeshi in the social and economic regeneration of the country...," urging,

"that the purchase of (the) Government's own requirements...should be confined to goods of Indian origin, wherever available and possible, and more liberal price preference in favour of Indian goods and a substantial preference to Indian banking, Indian insurance and Indian shipping should be accepted as part of the official stores purchase policy."(51)

Later in a confidential communiqué to the government, FICCI reiterated its earlier criticisms of the official policy.(52) It pointed out, that foreign capital had created difficulties for indigenous industries "without any substantial gain to the country." "In...fact to the extent Indian units are placed at a disadvantage, to that extent considerable harm will be done to the larger and permanent interest of the country also."(53) The E.C. therefore "urged, with all the emphasis at their command, that foreign capital, new or existing, should not be permitted to adversely affect parallel Indian Industry."(54) The E.C. concluded by reiterating its earlier stand that foreign capital should be allowed only into the new and highly technical sectors of the economy where


53. Ibid., p.606.

54. Ibid., p.608.
there was no previous Indian industry. (55)

In the same period, some relatively minor changes were made in the licensing procedure under the Industries Act. In June 1952, changes were made, in the draft rules for the registration and licensing of industrial undertakings. Before making these, the government took note of the FICCI suggestions made in the Central Advisory Council of Industries (CACI) meeting held on 10th May, a fact that the FICCI appreciated. (56) In 1953, the government proposed further amendments to the Industries Act (57) which included provisions for:

(a) allowing government to take over management (not ownership) of an industrial concern without first issuing directions to it; (58)

(b) allowing government to extend the existing provisions for controls over prices and distribution to smaller industrial undertakings and to imported goods;

(c) adding to the list of industries in Schedule I, the ferro-manganese industry. (59)

R.G. Saraiya, the FICCI President, (60) wrote to TTK that the proposals went against the recommendations of both the Select Committees

55. Ibid. FICCI representatives made similar criticisms at the Central Advisory Council of Industries (CACI) meetings held on 29th May and 12th October, 1953 in New Delhi; cf. Confidential Reports submitted by FICCI representatives, in Ibid., pp.797-805, 806-813.


58. Ibid.

59. Ibid., pp.544.

that had examined the Industries Bill."(61) In particular reference to
the proposal (b) above, Saraiya stressed that there was no need for any
change. In conclusion he,

"urge(d) that, at a time when there is a generally better
understanding between Government and those engaged in industry and
commerce, no action should be taken, however warranted it may seem,
on purely theoretical considerations, which is likely to disturb
that understanding."(62)

Shift in FICCI stand on Foreign Capital

By 1954, the economic situation eased."(63) In that year itself,
the FICCI attitude towards foreign capital softened. A FICCI
publication of May 1954 on imports and industrial development, omitted
all proposals for the regulation of foreign firms."(64) In January 1955,
a FICCI sub-committee including B.M. Birla, J.R.D. Tata, A. Ramaswami
Mudaliar, Tulsidas Kilachand and Shantilal Mangaldas, met in Bombay to
consider afresh the FICCI attitude towards foreign capital. The sub-
committee,

"generally welcomed the flow of foreign capital into India,
particularly in those industries which are not pursued by Indian
nationals even after due notice by the Government, like oil
refineries, where there are difficulties of obtaining technical
knowhow etc. It also welcomed foreign capital in the consumers'
industries, like textiles, cement, paper etc., where India has
already established herself."(65)

61. Ibid., p.545.
62. Ibid., p.546.
63. Michael Kidron, Foreign Investments in India, (London: Oxford
64. FICCI, Imports and Industrial Development, (New Delhi: FICCI,
A FICCI press statement in March, expressed its broad agreement with the government policy statement on foreign capital. Foreign capital was welcomed "as being of value to the rapid industrialisation of the country." However, while FICCI accepted the entry of foreign capital into the consumer goods industries, where Indian industrial units "are fairly established", it proposed that the entry be permitted only if Indian capital was not forthcoming after "say one year's" notice.(66) The FICCI moreover, stressed the need for foreign capital to offer equity participation to Indian investors and to utilize Indian services e.g. banking, shipping, insurance etc. The crucial test of the utility of foreign investment was "how rapidly it builds up local enterprise." Significantly, FICCI defined Indian units as those where: (a) foreign held equity capital was not more than 49 per cent, (in exceptional cases 50 per cent); (b) the majority of the board of directors active in management were Indians; and (c) where the majority control of the managing agency, company or firm was Indian.(67)

Kidron is perhaps, not quite correct in arguing, that,"The new policy (towards foreign capital) was not accepted wholeheartedly (by the FICCI) as yet."(68) The policy as stated in the March press statement, was clearly one of "collaboration" and not of "hostility," (to use Kidron's categories). The FICCI definition of Indian enterprises

67. Ibid., p.219.
68. Kidron, n.63, p.110. As Kidron consulted only the reports of the Press Statement in the Hindu and Capital, he may have been unaware of the FICCI definition of Indian enterprises, which allowed for very substantial participation by foreign private capital.
clearly allowed for substantial foreign participation, and its policy therefore was one of collaboration with foreign private capital.

