In the 1964 to 1966 period, the process of liberalisation of industrial policy was accelerated by the government's acceptance of the recommendations of the Swaminathan Committee. (1) The process culminated in the delicensing of a substantial number of industries in 1966; and in the decontrol of a significant number of industries during the period.

In the meanwhile, the Report of the Mahalanobis Committee was published in February 1964. (2) This Report was the first official disclosure of the existence of a high concentration of wealth and income in Indian society, and as such sparked off considerable debate. The next year, the Report of the Monopolies Inquiry Commission was published. This further revealed the consequences of the actual operation of official industrial policy.

1. This Committee was officially known as the Industries Development Procedures Committee, but is generally referred to as the Swaminathan Committee, after its Chairman, T. Swaminathan.

2. India, Planning Commission, Report of the Committee on Distribution of Income and Levels of Living, (Delhi: Manager of Publications, 1964), Part I, "Distribution of Income and Wealth and Concentration of Economic Power." P.C. Mahalanobis was the Chairman of the Committee, which is thus popularly known as the Mahalanobis Committee.
In a sense therefore, two aspects of the process of Indian industrialization, were sharply highlighted in these years. The first, was the culmination of the trends in the development of industrial policy. The second, was the consequence of such an industrial policy as well as its implementation. This chapter therefore, treats with tendencies already examined in the preceding chapters, but which were accentuated in the 1964 to 1966 period.

The Mahalanobis Committee

On October 13, 1960, the Planning Commission had appointed a nine member committee, of which P.C. Mahalanobis was to be Chairman. Its terms of reference were:

i) "to review the changes in levels of living during the First and Second Five Year Plans;

ii) to study recent trends in the distribution of income and wealth; and in particular

iii) to ascertain the extent to which the operation of the economic system has resulted in concentration of wealth and means of production."(3)

The Report of the Committee, popularly known as the Mahalanobis Committee, was published in February 1964. Its findings provided a wealth of data to show that the largest 20 industrial houses or groups had grown relatively to the other groups in the private corporate sector, in the period 1951-1958.(4)

3. Ibid., p.1

4. See Chapter VIII above.
The Report categorically stated that:

"It is... evident that the working of the planned economy has contributed to this growth of big companies in Indian industry. The growth of the private sector in industry and especially of the big companies has been facilitated by the financial assistance rendered by public institutions like the Industrial Finance Corporation (IFC), the National Industrial Development Corporation (NIDC) etc."(5)

The Report also brought out the major element of control the industrial houses had over the top 14 privately owned scheduled banks and over the government owned State Bank of India. It noted that:

"the banking sector itself presents a picture of high degree of concentration. The aggregate share of the 15 top banks having deposits of 363 was 78 per cent. If the Government - owned State Bank is excluded -- and looking to the composition of its Board of Directors there is really no adequate reason for doing so -- the percentage comes to 60." (6)

This latter statement about the State Bank was made because as many as 48 per cent of its directors held directorships in firms controlled by industrial houses in the private sector.(7)

If from the list of 14 major banks, we exclude the 3 banks: the Canara Bank, the Canara Industrial and Banking Syndicate, and the Bank of Maharashtra, which have no private sector directors, the percentage of industrial directors in the remaining 11 Banks is 63 per cent, in 1959-60. In the first 8 banks, the dominance of directors from the private sector is even more marked, nearly 77 per cent. From this evidence, the Committee concluded "that there is a significant link in the form of common directors between the leading banks and the large-

6. Ibid., 48.
7. Ibid., pp.46-47, Statement (12)
sized industrial undertakings" , (8) which may be considered an understatement.

The Mahalanobis Committee showed that in the top 15 scheduled banks, 14.1 per cent of the total advances were given to companies or firms in which the directors of the banks were interested. The Committee noted that, "It is significant that this proportion is the highest (26.9 per cent) for the State Bank of India." (9)

Basing itself on a study undertaken by R.K. Hazari, the Mahalanobis Committee examined the concentration of control in the structure of the private corporate sector. At that time under the existing company law, corporate groups or industrial houses had "no separate legally-identifiable existence". (10) Hazari defined corporate groups, "as consisting of units which are subject to the decision-making power of a common authority. It takes policy decisions on prices, profits, investments, production, purchases and sales on behalf of a number of companies and determines responses to particular economic and political developments." (11)

Hazari noted that it was not necessary for the controlling group "to own the majority of shares in every company in the group", as this could be done by a process of inter-corporate investment. In example it was stated:

"a Controlling Interest which owns the majority of shares in a comparatively small concern A may gain control over the affairs of a larger concern B in which A holds the majority of shares, a second still larger concern C in which B holds the majority of shares, and so on; even in the original concern A, the Controlling

8. Ibid., p. 47.
9. Ibid.
10. Ibid., p. 38.
11. Ibid.
Interest's investment may be partly financed by borrowings from banks on the security of that investment itself. The picture could be made complicated by spreading the investment of each company among several companies of the group and by changing the pattern of investments over time. The control acquired by inter-corporate investment is supplemented by powers obtained under managing agency agreements and by the buying and selling of shares by Investment Companies belonging to the group."(12)

According to Hazari's definition, the "complex" of the companies belonging to a group include both the "Inner Circle" and the "Outer Circle" companies. The former "consists of sole control and majority companies...," while the latter "consists of fifty-fifty, minority, and under-management companies in which the decision-making authority of the group has a material influence but not the controlling voice."(13) We have already noted above the growth of the top twenty groups over the 1951-1958 period. Hazari also showed that the controlling blocks of share capital owned by the groups in the "Inner Circle" companies was often less than 50 per cent. According to his study as reported in the Mahalanobis Committee Report, the average shareholding necessary for control declined from 48 per cent of the ordinary share capital and 22.7

12. Ibid. Hazari's study which is cited by the Mahalanobis Committee i.e. R.K. Hazari, The Structure of the Corporate Private Sector, (Bombay, Asia, 1966), followed from his earlier articles: (i) "Inter-Corporate Investment: The Birla Group of Companies", The Economic Weekly, 8 November, 1958, (ii) "Ownership and Control", The Economic Weekly, 26 November, 3 December and 10 December, 1960. The latter series of articles were reprinted with a foreward by S.A. Dange, by the All India Trade Union Congress (AITUC) cf. R.K. Hazari, Big Business in India — A Study of Ownership and Control, (New Delhi: AITUC, 1961). Hazari's major work, in which he revised and updated his earlier studies is his book, The Structure of the Corporate Private Sector. We shall treat with this work below. See also Chapter II above.

13. Mahalanobis Committee, Ibid.
per cent of the preference share capital in 1951, to 43.1 per cent and 17.3 per cent respectively in 1958. (14)

The study also discovered that,

"All complexes except Martin Burn, Shri Ram, Kasturbhai, Seshasayee and Kirloskar, have a large number of subsidiaries and joint subsidiaries. In 1958 the Tata Complex had 73 subsidiaries and joint subsidiaries, Birla had 105, Dalmia - Sahu-Jain 30, Bird Heilger 44, Andrew Yule 20, Bangur 47, Thapar 31, J.K. (Singhania) 27, Shapoorji (Pallonji) 15, Khatau 14, Walchand 16, and Mafatlal 13... In the aggregate...there were 163 subsidiaries and 266 joint subsidiaries out of the 1079 sample companies in 1958. In most of the remaining companies, also, inter-corporate investment played a key role but individuals and trusts too were important holders."(15)

It was evident to the Mahalanobis Committee that the provisions of the company law were unable to curb the control of companies by a group, through inter-corporate investments. The Report, however, left the question of curbing inter-corporate investments open, stating,

"whether the Administration could deal more effectively with such investments with suitable modifications in the existing laws is a question of policy which has to be left to the appropriate authorities."(16)

The Committee drew attention to the then recently published Vivian Bose Commission Report on the Dalmia-Jain Companies, (17)

"and the lessons that flow from it in regard to the possibilities of the anti-social consequences that can follow from both the attempts to build up concentration of economic power as also from an exercise of this power."(18)

15. Hazari quoted in Ibid., p.43.
16. Ibid. (emphasis added)
17. See Chapter VIII above.
18. Mahalanobis Committee, n.2, p.44.
The Committee also examined the extent of inter-locking of company
directorships through case studies of six companies in six leading
Indian and foreign business groups. These included: (i) Andhra Valley
Power Co. Ltd., in the Tata group; (ii) Century Spinning and Weaving Co.
Ltd., in the Birla Group; (iii) Standard Mills Ltd., in the Mafatlal
Group; (iv) Mcleod and Co. Ltd., in the Surajmull Nagarmull Group; (v)
Kamarhatti Ltd., in the Jardine Henderson Group; and (vi) Bengal Coal
Co. Ltd., in the Andrew Yule Group. (19)

The case studies revealed "wide prevalence of inter-locking of
directorships in companies belonging to long-established and reputed
houses." It was also noted that, "the seven companies studied are often
linked with non-profit making associations and even Government companies
through their directors". (20) The Department of Company Law
Administration undertook a further study to explore the inter-locking of
directorships, which covered 74 marketing companies with paid-up capital
of Rs.5 lakhs and above. These companies were found to be connected
with a further 1,111 companies, through 233 directors out of a total of
341 directors of the 74 marketing companies studied. (21) Out of the
1,111 companies inter-linked with the marketing companies, 414 were
manufacturing companies, 382 trading companies, 113 banking and
financial companies, 19 electricity companies, and the remaining 183

19. Ibid., pp.48-49. Though the text refers to seven companies and
seven groups, the published report cites only six. This appears to
be a printing lapse.

20. Ibid., p.49 (emphasis added).

21. "Duplications of inter-linked companies as between directors of the
same marketing company have been removed but not as between
marketing companies". Ibid., p. 44.
companies belonged to miscellaneous industrial groups. (22) The study found "that the inter-locking of marketing companies does not depend much on their size." (23)

The Committee also referred to another study by the Department of Company Law Administration of the inter-locking of directorships between Central Government Companies and non-government companies. The sample studied was of 49 companies with a paid-up capital investment of Rs.620 crores, amounting to 95 per cent of the total paid up capital of all Central and State Government-owned companies. (24) There were a total of 428 directorships in the 49 Central Government companies, and they were held by 311 persons of whom 86 were 'non-official'; (25) 42 of the 'non-official' directors did not hold directorships in any non-government company. The remaining 44 'non-official' directors held 50 directorships in 308 non-government companies. (26)
The Committee was very equivocal in its conclusions from the above evidence arguing that,

"It is not possible to draw conclusions regarding the economic and social consequences of this inter-locking... without a careful examination of the growth and working of the Government companies vis-a-vis the private undertakings where such common directorships exist. How far this helps the public sector by enabling it to obtain business expertise and how far it helps to increase the concentration of economic power in the hands of selected individuals in big business are questions that are pertinent but that we are not in a position to answer. Perhaps these constitute a part of the puzzle that characterises a mixed economy such as the country is building through its planned development" (27)

It would appear that this paragraph (61) was drafted to obtain a consensus among the members.(28) Because the very fact, that

27. Ibid., p.51 (emphasis added).

28. That there were divergences of opinion amongst the members is admitted by P.C. Mahalanobis himself; cf. his forwarding note to Part II of the Report, dated 25 July 1969, in Planning Commission, Report of the Committee on Distribution of Income and Levels of Living, (Delhi: Manager of Publications, 1969), Part II. Furthermore in the second part of the Report, two members wrote notes of dissent. V.K.R.V. Rao, writing more than 15 years after the publication of the Report, stated that he had drafted Chapter IV of the Report on "Concentration of Economic Power." In his draft, which was not accepted, it was stated that there is:

"the existence of a prime facie case for a Commission of Inquiry into concentration of economic power especially in the private sector in industry, commerce, banking and finance. Such a Commission should have broad terms of reference, and (be) given both the necessary legal authority and competent full time staff to carry out its task... Only after its report becomes available would it be possible for Government to chalk out a firm policy regarding concentration of economic power".

cf. Foreword to S.K. Goyal, Monopoly Capital and Public Policy, (New Delhi: Allied, 1979), pp.xii-xiii (emphasis added). However, Rao has not explained why he did not write a note of dissent to Part I of the Report, in which his suggestion for a Commission was replaced by "a full time agency... if it is set up with both the necessary legal authority and competent full time staff to enable it to carry out its task." (Mahalanobis Committee, n.2. p.55).
influential private sector or big business representatives held directorships in the majority of the public sector companies that comprised the bulk of the public sector investment, is itself a telling commentary on the inter-linking and inter-penetration of the two sectors. Together with the earlier cited finding relating to the extent of public financial institution's support to the private sector (see above), this exposed the private sector orientation of the public sector.

The Report further noted that,

"Economic power is exercised not only through control over production, investment, employment, purchases, but also through control over mass media of communications. Of these, newspapers are the most important and constitute a powerful ancillary to sectoral and group interest. It is not, therefore, a matter of surprise that there is so much inter-linking between newspapers and big business in this country, with newspapers controlled to a substantial extent by selected industrial houses directly through ownership as well as indirectly through membership of their boards of directors. In addition, of course, there is the indirect control exercised through expenditure on advertisement which has been growing apace during the Plan periods. In a study of concentration of economic power in India, one must take into account this link between industry and newspapers which exists in our country to a much larger extent than is found in any of the other democratic countries in the world." (29)

Basing itself on the 1960 Annual Report of the Registrar of Newspapers for India, the Committee found that,

29. Mahalanobis Committee, n.2, pp.51-52 (emphasis added). The published paragraph is much less critical of the relationships between big-business owned newspapers and the government than V.K.R.V. Rao's original draft. Instead of the above-cited sentence "Of these newspapers... sectoral and group interests," Rao had written,

"More than the people, newspapers influence government and in a country like India where the masses are illiterate the politicians are hyper-sensitive to newspaper coverage and support, and Government has so much economic patronage that is of vital concern to big business, this is particularly true." Rao, n.28, p.xiii.
"there were ten owners representing five chains (Express Newspapers, Times of India publications, Hindustan Times and Allied Publications, Amrita Bazar Patrika and Jugantar, and Ananda Bazar Patrika), three Groups (Malayala Manorama, Free Press Journal and Hindu) and two Multiple Units (Thanthi and Statesman) which published 37 dailies with a circulation of 18.11 lakhs and thus controlled 39.3 per cent of the total circulation of daily newspapers in the country. Taking the three categories separately, dailies forming part of the Chains commanded 34.7 per cent of the total circulation of dailies, those belonging to Groups 23.8 per cent, and those coming under Multiple Units 9 per cent, (to give a total of 67.5 per cent.)" (30)

The detailed Table 4.20 in the Appendix of the report, brought out the control of the Ram Nath Goenka-headed family over Express Newspapers, that of the Sahu-Jains over Bennett Coleman & Co. Ltd. (Times of India Group), and that of the Birlas over the Hindustan Times and Allied Publications. (31) Thus this section of the Report exposed how the 'free press', a purported defender of 'public interest' was largely controlled by private interests, i.e. big business houses.