The shift in the attitude of larger Indian industrialists towards private foreign capital, was due to their increased confidence after eight years of growth in independent India, that they would not be swamped by foreign companies. Indian business circles therefore, as represented by FICCI, were interested in mutually advantageous collaboration with foreign capital, even if it meant vesting in the latter, a considerable measure of control over the joint enterprise. Indian capitalists were fully aware that a 49 per cent equity participation by a foreign collaborator, together with the various agreements relating to the supply of foreign technology and the payment of royalties, would amount to handling over a large measure of control to foreign private capital. Nonetheless, they were prepared for a partnership with foreign capital, unlike their position in the earlier period.

The 'Leftist' Shift in Congress Rhetoric

In July 1953, the Praja Socialist Party won the by-election for the Agra parliamentary seat. The crucial factor contributing to the Congress defeat was the phenomenon of increasing unemployment,(69) which led to public disaffection with the ruling party. This was noted by the FICCI leadership who discussed this with the government on a number of

occasions (see above). At the FICCI Annual Session in March 1954, a resolution on "Unemployment and Economic Development" was moved by G.D. Birla.(70) In the resolution, FICCI expressed concern over the rising unemployment especially amongst the educated "which is a potent cause of political and social unrest."(71)

The Congress was also aware of the political threat from the Left, (PSP and CPI), and this, as Kidron has noted, "determined to some degree both Congress's choice and solution -- industrialization -- and of method -- state production. Congress had to compete, on their (the Leftist's) terms."(72) In May 1953, the Congress Working Committee warned that "the major test of the success of any plan is the measure in which one deals with the problem of unemployment." The focus was not yet on the role of the state in promoting industrialization, as the resolution stated that the unemployment problem "should...be tackled on all fronts and more particularly by the organised growth of cottage and village industries."(73) The AICC meeting held at Agra in July, around the time of the by-election, passed a resolution on "Unemployment". The AICC expressed,"its concern at the increase in unemployment... notwithstanding the fact that generally there has been an upward trend

71. Ibid., p.92.
of production...during the last 18 months (sic)." (74) The AICC moreover, stated that "The state must accept an increasingly active and positive role in regard to the development of industries." (75)

At the meeting of the National Development Council (NDC) in November 1954, Nehru in a rather lengthy speech about his planning philosophy said,

"The picture I have in mind is definitely and absolutely a Socialist picture of society. I am not using the word in a dogmatic sense at all, but in the sense of meaning largely that the means of production should be socially-owned and controlled for the benefit of society as a whole. There is plenty of room for private enterprise there, providing the main aim is kept clear." (76)

Just six months earlier, at the FICCI session, he had categorically stated that "if we have a private sector, it should be allowed a certain obvious freedom of functioning." He further assured FICCI "that no one in Government is against big industry. We want big industry to develop." (77)

FICCI on its own part, was happy with the government policy. R.G. Saraiya in his Presidential speech at the March 1954 session recorded, "our (FICCI's) appreciation of cordial relations that exist between the various Ministeries of Government and the Federation." (78) He welcomed

74. Ibid., pp.82. As Ranadive has shown, in 1952-53, industrial production was in some branches of economic activity even less than the corresponding figures for 1941, cf. Ranadive, n.43, Table 17, p.92.

75. Congress, n.73, p.83.

76. Commerce, 4 December 1954.

77. FICCI, n.70, pp.31-32.

78. Ibid., p.19.
the recent changes in Government policy including the relaxation of food controls, higher depreciation allowances, decreased excise and export duties etc. (79) In August 1954, in a leading article on "Industrial Policy," Eastern Economist approvingly noted,

"the fact that what was regarded as a grand instrument of industrial policy in 1949, namely the Industries (Development and Control) Bill, was never put into full use even after its belated enactment in 1951 and its amendment last year. The law is still on display on the shelf -- except for some action on the more routine and less objectionable sections like registration, licensing and the establishment of development councils." (80)

A few weeks after Nehru's espousal of socialism at the NDC meeting, C.D. Deshmukh addressed the ASSOCHAM Annual Meeting. Capital headlined its report on the meeting "Mr. Deshmukh reassures the private sector". Deshmukh reassured business circles about the Companies Act Amendment Bill, the Report of the Taxation Enquiry Commission, and generally about "how the private sector stands with Government." Capital therefore concluded that, "It is not difficult to agree with him (Deshmukh) that these proposals cannot spell such grave disaster on the private sector as is now prophesied in some quarters." (81)

Deshmukh's reassurance to ASSOCHAM, was followed a few days later, by the Lok Sabha's acceptance of the goal of the "socialistic pattern of society." This, as a perusal of the debate in the House shows, occurred virtually spontaneously and even unexpectedly. On 20th December, Deshmukh moved a motion "That the present economic situation in India be

taken into consideration."(82) His speech in support stated little that was new, and merely repeated the recommendation of the Planning Commission that, "a rapid expansion of the economic and social responsibilities of the state alone will be capable of satisfying the legitimate expectations of the people."(83) He further stated, that the governments' industrial policy "will be announced very shortly."(84) As it turned out, the new Industrial Policy Resolution was announced only on 30th April 1956. He explicitly reassured business that if the then privately owned banks were nationalised to form a State Bank of India, compensation would be given on the basis of market value.(85) Deshmukh in a reference to the unemployment problem, stressed the need to increase employment in the non-agricultural sector and therefore justified incentives for the cottage and small scale industries and handicrafts.(86) Significantly, throughout his speech he never used the term 'socialistic' but instead used the usual term "Welfare State."(87)