The conclusion of the Committee after evaluating the evidence collected, the highlights of which we have given above, was quite equivocal, in tune with the policy statements of Nehru and others at that time. It is necessary to quote the Report at length:

"Despite all the countervailing measures taken which have been recounted above, (e.g. industrial licensing, price and distribution controls, the Companies & Industries Acts etc.), concentration of economic power in the private sector is more than what could be justified as necessary on functional grounds, and it exists both in generalised and in the specific forms. It is not within our terms of reference to suggest what should be done to remedy the situation and combine economic development with a steady diminution of the concentration of economic power. (32) Undoubtedly, an extension of

30. Ibid., p.52.
31. Ibid., pp.103-106.
32. See the terms of reference of the Mahalanobis Committee as reproduced above.
the scope and intensity of countervailing measures to alleviate the incidence and offset the effect of economic concentration indicates the general direction of attack on the problem."

However, the Committee concluded:

"The task is not easy. The country has a mixed economy; and the private sector has an important role to play in its planned development. Industrialisation has its own logic, and neither the economies of scale nor that of full utilisation of scarce talent can be ignored with impunity. Economic development within a democratic framework remains a paramount objective of national policy. At the same time, the country is pledged to the realisation of a socialist pattern of society; and diminution and the eventual elimination of concentration of economic power in private hands is a part of that society. The task has to be attempted in terms of harmonious progress towards these goals; and the sooner the Government sets up the necessary machinery for collection, examination and analysis of all relevant data on the subject, the easier it would be for it eventually to formulate the necessary policy that will combine industrialisation with social justice and economic development with dispersal of economic power."

(33)

The equivocal nature of the Mahalanobis Committee's recommendations is explicit in the above extended quotation. In the first place, because of the nature of their terms of reference, the Committee did not consider it advisable to suggest concretely "what should be done to remedy the situation" of the concentration of economic power; although it did enunciate "the general direction of attack on the problem."

Secondly, it was stated, in accordance with government policy, that since in a mixed economy "the private sector has an important role to play..." the "logic" of (capitalist) industrialisation demands that "neither the economies of scale nor that of full utilisation of scarce talent can be ignored..." But as is well known, the economies of scale are not synonymous with private ownership -- even the public sector can provide economies of scale. The belief that the development of the

33. Mahalanobis Committee, n.2, pp.54-55 (emphasis added).
monopoly stratum within the private sector facilitated the fuller utilisation of "scarce talent," was repeated in the Monopolies Inquiry Commission Report of the next year. In both cases these conclusions were unsubstantiated.

Lastly, it appears that the Committee accepted that a "democratic" socialist path of development would have to, in some unstated way, reconcile harmoniously the conflicting goals of industrialisation and economic development, on the one hand, with social justice and the dispersal of economic power, on the other. This growth versus justice dichotomy, it may be argued, would apply only to private-profit oriented, capitalist economies and not to truly socialist economies directed in the larger public interest. (34) At any rate, as we have seen above, even the diluted socialist rhetoric was not translated into concrete industrial policy. The actual purpose was to give an increasingly inequitable capitalism a "socialist face."

As could be expected, the Mahalanobis Committee Report generated a storm of protest. Critics of official industrial policy, especially from the Left, used its findings to indict the Congress government. On its part, the private sector representatives including FICCI, tried to discredit the Committee's findings and to play up the ambiguities in its Report.

In the latter half of February 1964, shortly after the Committee's Report was published, its findings were cited in both Houses of Parliament. A CPI M.P. (35) in the Rajya Sabha, P. Ramamurthy cited the data collected by Hazari and the Committee, that the Birla and Tata groups together controlled Rs.600 crores of the total capital invested in the corporate sector, to support his party's contention that "we have not been progressing towards socialism, we have been progressing towards capitalism of an intensely monopoly character." (36) M.N. Govindan Nair (CPI), reacted sharply to the Vice-President's claim that India was moving towards socialism, by asserting, in the light of the above studies that, "There cannot be a more blatant travesty of truth than this." (37) During the Rajya Sabha discussions on the Budget on 16th March, Govindan Nair regretted that T.T.K. had not yet placed the Committee's report before the House. (38)

In fact, the Report was presented to the Parliament only in late April and early May 1964, although it had been published in February. (39) Significantly, the government never moved a motion to allow discussion of the Mahalanobis Committee Report. Nor did so for the Monopolies Inquiry Commission Report published the next year.

35. The split in the CPI, which led to the formation of the Communist Party of India (Marxist), took place later that year.

36. Quoted in New Age Weekly, 23 February 1964. After the CPI split, P. Ramamurthy became a politburo, (political bureau, the highest decision-making body), member of the CPI (M).

37. Ibid. Govindan Nair remained with the CPI after the split.


On 30th April 1964, the government replied to a question asked by Ramachandra Ulaka and four others, which had inter alia asked what decisions the government had taken on the Mahalanobis Committee recommendations. (40) In reply, B.R. Bhagat, Minister of State for Planning stated that as the Committee itself had wanted its Report to be considered as a whole, the government would decide on further action only after the concluding Part II was received. (41)

However, Part-II of the Report entitled "Changes in the Levels of Living" was submitted and published only in July 1969, (42) despite the earlier belief that it would be submitted "in a few weeks." (43) The delay, according to Mahalanobis himself, was occasioned by the fact that "controversial issues emerged which made it necessary to retabulate and examine a great deal of new statistical data and to extend the scope of analysis." (44) Thus, the government was provided with an excuse to take virtually no action on the basis of the findings of the Committee.

The government did however, on the basis of the findings and recommendations of the Mahalanobis Committee Report, announce the setting up of the Monopolies Inquiry Commission (MIC). T.T.K. in his Budget

41. Ibid., cols. 13599-13600.
42. Mahalanobis Committee, n.28.
44. Mahalanobis Committee, n.28, Forwarding Note to Indira Gandhi by P.C. Mahalanobis dated 25 July 1969.
speech on 29th February 1964 announced the proposal to set up the MIC (45), and under a government notification dated the 16th April, the MIC was appointed under the Commission of Inquiry Act, 1952. (We shall deal with the MIC and its Report below).

The big business controlled press and FICCI tried, as indicated above, to question the data base of the Mahalanobis Committee's findings and to highlight its more ambiguous and equivocal statements. In a long leading article entitled "Concentration in Corporate Sector -- Mahalanobis Committee findings", Commerce characterised the Committee's conceptualisation of concentration and its findings as "arbitrary." (46) It highlighted the admission in the Report that,

"We have not been able to assess whether and how far the undoubtedly larger area of concentration of industry was balanced to any extent by a dilution of the intensity of control associated with a decline in the ratio of share capital in the controlled sector owned by the Controlling Interest." (47)

FICCI in its brochure, "FICCI on Mahalanobis Committee Report," highlighted the ambiguities in the Report, that we have referred to earlier. FICCI claimed that there was not "any significant interlocking of directorships." (48) The brochure also reiterated, the usual FICCI argument that the large companies in India were small by international standards, and that their size was related to planning, and was determined by the industrial licensing system. It further claimed that

47. Ibid. See also Mahalanobis Committee Report, n.2,p.43.
competition was "pervasive" in the private sector, and that as the ownership of assets was diffused over a large number of shareholders, no significant concentration of economic power existed. (49) The FICCI warned that, "Too much preoccupation with ideological values would check, if not prevent, possible enterprise and depress the growth of the economy." (50)