Only after his speech, T.S.A. Chettiar(88) and N.M. Lingam,(89) citing Nehru's speech at the NDC meeting, moved amendments that the

83. Ibid., col.3470.
84. Ibid., col.3465.
85. Ibid., col.3481.
86. Ibid., cols.3475-3476.
87. Ibid., col.3467.
88. Ibid., cols.3484-3487.
89. Ibid., col.3487.
objective of industrial policy be explicitly stated as a "socialistic society". Speaking after the amendments were moved, Hiren Mukerjee, a CPI leader, after referring to Nehru's recent statements about "his socialistic faith," expressed his resentment over,

"the Prime Minister's trying to bluff our people into feeling that socialism is being constructed in this country when, on the contrary, the vested interests are being perpetuated in a different way."(90)

Asoka Mehta also criticised the government noting that "Even the industrial policy resolution (of 1948), inadequate as it was, has not been properly implemented."(91) In this connection, he cited the government's vacillation over the nationalisation of TELCO's boiler and locomotive manufacturing units,(92) while both the public and the privately owned financial institutions had given less credit than before to the small sector.(93) Because of the government's industrial policy, Mehta claimed, "we find that the same handful of big business houses are growing everywhere. It is Tatas, Birlas and the Dalmias."(94) Therefore "with the strength of their powers and resources a great monopoly is gripping the whole economy of the country."(95) During this period of the discussion, as Mehta noted, Prime Minister Nehru, the Finance Minister and the Minister for Commerce and Industry were not

90. Ibid., cols.3489-3503.
91. Ibid., col.3514.
92. Ibid., col.3522.
93. Ibid., cols.3523-3524.
94. Ibid., col.3518.
95. Ibid., col.3525.
even present in the House.(96)

Meghnad Saha also cited various deviations from the Industrial Policy Statement. For example, foreign companies were operating petroleum refineries, while the private sector continued to control the coal industry.(97) He cited T.T. Krishnamachari's recent statement at the Indian Merchants Chamber's (a constituent of FICCI) meeting at Bombay, where the latter had stated that "the Government are not wedded to any doctrinaire policy on the suitability or otherwise of nationalisation for the development of Indian industries;"(98) in support of his charge that the Ministers for Finance, and Commerce and Industry were "friends" of the Tatas, Birlas, Dalmias and Kasturbhai Lalbhai.(99) He noted that the Development Councils, (the advisory bodies for various industries), were "filled up mostly by industrialists and their nominees," which in fact was responsible for various pro-big business decisions of those bodies.(100)

When the debate continued on 21st December, Nehru sought to defend the government's industrial policies. He, as before, explained government policy in terms of the 'class conciliation' approach to the

96. Ibid., col.3529.
97. Ibid., cols.3449-3451. See Appendix 'A' para 4.
98. Ibid., col.3551.
99. Ibid., col.3555.
100. Ibid., col.3556.
class struggle. (101) He stated that the government would follow a policy in which "we always try to win over even those who suffer from that policy." (102) While reiterating his faith in socialism: a "casteless, classless society," Nehru also argued that socialism did not mean that all industry must be nationalised. (103) He stressed that "our policy must be, inevitably, one of raising production and increasing employment as rapidly as possible." For this it was necessary that the public sector "should grow rapidly as possible." (104) Immediately afterwards, he reassured business circles stating that the "private sector should function under certain broad strategic controls, but otherwise with freedom, with initiative, etc., within those limits." (105)

The assurances by Deshmukh and Nehru, were appreciated by G.D. Somani, (an industrialist and a leading FICCI member), who hoped that their speeches would dispel all doubts and fears over industrial policy. (106) He praised, "the policies of the Government of India on economic matters during the last few years (which) have stimulated and

101. e.g. "In the economic field there are classes. We want to do away with the classes. Our approach has been, by and large, trying to win over people... I admit class struggle...but...I want to get rid of it as far as possible without aggravating that struggle, by other means." Nehru, Ibid., col.3590.

102. Ibid., col.3604.

103. Ibid., col.3602.

104. Ibid., col.3607.

105. Ibid.

106. Ibid., col.3645.
have imparted strength to our economy,\(^{107}\) further evidence of which were the "very favourable" conditions in the Stock Exchange.\(^{108}\)

After the debate, the motion as amended by N.M. Lingam (Coimbatore), which was acceptable to the government, was passed. The amended motion stated:

"The House having considered the economic situation in India and the policy of the Government in relation thereto, is of the opinion that (i) the policy of Government is in harmony with the policy statement of the 6th April, 1948; (ii) the objective of our economic policy should be a socialistic pattern of society; and (iii) towards this end the tempo of economic activity in general and industrial development in particular should be stepped up to the maximum possible extent."\(^{109}\)

As should be evident from the preceding discussion, this motion in claiming that government policy was "in harmony" with the Industrial Policy Statement, was a conscious attempt to legitimise the existing industrial policy. As we have seen above, there were considerable divergences from the letter and spirit of the 1948 Statement. The extremely vague nature of the "socialistic pattern of society" was evident from Nehru's speeches, even prior to the Lok Sabha debate.

The financial press was thus not agitated over this statement. Commerce noted that Nehru was generally opposed to further nationalisation, and further that, "He says that it is advantageous to have a competitive private sector to ensure the efficiency of the public

\(^{107}\) Ibid., col.3647.

\(^{108}\) Ibid.

\(^{109}\) Ibid., col.3692.
sector." (110) The article also noted that in his later speech to the Congress M.P.'s, Nehru had warned "his countrymen from entertaining exaggerated hopes that socialism is just round the corner" and had stressed that socialism can come only gradually. (111) The Parliament had accepted the goal of a "socialistic pattern" of society, but the ruling party, despite a number of statements by its undisputed leader, had not. This, together with the additional factor of the ensuing elections in Andhra, where the CPI was the major electoral threat, provided the necessary impetus to the Congress to adopt its famous Avadi resolution in January 1955.

The Avadi Session

At the 60th Session of the Indian National Congress, held on 21st January 1955 at Avadi (Madras), as many as fourteen resolutions were passed. (112) In what was later to be considered a landmark, a resolution defined the Congress objective as,

"the establishment of a Socialistic Pattern of Society, where the principal means of production are under social ownership or control, production is progressively speeded up and there is equitable distribution of national wealth." (113)

110. Commerce, 8 January 1955. The article referred also to Nehru's speech at a meeting of Congress M.P.'s on 22 December 1954, the day after the debate.

111. Ibid. The Capital was more critical of the debate, though it conceded that "It is now clear that a large field of opportunity will continue to exist..(for) the private sector. cf. Capital, 23 December 1954.


113. Ibid.
In the resolution on "Economic Policy", while it was stated that the public sector would play a progressively greater role, particularly in the establishment of basic industries, it was emphasized that the private sector had also "a definite place in our economy at present and should be encouraged to play its part within the broad strategic control of the plan." In its concluding section, the resolution implicitly acknowledged the threat to the Congress because of popular disaffection, as it stated:

"India is faced today by a great challenge. Not only the urge of the people to progress, but also the compulsion of circumstances necessitate rapid advance so as to bring about far-reaching social, economic and industrial changes. The challenge is to bring these about speedily and effectively by peaceful and democratic processes."(114)

The Congress offered its "peaceful and democratic" road to socialism to counter Leftist propaganda, especially that of the CPI. It however also reassured the private sector.

In his report to the session as the outgoing president, Nehru referred to the resolutions passed and reiterated his earlier arguments(115) that,

"In our present state to limit resources to the public sector means restriction of our opportunities for production and growth...it becomes necessary, therefore, to have a private sector also and to give it full play within its field...within the larger framework that we lay down, the test always is fuller production and fuller employment."(116)

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114. Ibid., pp.8-9.

115. See, for instance, the debates in the Constituent Assembly in 1948, as analysed in Chapter V above.

The business press understood the political compulsions behind the resolutions quite well and was not unduly perturbed. Capital in its commentary on the session noted that,

"The need to give a new battle-cry well in advance of the 1956-57 General Elections, and to rally the wobbling middle third behind the Congress in the name of socialism and secure employment, was recognised by Mr. Nehru and his associates."(117)

Further, all these moves "might it is stated, isolate the communists and effect a situation of polarisation of forces -- a situation in which the Reds cannot win a parliamentary majority in any state."(118) Commerce in its comment on the session, noted that "Neither the objective nor the policy constitutes any fundamental departure from the ideals to which the Congress has all along subscribed." It however, stressed that,

"The change of bottle, with a new label on it, need not, however, cause any alarm in the private sector. A careful analysis of the two resolutions...will show that there is hardly anything in it to which any enlightened businessman can object."

It also referred favourably to the speeches by Maulana Azad and Nehru at the session.(119)

On their part, the Communists (CPI), were extremely critical of the Avadi Session. An editorial in New Age (monthly) alleged that,

117. Capital, 27 January 1955. The "wobbling middle third" referred to the middle class base of the Congress, that was effected by unemployment etc. and whose electoral support therefore was uncertain.

118. Ibid.

"Everything capitalist, every landlord...knows very well...whether the Congress leaders speak the language of Democracy and Co-operative Commonwealth, or of Socialism and Classless Society, their practice is one of protecting and preserving the interests of a handful of princes, landlords and foreign and Indian monopolists."

The new "Leftist" slogans at Avadi arose because "The failure of the old slogans has necessitated the launching of a new high powered campaign of deception." (120)

The 'Leftist' shift in Congress rhetoric had almost immediate success. In the assembly elections held in Andhra between the 11th and 27th of February, the Congress was returned to power with a comfortable majority. As the CPI admitted, "the election result constituted a political defeat for the Party and a setback for the democratic (i.e. Leftist-led) movement in the whole country." (121) Though the CPI candidates secured some 27 lakh votes, approximately 31 per cent of the total, in terms of seats it was a poor second. (122) On the other hand, the Congress which polled 42.65 lakh votes, approximately 49.5 per cent of the total, won 146 of the 196 seats. (123) This result, the CPI ascribed to the fact that the economic situation had improved and to the effectiveness of the Congress's use of the "socialistic" ideology, which led the middle strata to vote for the Congress candidates. (124)