This was a clear warning to the government against the latter imposing anti-monopoly measures, because of ideological considerations, following the public outcry over the findings of the Mahalanobis Committee Report. The FICCI also tried to refute the Committee's finding, that though,

"the degree of inequality in income distribution is not higher in India than in some other developed or under-developed countries, (51) the distribution of income in the urban sector is more unequal, as in the other countries, than that in the rural sector." (52)

The brochure stated that,

"it should be noted that there is a general feeling, though the Committee could not collect the required data to support it, that an average person, whether in urban or rural areas, is better fed, better clothed and even better housed in the 1960's than in the 1950's and that the working conditions have also improved generally over this period. On the other hand, since there is also some evidence that the rate of growth in income for certain high income groups has been as high as or

49. Ibid.
50. Ibid.
51. Significantly the yardstick for India here is not the socialist countries, or even those with some kind of socialism as a goal, but merely "some other (unspecified) developed or under-developed countries."
52. Mahalanobis Committee, n.2, p.22.
higher than the rate of growth for the country as a whole, it has not been possible for the Committee to pronounce a definite judgement, even of a broad nature, on the changes in income distribution. However, it can be stated that there is no clear indication of a significant change in income distribution over the Plan decade." (53)

Commerce, in its commentary on the FICCI brochure, was sarcastically critical of both the Mahalanobis Committee Report and of FICCI's attempted refutation. It stated,

"what a blissfully vague and ambivalent observation this is: It is this unenlightening statement that the Federation claims to have refuted. But how unenlightening in its turn, the Federation's refutation is."

Commerce was also critical of FICCI for not getting its own research department, (the Economic and Scientific Research Foundation), to counter the Mahalanobis Committee's statistics. This last criticism was perhaps unfair. In view of the real trends in the economy, the FICCI would have had to fabricate statistics, to produce some which could counter those cited by the Committee. And if it had done so, it would undoubtedly have been caught out.

The criticism of the Mahalanobis Committee Report however, for its admitted inadequacies of data was well taken. The Committee drew mainly on information from the Reserve Bank of India, the National Council of Applied Economic Research, the National Sample Survey, the Department of Company Law Administration, as also on individual studies notably those by R.K. Hazari, Raj K. Nigam, Iyengar and Mukerjee. As a commentator pointed out at the time, "the Committee has based most of its conclusions on studies already well known." Furthermore,

53. Quoted in Commerce, 18 July 1964 (emphasis theirs).
"The relevant question to ask would be why the Committee itself could not undertake the collection of data or institute a survey wherever it felt there were lags in data. In the present situation since these studies are not co-extensive temporarily, it would appear to be a patch-work and compilation of a time-series based on data from different sources, having differing concepts and definitions." (54)

Although the Report was to cover the period 1951 to 1961, it mainly took into account statistics up to 1959 or 1960, despite being published in 1964. As S.K. Goyal pointed out in the above cited article,

"there is no doubt that (the) situation in the middle of 1964 must be very much different from what the Report presents. Contrary to the hesitancy shown in the Report to accepting the tendencies (of increased concentration of wealth), they seem now to have become visible and significant trends." (55)

The same commentator, after examining the divergence between 'official' ideological statements and the actual industrial policy, the latter resulting in the trends hesitantly, and ambiguously, stated by the Mahalanobis Committee, predicted "We are afraid the place of the Report is clearly written on the wall -- (the) National Archives: (56) For all the effect the Report had on industrial policy, it might as well have been placed in the National Archives.

The Swaminathan Committee

On 24th September, 1963, the government had set up the "Industries Development Procedures Committee," popularly known as the Swaminathan Committee, after its Chairman T. Swaminathan, Secretary, Department of
Supply and Technical Development. (57) According to the government resolution constituting the Committee, it had been suggested to it,

"that there is need to simplify the procedures and regulations relating to the approval of schemes of industrial expansion. It is important that controls operate speedily and efficiently in order that they may serve as instruments for the achievement of a high rate of industrial growth.

Government have accordingly decided that the operation of the controls applicable to the establishment of additional industrial capacity under the Industries (Development and Regulation) Act, 1951, the import of capital goods, the issue of capital and foreign investment and collaboration should be examined by a Committee which will suggest such modifications as would reduce delays in decision." (58)

Significantly, the government resolution made no reference to its socialist goals or even to more equitable industrial development. The membership of the Committee, however, starkly brought out its pro-private sector character. All five non-official members were from ASSOCHAM and FICCI, mainly the latter. They were Bharat Ram (FICCI President), A.R. Foster (ASSOCHAM President), Lakshmiapat Singhania (FICCI), A.M.M. Murugappa Chettiar (FICCI), and P. Chentsal Rao (FICCI).

The official members, excluding Swaminathan included N.C. Srivastava, Adviser, Planning Commission; P. Govindan Nair, Additional Secretary, Department of Economic Affairs; V.K. Ramaswami, Economic Adviser, Ministry of Industry; and K.J. George, Deputy Secretary, Ministry of Industry, who was the Member-Secretary of the Committee. (59).


58. Ibid.

59. Ibid., pp.6-7.
Thus of the total of 10 members in the Committee, as many as 5 were representatives of big business, including 4 from FICCI itself. The weightage given FICCI representation in the Committee relative to that of ASSOCHAM (4:1), was indicative of the influence the two contending chambers wielded with the government. Although, under its terms of reference, the Committee was to deal with procedures relating to, amongst others, imports of capital goods, foreign investment and collaboration; ASSOCHAM, which represented foreign capital interests, (much more so than FICCI), (60) had only one representative. However, the very fact that the Swaminathan Committee had only representatives of big business as the non-official members, is itself a clear indication of big business influence on government's industrial policy. Moreover, as we shall see below, the Swaminathan Committee Report did not get the same treatment as the Mahalanobis Committee Report. Unlike the latter, the former's recommendations were accepted and implemented.

The Interim Report of the Swaminathan Committee was submitted to the Government and then a summary was published on 13th January 1964, by the Ministry of Industry in a Resolution in the Gazette of India. (61) There were two main recommendations: (i) In the Committee's view in order to enable private entrepreneurs to "know as early as possible whether Government would... consider favourably..." their proposals, further enabling the former to negotiate with foreign collaborators and


suppliers of machinery, it was advisable that the government issue a "letter of intent" in the first instance, within about a month of the receipt of the application. (62) It further recommended that the Directorate General of Technical Development (DGTD), and the Director of Industries of the concerned State Government, be asked to submit their views to the administrative Ministry within 3 weeks. In the case of the latter,

"if no comments from the State Government are received within this period, it will be presumed that... (they) have no objections and that this (application) will be further processed on this assumption". (63)

The Committee further recommended that there should not be a "rigorous or time-consuming scrutiny" of applications "from the point of view of availability of fuel, power, rail transport and other facilities." (64) This was because it considered that "It would be reasonable to assume that the entrepreneur gives an adequate measure of consideration to these factors before deciding on the Project and a particular location." Moreover, since "in practice very few applications", were turned down on this ground, it was believed that it would be sufficient if the Ministry of Industry, the co-ordinating Ministry, could "arrange to send periodically, to the authorities concerned, consolidated statements giving refinements of fuel, power, etc., in respect of approved schemes..." (65)

62. Ibid., p.8.
63. Ibid. (emphasis added).
64. Ibid., p.9
65. Ibid. (emphasis added).
Therefore, the "letter of intent" to be issued by the government was to broadly indicate the conditions on which it was prepared to grant an industrial license. Of these conditions, it was suggested, that in cases where any of the following applied: (a) terms of foreign collaboration; (b) import of capital equipment; and (c) capital issues; the applicant should come up with definite proposals within a period of "6 to 12 months depending on the nature of the industry." (66) The period to be allowed to the applicant to submit further applications regarding foreign collaboration etc., was to be "determined by the (proposed) Licensing Sub-Committee while considering the case." (67)