120. "History" - Making at Avadi' (editorial), New Age (monthly), February 1955, pp.1-3.
122. Ibid.
123. Indian National Congress, n.112, p.76.
124. New Age, n.121. The Congress took this campaign very seriously. Nehru addressed a number of mass meetings within the state. cf. issues of the Hindu and Times of India, February, 1955.
However, as the CPI alleged, and as business representatives admitted, despite the resurgence of 'Leftist' rhetoric, the government's industrial policy continued to favour the private sector, (as we have seen above). Various proposals for nationalising particular industries or firms had been turned down e.g. TELCO in October 1954, commercial banking in December 1954, foreign trade, cement, jute, and plantations in early 1956. (125) The manner in which the major acts of nationalization were actually implemented e.g. air transport in 1953, the Imperial Bank in May 1955, (126) life insurance in January 1956, and the Kolar Gold Fields in November 1956, showed that the government's policy was not one of "socialistic" nationalization which was part of an overall anti-private sector strategy. (127) As Kidron had noted, "Air transport was weakly organised, unable without Government support to extend services to many cities within India, let alone abroad." (128)

Thus, when the companies themselves requested long-term loans at nominal interest from the government, the latter nationalised them and appointed J.R.D. Tata, who controlled the largest private air company, Chairman of the new Air Corporation. Regarding the belated nationalization of the Imperial Bank, A.D. Shroff, (a leading FICCI member, and later founder of the Forum for Free Enterprise), admitted that the act was a consequence of the "unresponsive attitude of bankers to the nation's

125. Kidron, n.63, p.133. Also see above.

126. This was done more than 6 years after Chetty's original proposal was turned down. See Chapter V above.


128. Ibid., p.134.
requirements" for a network of small-town branches. Further, in response to a proposal for the nationalization of commercial banking, T.T. Krishnamachari emphasized that this "should be the last thing in nationalization".

The nationalisation of life insurance was intended to concentrate savings for the large industrial investment proposed in the Second Plan. Moreover, C.D. Deshmukh, the Finance Minister, reassured business that the private sector would continue to receive "at least as much money as today made available to it." Although FICCI protested against the nationalisation of life insurance, because of FICCI pressure, the private shareholders received sizeable compensation, which as Commerce admitted, "many in the business community felt (was)... all things considered, a reasonable and fair basis of compensation."

Similarly, generous compensation provisions were provided both under the Air Corporation Act, as well as for the takeover of the Imperial Bank. In the latter case, the compensation was computed on the basis of the average market price over the previous twelve months.

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129. Speech at the Rotary Club, Ahmedabad, Capital, 6 January 1955.
130. Hindu, 1 January 1955. See also Kidron, n.63, p.134.
131. Economic Weekly, January 1956, p.52, quoted in Ibid.
This led to protests even from the ruling party members in the Lok Sabha. (135) The quantum of compensation paid to the Kolar group, was almost doubled by the the Centre to 1.23 million pound sterling, (the original provision by the Government of Mysore was for 6.5 lakhs pound sterling), which the group's managing director accepted as a "fair and reasonable" sum. (136) Hence, while the government was constrained to nationalise a number of industries and firms mainly because of the inefficiency and non-viability of the concerned undertakings, together with the need to expand the resources available with the state for investment in the Second Plan, (137) private sector industrialists, both Indian and foreign, were compensated very generously. In this sphere also, therefore, despite the Leftist rhetoric, government policy was designed to accommodate business interests as far as possible.

The Second Plan and FICCI

This spirit of accommodation, or to put it more sharply of collaboration, with the Indian private sector, manifested itself in the process of the formulation of the Second Five Year Plan. (138) On 17th March 1955, the Second Plan Frame was published. (139) Mahanalobis's

135. Ibid.
136. Financial Times (London), 10 October 1956, quoted in Ibid.
137. Ibid., pp.133-136.
138. As it had even earlier in the instance of the First Plan (see above).
draft explicitly stated that,

"Key industries would be established and developed in the public sector generally in accordance with the Industrial Policy Declaration of 1948 as interpreted in December 1954. Government would also take up the factory production of certain consumer goods which are of strategic importance for the growth of the national economy."

Therefore it was necessary that,

"The public sector must be expanded rapidly relatively faster than the private sector for steady advance to a socialist economy. In order to make available large capital resources for investment and national development and to facilitate the implementation of the plan, Government will be prepared to enter into such activities as banking, insurance, foreign trade or internal trade in selected commodities."(140)

Further, in order to accomplish the above stated aims, the Plan Frame proposed a development expenditure of Rs. 4,300 crores in the public sector and Rs. 2,248 crores in the private sector, approximately a ratio of 2:1.(141)

Four days later, "Tentative Framework" for the Second Plan was published, based on the working paper prepared jointly by the Economic Divisions of the Ministry of Finance and the Planning Commission, in consultation with the Central Statistical Organisation and the Indian Statistical Institute.(142)

This document advocated that "emphasis must be placed on the extension of public ownership or control over the strategic means of

140. Ibid., p.47.
141. Ibid., p.61.
production," as well as on the "achievement of social justice..." (143) This framework proposed a public sector outlay of Rs. 4,300 crores and a private sector outlay of Rs. 2,200 crores, again a ratio of 2:1 in favour of the public sector. (144) The proposed allocations for industries and mining were Rs. 1,100 crores in the public sector and Rs. 500 crores in the private sector. (145)

The FICCI immediately made representations to increase the outlay on the private sector. (146) In their note on the Plan, FICCI referred to the expansion of TISCO, and the private sector entry into the manufacture of mixed fertilizers as well as the development of synthetic chemical units, as contributions of the private sector, apart from the First Plan targets. (147) The permission to the private sector, to take up fresh investments in these areas was, of course, a deviation from the Industrial Policy Statement.

The FICCI pressures for the increase in the Plan outlay for the private sector, proved effective. In the final approved version of the Second Plan, the ratio of public to private investment was markedly changed. The investment programme for the public sector was Rs. 3,800 crores, and for the private sector, Rs. 2,200 crores.

143. Ibid., p.72.
144. Ibid., pp.92-93.
145. Ibid., The figure for the private sector also includes outlays for power and transport.
147. Ibid., p.239.
crores, while for the private sector this was increased to Rs. 2,400 crores. (148) This shift did not pass uncriticised. When the Draft Plan, incorporating the above changes was discussed in the Lok Sabha, the 'deviations' from the Plan Frame were sharply criticised.

In terms of ideological formulations, there were no consistent 'socialist' policy statements in the Plan. In the chapter on the "Approach to the Second Five Year Plan," it was stated that the objective was the "socialist pattern of society" and that,

"The benefits of economic development must accrue more and more to the relatively less privileged classes of society, and there should be a progressive reduction of the concentration of incomes, wealth and economic power." (149)

Later, in the same chapter it was stated that,

"it is important to ensure that in reducing inequalities no damage occurs to the productive system as would jeopardise the task of development itself, or imperil the very processes of democratic change which it is the objective of policy to strengthen." (150)

Furthermore, "it has to be recognised, however, that some of the measures which might reduce inequalities are apt to react adversely on incentives." (151) Although the planners recognised that "The most important single factor responsible for inequalities of income and wealth is the ownership of property," (152) no measures for removing or even reducing, inequalities through the expropriation of the very rich,

149. Ibid., p.239.
150. Ibid., p.33.
151. Ibid., pp.33-34.
152. Ibid., p.34.
(i.e. through nationalization etc.) were advocated. In fact in reference to the Indian taxation structure it was explicitly stated that,

"Experience in more advanced countries seems to indicate that progressive income taxes on the scales that are now prevalent are in reality not so effective, firstly because the incomes by way of capital gains escape such taxation, and secondly because there is a great deal of evasion in various ways."(153)

Therefore, the document recommended the substitution of expenditure tax for income tax, since the former "may encourage saving and, in theory at any rate, it is a more effective instrument than an income tax for moderating inflationary or deflationary tendencies."(154) Thus, even the fiscal measures that were recommended were pragmatic rather than radical.

The general thrust of the industrial policy was, despite the occasional diluted 'socialist' rhetoric, similar to that of the First Plan. The accent was on increased production which would enable a rise of the "Floor to incomes", and thus bring about a "quicker... advance towards the socialist pattern..."(155) The planners advocated the,

"Promotion of a co-operative forms of production, elimination of functionless rent-receivers, substitution of private usurious credit by institutional credit, control of private monopoly and enlargement of the public sector in strategic lines of production and trade..."

153. The document in reference to proposals for ceilings on income and property, noted that these "are difficult to regulate" and that "Any attempt to apply a ceiling...effective as from a specific date or to apply it in any rigid or mechanical way is likely to create difficulties." *Ibid.*, p.36.


so that,

"an increasing proportion of the community's surpluses (are placed) directly in the hands of public authorities (so) that an effective reduction in the incomes and spending power accruing to a few can be brought about." (156)

However, no concrete and comprehensive measures for controlling the private monopolies were put forward. (157)

On the other hand, the attitude to controls was ambivalent. It was stated that "it would... be desirable on psychological as well as administrative grounds to avoid as far as possible control and rationing of the necessities of life..." though it was acknowledged that "controls on essential consumption cannot be ruled out in particular situations." (158) Thus, the plan as a whole, was quite acceptable to the industrialists, as the socialist rhetoric had not been transformed into socialist controls and curbs on the private sector.

This is borne out by the reactions of various groups to the Second Plan. In the Lok Sabha debate, A.K. Gopalan (CPI) noted that, "The monopoly elements of the private sector after the publication of the plan-frame went all out to denounce and scuttle the plan-frame." In

156. Ibid.

157. Hanson has noted that, "a predominantly public-and-co-operative economy was a very distant ideal, and in the meantime the selective stimulation and regulation of private enterprise was of the highest importance. Of this the planners were well aware, and they might have done better to emphasize it more heavily." A.H. Hanson, The Process of Planning, (London: Oxford University Press, 1966), p.139. The dependence on the private sector and the fact that socialism was realisable only in the distant future was, of course, something the planners could not emphasize because of the political compulsions, discussed above.

158. Ibid., p.39.
effect they succeeded as, "The Planning Commission and the Government tampered with the plan-frame."(159) He believed that there was "some advance" in the Second Plan over the preceding one as it contained "proposals for economic and developmental activities on a scale larger than that in the First Plan."(160) While the plan-frame had earmarked Rs. 1,100 crores for industry and mining in the public sector, the outlay in the Second Plan, excluding that for the steel plant, was only Rs. 350 crores. This allocation, Gopalan noted was "very much negligible". He also observed that the ratio of investment in the public sector and the private sector of 2:1, "has been abandoned".(161) Therefore, he concluded,

"From the proposals of the Second Plan, it would seem that instead of the public sector gradually securing an ascendancy over the private sector, it is the private sector that continues to maintain its preponderance in the economy. This is contrary to what the plan-frame had suggested."(162)

This was evident from the fact that the Second Plan changed the plan-frame's stress on the cottage and small scale industries, which were to meet a large amount of the demand for consumer goods, by sanctioning an increase in the investment in the consumer goods industries dominated by the large industrial houses. It further sanctioned fairly heavy investments in the aluminium, steel, ferro-manganese, and cement

industries in the private sector, as well as in the silk and rayon industries. (163)