The proposed Sub-Committee of the Licensing Committee was to consist of the Secretary, Ministry of Industry, as Chairman; the Secretaries of the administrative Ministries concerned or their representatives; the Secretary, Department of Economic Affairs or his representative; the Secretary, Department of Technical Development or his representative; a representative from the Company Law Division; and a representative of the Planning Commission. This Sub-Committee, it was recommended, would scrutinise and pass orders on applications for "letters of intent", and it would meet at least once a fortnight. (68) The Swaminathan Committee claimed that the new procedure proposed by them would reduce the incidence of "infructuous licensing", i.e. the "large number" of unimplemented licenses. (69) Because under the new

66. Ibid.
67. Ibid.
68. Ibid.
69. Ibid.
procedure, "if the party does not make adequate progress within the stipulated time, the letter of intent would be automatically deemed to have become inoperative." (70)

The second major recommendation of the Swaminathan Committee, related to a proposed "special procedure" for licensing of "key" industries. The list of key industries, which it was stated was "by no means exhaustive" (71), included no less than 22 industries. These were: (1) Pig Iron; (2) Alloy Steel; (3) Malleable Iron Castings; (4) Steel Castings; (5) Steel Forgings; (6) Structural (heavy); (7) Industrial Machinery; (8) Cranes; (9) Ferro-Chrome and other Ferro Alloys except Ferro-Manganese and Ferro Silicon; (10) Machine Tools including Small Tools, Dies, Jigs, and Fixtures; (11) Automobile Ancillaries; (12) Fertilizers; (13) Sulphuric Acid; (14) Caustic Soda and Soda Ash; (15) Rubber Chemicals; (16) Petro-Chemicals including Synthetic Rubber; (17) Pulp (Cellulosic); (18) Coated Abrasives; (19) Electric Winding Wires; (20) Pesticides; (21) Paper and Paper Board; and (22) Cement. (72) Of these the first two were Schedule A industries, as were the sixth, seventh, and eighth listed. (73) The third, fourth and fifth listed industries would fall into the Schedule A category, if they included heavy castings and forgings. (74) The industries numbering (9)

70. Ibid., pp.9-10.
71. Ibid., p.10.
73. See Appendix B.
74. Ibid.
to (17) in the above list all came under the category of Schedule B industries. (75)

In all, of the 22 "key" industries, 17 were Schedule A and B industries under the 1956 Industrial Policy Resolution, and as such should not have been thrown open to the private sector. However, in view of the composition of the Swaminathan Committee itself, and given the background of earlier deviations from the earlier stated industrial policy, this could hardly be considered surprising. The special procedure for these "key" industries was intended to hasten the process of industrial licensing in these cases. The Committee recommended that once a "letter of intent" was issued, the proposed Licensing Subcommittee should simultaneously consider all other clearances required.

Thus, taken as a whole, the Swaminathan Committee's recommendations were clearly pro-business. In the first place, the list of 22 "key" industries included a large number which under the terms of the Industrial Policy Resolution were either reserved exclusively for the public sector, (Schedule A), or where new enterprises were reserved for the public sector, (Schedule B)."(76)

Secondly, the changes introduced to speed-up the licensing procedure would simultaneously reduce the scrutiny of applications by the DGTD, the State Government and other bodies. Moreover, the fact that entrepreneurs would be issued "letters of intent" before they presented definite proposals regarding foreign collaboration, import of capital

75. Ibid.

76. See above.
equipment and the issue of capital, meant that the licensing procedure was virtually divided into two stages. This would benefit those entrepreneurs, especially from the influential big business houses, who were able to wield sufficient influence to obtain the required "letter of intent" initially. Armed with that, they would be able to negotiate with potential foreign collaborators etc. Under the new procedure, entrepreneurs who had already definite proposals regarding foreign collaboration etc., would have no advantage over others in obtaining licenses.

Thirdly, the explicit "special preferential treatment" to be given to the "key" industries in obtaining all clearances, was tantamount to facilitating the deviations from stated industrial policy, (as the bulk of the "key" industries were listed in Schedules A and B of the 1956 Industrial Policy Resolution). (77)

However, as stated earlier, the very composition of the Swaminathan Committee as well as its terms of reference, made its pro-business recommendation inevitable. And, as could be expected, the government accepted its major recommendations. In its notification, the government announced its acceptance of the special procedures for "key" industries, thus in effect accepting what was a clear deviation from the Industrial Policy Resolution of 1956. Regarding the Committee's proposal for a Licensing Sub-Committee, the government's decision was "that the other members of the Licensing Committee stationed in Delhi may also be associated with the work of the sub-Committee..." (78) Thus, the

77. See above.

government gave its seal of approval to the recommendations, even though they constituted major departures from official industrial policy as enunciated in the 1956 Industrial Policy Resolution. The entire affair only served to demonstrate the considerable extent of the big business influence on official industrial policy. (79)

A significant admission of the influence of the business interests represented by FICCI, as well as the opportunist reasons for the Congress's espousal of socialism, was made by Asoka Mehta, then Deputy Chairman of the Planning Commission, in a speech to FICCI on 9th March, 1964. Mehta noted that, "In India, the surge of our situation itself will make the socialist appeal increasingly attractive for a considerable time to come." (80)

As we have shown earlier, precisely because the 'socialist appeal' was politically rewarding, the Congress used it to enlist mass support. However the socialism was confined to the realm of rhetoric, the policies remained pro-capitalist in general, and pro-big business in particular. (81)

In his speech, Mehta acknowledged that "In the choice (of development) that the nation makes, the decision of the industrial elite gathered here will prove crucial." (82) Thus, Mehta formally admitted the "crucial" influence FICCI had on the choice of economic policy.

79. Apart from FICCI, the Interim Report was welcomed by the big business controlled financial press. See for example, Eastern Economist, 17 January 1964.


81. This as we have shown above, was especially true of the industrial policies.

82. FICCI, n.80, p.67 (emphasis added)
Moreover, as we have shown above, this statement was only an admission of existing realities, and not mere flattery.

On the same day as the announcement of the Swaminathan Committee's Interim Report, i.e. 13th January 1964, the government announced yet another relaxation in industrial licensing policy. Following the Finance Minister's announcement in Parliament on 16th December 1963, it was notified that all units with fixed assets valued at Rs.5 lakhs to Rs.25 lakhs had only to register with the appropriate government agency. For those not requiring items in short supply, registration was to be "automatic." (83)

The Final Report of the Swaminathan Committee which was submitted on 18th March, 1964, was released for publication nearly 3 months later on 10th June. (84) Its major recommendations had already been made, and acted upon, in the Interim Report. It recommended that in the cases of licensing of raw materials and components, the government should issue licenses within 3 months from the commencement of the licensing period. This was accepted by the government, as were the other recommendations. (85) Of these the most important was "priority treatment", (as for the "key" industries), for 8 industries which were "import-saving or substantially export-oriented." (86) These included (1) industrial chains; (2) transformer oil; (3) insulating paper; (4)

84. Swaminathan Committee, n.57, p.1.
85. Ibid., p.2.
86. Ibid., p.4 (emphasis in original).
high tensile galvanised steel wires; (5) laboratory glassware; (6) detonators and detonating fuses; (7) synthetic fibres; and (8) caprolactum. (87)

At the 9th meeting of the Central Advisory Council for Industries held on 21st March 1964, K.P. Goenka, the FICCI President, welcomed the recommendations of the Swaminathan Committee as stimulating the growth of the decontrolled industries. (88) From the nature of the recommendations, as analysed above, it is evident that there was much that big business in general, and FICCI in particular, could appreciate. The government's acceptance of the Swaminathan Committee recommendations, represented major concessions for Indian big business. Hence, 1964 was marked by a further, very significant concession for big business, in clear deviation from both the letter and the spirit of the 1956 Industrial Policy Resolution.