G.D. Somani, a leading industrialist and a FICCI leader as well as a Congress M.P., was on the other hand full of praise for the Plan. He called upon all sections "to co-operate whole-heartedly with the Government in making the Plan the grand success which it deserves." (164) He further welcomed a previous

"statement of the Prime Minister in which he deprecated the condemnation of the private sector and in which he visualised an important role which the private sector will continue to play during this historical period when we are building a New India." (165)

Even earlier, the private sector had welcomed the increase in private sector outlays. As Capital put it, this, together with the other features of the Plan was "a welcome step towards a more balanced economic development all round." (166)

163. Gopalan, Ibid., col.9425. Since Iron and Steel was included in the Schedule 'A' Industries under the Industrial Policy Resolution of the previous month, the allocation of funds to the private sector units in steel industry was a violation of stated policy. The Resolution will be discussed in detail below.

164. Ibid., 26 May 1956, col.9672.

165. Ibid., col.9673.

166. Capital, 12 January 1956.
The government's policy was, as we have seen above, conciliatory to the private sector. Despite the socialist rhetoric, concessions to private industrial interests had been systematically granted. Moreover, the rhetoric was never anti-capitalist or even anti-big business. Nehru himself, time and again, had stressed the indispensability of private enterprise.

It is evident from C.D. Deshmukh's statement in the Lok Sabha on 20 December 1954, wherein he had stated that the government's industrial policy "will be announced very shortly" (see above), that a new Industrial Policy Resolution had been under preparation, at least since mid 1954. With the new strategy of the public sector obtaining "the commanding heights" as enunciated in the Second Plan, the need for a new Industrial Policy Resolution, was even more manifest.

On the 27th April 1956, just three days before the Industrial Policy Resolution was placed before Parliament, M.S. Gurupadaswamy moved a resolution for the nationalisation of scheduled banks. He was however, not of the view "that the whole network of production, distribution and exchange should be socially owned and controlled..." because,

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167. Though the 30th April 1956 Industrial Policy Resolution predates the Second Plan, we have dealt with the latter earlier because its formulation commenced in early 1955.
"If we try to do that, we may achieve (the) socialist objective but we will be annihilating democracy in part. So, to achieve (the) socialist objective, it would be enough to control the peaks or the commanding heights of our economic pyramid."(168)

A.C. Guha, the Minister for Revenue and Defence Expenditure, who replied to the debate on behalf of the government, rejected the resolution, although its proponents had supported bank nationalisation, as necessitated as in the earlier instance of nationalisation of life insurance, by the need to increase the resources available to the state for investment in the Second Plan.(169) Guha in his reply to Gurupadaswamy's speech accepted that the government's views were "pragmatic". He further argued that as "90 per cent or more of the production of our national wealth even now comes from the private sector", the nationalisation of banks could not be justified in terms of the Congress's pragmatic ideology.(170) Guha further opposed bank nationalisation, even if it was justifiable on monetary considerations, by arguing that such an act would not be to "the credit or the good reputation of any government."(171)

Significantly none of the participants referred to earlier Congress resolutions, e.g. the recommendations of the Economic Programme Committee,(172) which had proposed the nationalization of banks. Perhaps they were aware that these resolutions were now dead-letters, no

169. e.g. Bhagwat Jha Azad, Ibid., col.6643.
170. Ibid., col.6655.
171. Ibid., col.6661.
172. See above.
longer to be taken seriously, now that the Congress had to rule without losing its "credit" or "good reputation" with big business, its main financier. At any rate, on the eve of the Industrial Policy Resolution, the government's policy remained stubbornly pragmatic even when verbally 'socialistic'. The stream of concessions to private industry, were now to lead to a rather remarkable attempt to combine socialistic rhetoric with a charter for the continued expansion of the private sector.

The language of the 30th April 1956, Industrial Policy Resolution was more radical than that of its precursor of 1948, for the reasons stated above. It was categorically stated that,

"The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector... (together with)other industries which are essential and require investment on a scale which only the state, in present circumstances, could provide..."(174)

These industries, numbering 17 in all, were put in Schedule 'A' of the Resolution,(175) for which "the future development... will be the exclusive responsibility of the State."(176)

Even regarding these industries, it was stated "This does not preclude the expansion of the existing privately owned units, or the cooperation of private enterprise in the establishment of new units when

173. See Chapters II & III above.
175. Ibid., Schedule 'A'.
176. Ibid., para 7.
the national interests so require". Only "Railways and air transport, arms and ammunition and atomic energy... (were to) be developed as Central Government monopolies". For the other industries,

"whenever co-operation with private enterprise is necessary, the state will ensure, either through majority participation in the capital or otherwise, that it has the requisite powers to guide the policy and control the operations of the undertaking."(177)

In this new policy statement therefore, the private sector participation in Schedule 'A' industries was explicitly provided for. Thus in effect, as S.K. Goyal has noted, "some of the industries exclusively reserved for (the) public sector under the Industrial Policy Resolution of 1948 were thrown open to the private sector."(178) Furthermore, the clause in the 1948 statement that specified that privately owned units in the industries reserved for the state, would be taken over after 10 years was deleted, as FICCI had consistently demanded.(179)

The Industrial Policy Resolution included a second category of 12 industries in Schedule 'B',

"which will be progressively State-owned and in which the State will generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the effort of the State."(180)

177. Ibid., para 8.


180. Appendix B, Schedule 'B' & para 7 (emphasis added).
For the third category of industries, not listed in either Schedule, "their future development will, in general, be left to the initiative and enterprise of the private sector."(181)

Therefore in the Schedule 'B' industries, private sector participation was explicitly "expected" to supplement public investment. Thus, it is apparent that in this Resolution, apart from a few industries, all others were explicitly left open for private sector participation. In comparison, therefore, with the 1948 Statement, it represented further concessions to private sector interests, rather than a "socialist" advance.

As could be expected, industrialists reacted favourably to the Resolution. G.D. Somani while participating in the discussion on the Second Plan stated,

"that even under the revised Industrial Policy there is more than enough to do for the private sector, and I therefore do not in the least feel disappointed or worried about the future of the private sector under the revised Industrial Policy Resolution."(182)

In a Press communiqué on 6th May 1956, the FICCI E.C. generally welcomed the Resolution and stated that,

"They are in full agreement with the objectives of accelerating the rate of economic growth and speeding up industrialisation and, in particular, to develop heavy industries and machine making industries, and they offer their whole hearted support to Government in promoting and achieving these objectives."(183)

In reference to the Schedules 'A' and 'B' industries, the FICCI recommended a flexible approach in order to facilitate economic growth and increased production. (184) Regarding the proposal for "state trading on an increasing scale," (185) the FICCI recommended "that the activities of the state should not result in displacing normal trade channels." (186) It also suggested that, "it would perhaps have assisted a better understanding of Government's future industrial policy if the Resolution assured the investors that enterprises in private hands will not be nationalised." (187)

The FICCI could not have entertained very serious fears about nationalisation after the numerous reassuring statements made by Nehru and others around that period, which we have referred to above. And the "flexibility" they wanted regarding the interpretation of Schedule 'A' and 'B' was already explicit, as we have seen.

The business press was also generally appreciative of the Resolution. The Eastern Economist noted that, "Bombay and Calcutta (the areas where large industrialists are concentrated), it is true, have heaved a large sigh of relief..." By their standards the Resolution was,

184. Ibid., p.583.
185. Appendix B, para 5.
186. FICCI, n.183, p.584.
187. Ibid., p.584.
"a splendid piece of ideological tight-rope walking... There is nothing which should terrify private enterprise in this Socialism. On the other hand, there is nothing in this mixture which enables the public sector to do any job for which it was not otherwise qualified."(188)

Leftist circles were, as could be expected, quite critical of the Resolution. A.K Gopalan (CPI), speaking in the Lok Sabha, referred to the Resolution noting that,

"It does not promise us any radical change in the relative position of the two sectors in our economy. It does not recognise...that in order to strengthen and expand the public sector it is necessary not only to start new state-owned industries but also to nationalise big industries and units in the private sector."

He disputed Nehru's earlier statement in Parliament where the latter had opposed nationalisation of private sector units on grounds of the "payment of big compensation" required, arguing that under the Constitution, as amended, Parliament could decide that big compensation should not be given.(189)

Also in this period (1956), the Companies Act was amended, four years after the Bhabha Committee Report was submitted.(190) FICCI made a number of recommendations starting from 1952, seeking to reduce the

188. Eastern Economist, 4 May 1956. Comments in Commerce and Capital were more critical of the Resolution, because of the enhanced role of the State. cf. Capital, "Charter of Expansion for the Public Sector," leading article, 3 May 1956; Commerce, "Industrial Policy Unrealistic," leading article, 5 May 1956.


190. India, Ministry of Finance, Department of Economic Affairs, Report of the Company Law Committee, 1952, (Delhi: Manager of Publications, 1952). Because C.H. Bhabha was its Chairman, the Committee was popularly known as the Bhabha Committee.
powers of the government to control the affairs of privately owned companies.(191) However, the Companies Act as amended, failed to curb the growth of managing agency companies or their malpractices, as the Patel Committee Report of 1965, showed.(192)

Conclusions

From the preceding discussion, it is apparent that there is a discernable trend in the development of industrial policy from 1951 to 1956. From the debates on the formulation of the First Plan to the April 1956 Industrial Policy Resolution, the marked tendency in the Congress government's industrial policy was to facilitate the growth of the private corporate sector, including the large industrial houses. The 1956 Industrial Policy Resolution, despite some socialistic phrases, contained, as we have seen above, significant concessions to the private sector. In particular, the clause in the 1948 Industrial Policy Statement that specified that privately owned units in industries reserved for the state, would be taken over after 10 years was deleted, evidently in response to the consistent business demand for its removal.

The various shifts in the Congress's ideological stance can be related to the political compulsions on the Congress leadership in specific situations. At no stage however, was a 'Leftist' shift in


Congress rhetoric translated into a 'Leftist' industrial policy, which restricted the area of operation of the private sector as a whole, or of Indian big business in particular. On its part, Indian big business was apparently able to exploit the socio-political situation in its own favour, in order to wrest policy concessions from the Congress government. As we shall show in the following chapter, with the help of statistics pertaining to the 1951 to 1958 period, the objective result of the industrial policies followed in these years, was the impressive growth of big business, both in absolute terms, and also in relation to the rest of the private corporate sector.