The Monopolies Inquiry Commission: FICCI's Memorandum

In August 1964, the FICCI sent a detailed memorandum to the Monopolies Inquiry Commission (MIC). (89) FICCI argued that the number of units in particular industries were restricted, because of controls and because of the transitional stage of economic development, together with the technological considerations in new industries. (90) FICCI

87. Ibid.
88. FICCI, n.83, pp.375-376.
89. Ibid., pp.78-93.
90. Ibid., pp.80-81.
argued that there was no monopolistic ownership because of the existence of large number of shareholders. Further, the memorandum argued against the imposition of further controls, claiming that industrial growth had been "impaired" by them. According to FICCI, "The issue really is how pervasive control exercised by authority over industry should be reduced rather than to think in terms of adding to the existing body of restrictive law." (91)

Citing National Council of Applied Economic Research (NCAER) statistics, FICCI argued that no group or unit controlled even one-third of production of capacity in an important industry. (92) It claimed, that the existing market structure was the "optimum" and that "any violation" of it, would have "adverse repercussions on industrial growth", as the existing "comprehensive" regulating measures made it "impossible" for firms and groups "to achieve monopoly power" (93) The memorandum, approvingly cited T.T.K.'s statement in the Lok Sabha on 16th December, 1963 that, "we (government) have come to the conclusion that gradual and orderly relaxation of some of the controls would be in the interest of stimulating economic growth." (94) This citation was used to put forward FICCI's case for reforms in the Industries Act, particularly in sections relating to industrial licensing, foreign collaboration agreements, price revision, etc. (95) FICCI also cited

91. Ibid., pp.81-82.
92. Ibid., pp.82-83.
93. Ibid., p.86.
94. Quoted in Ibid., p.89.
95. Ibid.
Nehru's 23rd April 1963 statement in Parliament, that only 182 out of 4,211 licenses issued in the 3 years ending 31st March, 1963 had gone to the leading industrial houses, as evidence that the "scarcity in some sectors..." was not due to the existence of monopolies but to the "imbalance between the state of progress and the size of emerging demand."(96)

Later the same year Asoka Mehta, the then Deputy Chairman of the Planning Commission, met members of the FICCI E.C. on 18th August at the Federation House, the data having been suggested by G.L. Bansal, FICCI Secretary-General. Earlier, Mehta had met leading industrialists at Federation House on the 23rd December the previous year. (97) On the 26th November 1964, a 10-man FICCI delegation led by K.P. Goenka (President), including among others Padampat Singhania, Babubhai Chinai, A.M.M. Murugappa Chettiar, Bharat Ram, Ramnath A. Podar and Bansal met with Nehru's successor as Prime Minister, Lal Bahadur Shastri. (98) The delegation which met the P.M. for 45 minutes, urged the relaxations of the gold control policy, taxation policy and industrial licensing. (99)

Nehru's Death

Earlier in late May 1964, Nehru had passed away. In a press statement on 25th May, the FICCI E.C. stated in a resolution that "the

96. Ibid., p.93.
97. Ibid., pp.96-97.
98. Ibid., p.101.
Committee... have always felt that there was much in common in his approach and theirs, to economic goals and perspectives."(100) While laudatory and appreciative references in such statements are customary, there was indeed much in common between the approaches of Nehru and the FICCI leadership to the economic development of India, (as we have seen above).

FICCI had maintained its relations with the dominant 'Syndicate' in the ruling Congress after Nehru's death. On 1st July 1964, it hosted a reception in Calcutta where Kamaraj, P.C. Sen and Atulya Ghose were present. (101) Speaking on the occasion, K.P. Goenka called for a "new look" to "economic" policies" and found Kamaraj the "most competent person to initiate the process". (102)

**Industrial Policy in 1965: Further Concessions to Big Business**

The budget proposals for 1965-66 were welcomed by FICCI. The FICCI E.C. in a press statement on 6th March "congratulate(d) T.T.K. for recognising that "the resources available to the public sector and to the private sector... are all part of the same pool."(103) This FICCI considered "heartening" as it itself had emphasized this commonality "For many years". (104) The 50 per cent decrease in excise duty and the "marginal" decrease in personal taxation were welcomed as proposals "in

100. Ibid., pp.401-402.
101. Ibid., pp.403-404.
102. Ibid., p.404.
104. Ibid.
the right direction", but FICCI claimed they were "not to the right extent." (105) It urged reductions in the levels of wealth, gift and expenditure taxes and in estate duties. (106)

The supplementary budget proposals of late August were also welcomed by FICCI. Its press statement found "that the Budget has some favourable aspects...",(107) but FICCI wanted further concessions, e.g. removal of taxes on dividends, bonus shares, super profits, etc. (108)

Further concessions in industrial licensing policy, were announced in a government press note on 26th July the same year. (109) These included: (a) permission for substantial expansion and new undertakings in power alcohol, if the Director of Industries in the concerned state certified the availability of molasses; (b) diversification in engineering goods and the production of new articles was allowed with existing plant and machinery if (i) the article was not on the banned list, (ii) it was not specifically reserved for small-scale industry, and (iii) there was no substantial reduction in the production of the already licensed items; and (c) new articles in 3 non-engineering industries were allowed. These relaxations were to be reviewed after one year. (110)

105. Ibid., p.110.
106. Ibid., pp.110-112.
107. Ibid., p.128.
108. Ibid., pp.128-130.
109. Ibid., p.177.
110. Ibid.
In mid-April 1965, S.K. Patil, Minister of Railways, and a prominent leader of the Syndicate, in a speech at the Punjab and Delhi Chambers of Commerce, complimented the business community "on having contributed significantly to industrial production and industrial expansion despite the difficulties in their way..." (111) In other words, the monopoly houses had contributed to national economic development despite being fettered by government's industrial policy. This was precisely the argument of big business interests, including FICCI. Of course, the shift in government rhetoric as exemplified by Patil's speech, was inevitable in view of the pro-big business shifts in industrial policy, that we have examined above. The efforts of big business had to be lauded if industrial policy shifts had to be justified.

**Steel & Cement Decontrol**

In early 1965, the Government decided to decontrol steel. Thereafter in April 1965, G.D. Somani, a former Congress M.P., the new President of the Cement Manufacturers Association (112) began lobbying with Prime Minister Shastri with T.N. Singh, the Industries Minister, and with State Congress leaders, to ensure that cement was also decontrolled. (113) In May 1965, a delegation of the Cement

112. An ordinary member of FICCI.
Manufacturers Association (CMA), met T.N. Singh, to plead for the decontrol of cement. (114) In early August, the CMA broke from past policy to call openly for a partial decontrol of cement, on the grounds that this was necessary for the generation of extra funds for the expansion of the cement industry. (115)

On August 26th, Shastri abruptly announced in Parliament the government's decision in principle to decontrol cement, with details to be worked out later. T.N. Singh defended the decision later, as one necessitated by the disruption of foreign aid resulting from the Indo-Pakistan War of 1965, which had made the role envisaged for the public sector cement corporation impossible to achieve. (116) Nonetheless, some M.Ps. called the decontrol a sell-out to the private sector. (117)

Shastri faced strong opposition within the Congress. The Congress Parliamentary Party's executive committee expressed grave misgivings over the decontrol of cement. Some members urged the government to reconsider its decision, and if necessary, to reverse it. (118)

At this stage, unlike in December 1963, the Left within the Congress, was not sufficiently influential to provide a counter-check

116. The Times of India (Bombay), 17 November 1965. See also Kochanek, Ibid., p.255.
117. The Statesman (Calcutta), 19 November 1965; also Kochanek, Ibid. Decontrol was formalised in 1966 (see below).
118. Kochanek, Ibid.
howsoever limited, to business influences. Therefore, in consonance with the trend of concessions to industry, of which the Swaminathan Committee recommendations were the watermark, cement was also decontrolled in the following year.

Monopolies Inquiry Commission

The Monopolies Inquiry Commission (MIC) Report was published in December 1965. S.L. Kirloskar, the FICCI President, in a press statement welcomed those of its findings that were not critical of big business. He noted that the MIC's "analysis of some important issues..." was similar to that of FICCI's, e.g. the recognition of the fact that the business houses were providing managerial skills etc. (119)

Even R.C. Dutt's 'Note of Dissent', where a "more radical approach" towards monopolies was advocated, conceded that the pioneer ventures in new industries were inevitably "monopolistic". Kirloskar argued that since there was "no evidence" to show misuse of power by "large units", their expansion should be permitted. The statement opposed the recommendation that a permanent Commission be set up to give prior sanction for expansion to "inter-connected undertakings" with Rs.1 crore and above of assets, as one likely to lead to a "delay" in economic "progress". Therefore, Kirloskar urged that implementation of only those recommendations, which would ensure that industrial progress was "not... hampered by further legislative barriers". (120)

On its part, the financial press was critical of the findings of the MIC. Commerce, for example, captioned its article on the MIC Report

119. Ibid., p.56.
120. Ibid., p.57.
as "Dubious Findings on Monopolies", and was critical of the MIC's findings. (121) The Left on the other hand, praised aspects of the Report. New Age (CPI), in an article on the MIC Report, considered that the Commission had done "excellent work considering the short period in which it has produced the report." (122) It particularly praised the "signal service" the report had done "to the nation by highlighting the evils of concentration of economic power..." It noted that, "The press controlled by the monopoly powers has tended mostly to belittle the findings of the Commission or to deride its conclusions. (123)

A trenchent critique of the MIC Report was made by R.K. Hazari shortly after its publication. His critique based on detailed citations from the Report, was more critical than that earlier examined, in the New Age. The MIC Report had at a number of places praised the contribution of Indian big business. It stated for example, that, "Big business has done much for the country's economic betterment and as a consequence, for the alleviation of the poor man's misery." (124) However, as Hazari noted, the MIC lacked "the benefit of tangible and analytical evidence..." in support of the above statement. (125) He further noted that though "for many years, government spokesmen


123. Ibid.


125. Ibid., p.1845.
vehemently denied that concentration had increased and was probably increasing...", the Commission took "growth of concentration as a proved fact...", even though its data related only to March 1964. (126)

The general recommendations of the MIC (majority) were as follows:

1) Self-discipline by political parties, i.e. rejection of assistance from business houses;

2) Removal of corruption from administration;

3) Liberalisation of licensing since it could not be abolished and preference in favour of small business without sacrifice of efficiency;

4) Insistence on proper distribution of goods imported under licenses;

5) Higher imports to stimulate efficiency;

6) Countervailing action by the public sector through public units to prevent monopoly; and

7) Promotion of small industries and preferential government purchases from small units, strong consumer Co-operatives and organised consumer resistance. (127)

The MIC Report included a recommended Draft Bill entitled "The Monopolies and Restrictive Trade Practices Bill, 1965", intended:

"to provide that the operation of the economic system does not result in the concentration of economic power to common detriment for the control of monopolies and the prohibition of monopolistic and restrictive trade practices when found contrary to the public interest and for matters connected therewith or incidental thereto." (128)

However, despite the public debate over the Report, this Bill in a

126. Ibid.

127. Ibid., p.1846. See also Report of the MIC, n.124, chapter-VII, pp.139-146.

greatly modified form was not discussed until 1967, and did not become an Act until 1969. (129)

R.C. Dutt, a member of the MIC and Chairman of the Company Law Board, wrote a lengthy "Note of Dissent" to the Majority Report. (130) In that he argued that the "harmful effects" of the concentration of economic power had been "under-estimated" in the Majority Report. (131) He referred to the ability big business had to "influence the decisions of Government", through "their predominance in the press." (132) Dutt noted that "Economic disparity which is a consequence of undue concentration of economic power...affects economic growth itself in the long run and inhibits it". (133)

However, as stated earlier, the release of the MIC Report led to no anti-monopoly legislation or even to discussion of the draft Bill as presented in the Report. Moreover as we have noted earlier, the Report was not even discussed in Parliament. But, in a large sense, this was only to be expected. In view of the consistent policy of concessions to big business, when even anti-monopoly rhetoric had been toned down, any anti-monopoly legislation, given the political balance of forces, was improbable.

129. As this is outside our period of study, we shall not deal in further detail with these developments.


131. Ibid., p.191.

132. Ibid., p.194.

133. Ibid., p.198.
In December, a 12-man FICCI delegation led by Kirloskar, met the Prime Minister Lal Bahadur Shastri. The delegation complained about the "paucity" of bank credit, the high interest rates in the market, the extent of non-productive expenditure by the government, and above all the purported wage-push inflation. According to the FICCI report, Shastri gave them "a patient hearing", stating that "solutions had to be found". (134)

Earlier that year, N. Sanjiva Reddy, Minister for Steel and Mines, speaking at a FICCI lunch on 22nd March, pointed out that "most" pig-iron plants had been put up by the private sector and further asserted that "we are trying to encourage the private sector to put up more plants." (135) Since pig-iron was a Schedule 'A' industry, this amounted to yet another deviation of the industrial policy framework, as laid down in the 1956 Industrial Policy Resolution.

Industrial Policy in 1966: Culmination of the Process of Liberalisation

In February 1966, the reconstituted Swaminathan Committee submitted its Report. The Committee had been reconstituted in August 1965, in pursuance of the recommendation by the original Swaminathan Committee that:

"this Committee, with the same composition as far as may be, be reconstituted after a year to study the results of the working of

134. FICCI, n.103, pp.62-63.
the revised procedures and asked to make a report and suitable recommendations to Government." (136)

As one of the original members, A.M.M. Murugappa Chettiar had expired, the strength of the Committee was reduced to nine members, and the representation of industrialists to four, (as Chattiar's vacancy was not filled). (137) A.R. Foster, who was President of ASSOCHAM in 1963, when the original Swaminathan Committee was constituted, was replaced as the ASSOCHAM representative by H.K.S. Lindsay, President of ASSOCHAM in 1965. Similarly, Bharat Ram, President of FICCI in 1963, and a member of the original Committee, was replaced by S.L. Kirloskar, FICCI President in 1965, as a member of the reconstituted Committee. Apart from T. Swaminathan who was the Chairman of both Committees, K.J. George continued as the Member-Secretary, but the three other official members were replaced by other government nominees.

The reconstituted Swaminathan Committee in its fresh examination of the licensing policy procedures arrived at the conclusion:

"that generally speaking, industries which do not involve the import of capital goods or raw materials should be exempted from the licensing provisions of the Act by the issue of an exemption notification under Section 29-8 of the Industries (Development and Regulation) Act. It should, by and large, be left to the economic judgement of the entrepreneur to decide whether or not he will enter these fields and make an investment and to what extent. In

136. Swaminathan Committee, n.57, p.6. Also India, Ministry of Industry, "Final Report of the reconstituted Industries Development Procedures Committee", February 1966, mimeographed, para.1. Interestingly, the Final Report of the reconstituted Committee was never printed, and few mimeographed copies are available. The Licensing Policy Section of the Ministry of Industry, when contacted in November 1982, was not even aware of the existence of this Report, and one of its officers insisted that there was no reconstituted Committee Report. (Personal conversation with the author, New Delhi, November 1982).

137. Reconstituted Swaminathan Committee Report, para.3.
these fields the targets laid down by the Planning Commission would serve as indicative targets and as a factor to be considered by the prospective investor in his assessment of demand and other economic data." (138)

As Bhagwati and Desai, in their generally pro-private sector study of industrialization and trade policies have noted,

"From an economic viewpoint, this criterion made no sense. Even if the sole purpose of industrial licensing were to consist in preserving foreign exchange, the rule of thumb proposed was naive in so far as it took into account only the direct foreign exchange requirements and ignored other foreign exchange repercussions." (139)

However, on the basis of this questionable economic argument, the reconstituted Committee proposed illustratively the delicensing of the following ten industries; (1) cotton textiles; (2) sugar; (3) cement; (4) toilet preparations; (5) paper and newsprint; (6) fire bricks; (7) hand tools; (8) plywood; (9) furniture components; and (10) milk foods. (140)

After the Report of the reconstituted Swaminathan Committee was submitted, a large number of industries were delicensed at various points of time in 1966. The delicensing was preceded by reassurances to the business community. In a radio talk over All India Radio in late April 1966, the Prime Minister Mrs. Indira Gandhi while reiterating her government's commitment to "the objective of a socialist and democratic society...," stressed that this did not involve any doctrinaire

138. Ibid., para 4, section (x).
140. Reconstituted Swaminathan Committee, n.136, para 4, section (x).
adherence to some dogmas. (141) The speech was welcomed by the financial press. As Commerce put it, "a pragmatic approach to economic problems is sought to be adopted..." (142)

The developments in the sphere of industrial policy had their repercussions also within the business community. On 25th February, G.D Birla, speaking at the Annual Meeting of the Indian Merchants' Chamber, urged his fellow businessmen to support the Congress. He argued:

"that it is very easy to score points and(to) criticise this Government. There is no doubt that they have made a mess in many things. But do not forget that this is the best Government that you can get under the circumstances. This is the only Government which can give you stability -- political stability -- law and order."

Birla went on to state that he "entirely agree(d)" with "slogan" of democratic socialism, as interpreted by Nehru. This, he took to mean, "more consumer goods for the people, more education, better health, more houses and more of this and more of that. This is all right." (143)

In this speech, Birla was only reiterating arguments made earlier. Speaking before the Indian Chamber of Commerce, Calcutta, in April 1965, he had warned fellow businessmen:

"you can break the Congress -- but it is not going to help. You will be replacing this government by a communist government and they will be the first to cut your throat. Do not make that mistake... It is a question of self-interest." (144)

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142. Ibid.
Birla's speeches were in line with what Kochanek has termed "the Birla strategy", which was one of pressurizing the government to make concessions, without confronting the Congress openly or directly. (145) This strategy, as we have seen above, was the one dominant in FICCI. (146) As we have seen in the preceding analysis, FICCI leaders generally did not criticise the government or the Congress Party as a whole, even when they disagreed with official policies. The FICCI strategy was generally one of selective criticism of particular policy measures which were perceived to be against the interests of Indian big business. This Birla or FICCI strategy was apparently successful, as starting from May 1966, a large number of industries were delicensed.

In May 1966, eleven industries were delicensed: (1) iron and steel castings and forgings; (2) iron and steel structurals; (3) electric motors up to 10 h.p.; (4) pulp; (5) glue and gelatin; (6) glass; (7) power alcohol; (8) solvent extracted oils; (9) fire bricks and furnace linings; (10) cement, gypsum, and insulating boards; and (11) timber products. (147) The Minister of Industrial Development and Company Affairs while announcing this, this policy concession in the course of his statement in the Rajya Sabha, on 9th May 1966, on 'Liberalisation of Industrial Licensing Policy', referred to the fact that:

"The Prime Minister has also on more than one occasion, recently reiterated Government's policy that controls would be maintained only where it is necessary in the public interest to do so.

145. Kochanek, n.113, p.188. See also Chapters II and III above.
146. See Chapters II, III and IV above.
Government have been therefore keeping under review the various controls in existence. Two basic considerations which have been kept in view in the preparatin of this list (of delicensed industries) are:

(i) The items are those in respect of which there is no substantial import of components or new materials.

(ii) Industries in respect of which protection to the small and cottage industries is of importance have been left out." (148)

The Minister went on to state that,

"The above list (of delicensed industries) is by no means exhaustive. It is proposed to examine the schedule to the Industries (Development and Regulation) Act with a view to announcing further additions to this list from time to time. Apart from the two considerations mentioned above, an additional factor which will be taken into account in preparing further lists will be the need for the accelerated development of industries with export potential." (149)

In the official statement to delicense 11 industries, the first consideration which referred to the foreign exchange component, was the same as that argued by the reconstituted Swaminathan Committee. Thus, as Bhagwati and Desai have noted, "The Government, therefore, appeared to have accepted the (reconstituted) Swaminathan Committee's criteria." (150)

A couple of months later, on 20th July, the paper and newsprint, and handtools industries were delicensed. (151) Following this relaxation, in early October 1966, some FICCI representatives including their President, Ramanbhai Amin, and G.L. Bansal (FICCI Secretary

148. Ibid.
149. Ibid., pp. 179–180.
150. Bhagwati and Desai, n. 139, p. 479.
General), met D. Sanjivayya, the Minister for Industry. In the meeting, further delicensing of industries was discussed. In pursuance of the earlier discussions, Bansal on 19th October wrote to Sanjivayya enclosing a list of 25 items which FICCI recommended be delicensed.

(152)

On 14th November, Sanjivayya announced in both Houses of Parliament a list of 23 items which were to be delicensed. A comparison of the FICCI proposals and the list of delicensed industries, reveals that a significant number of items figured in both lists. These included: (1) bicycles and components; (2) sewing machines and components; (3) mixed fertilizers, (FICCI had recommended delicensing of all chemical fertilizers); (4) power driven pumps; (5) electric motors upto 40 h.p.; (6) weighing machines; (7) items of industrial machinery, (i.e. air and gas compressors upto 6 c.mm., tea machinery, mathematical, surveying and drawing instruments and electric furnances); (8) drugs and pharmaceuticals, (i.e. barium carbonate, barium chloride, barium nitrate, barium sulphate, blanc fixe, activated bleaching earth, activated carbon, metallic stearates, and sodium aluminate); and (9) furniture components, (i.e. hard board including fibre board, chip board and particle boards). (153)


153. Ibid., pp.290, 293-296. We have grouped the delicensed items together under broad heads. The number of items common to the two lists is not only 9, but well over half of the 25 recommended for delicensing by FICCI. (This will be evident from an examination of the individual items grouped in our list above).
Earlier, on 28th October, there had been another liberalization of licensing policy. Industrial units were allowed to manufacture new articles without obtaining licences if: (a) only minor balancing equipment was procured indigenously and added; (b) there was no increase in foreign exchange expenditure; (c) the diversified production did not exceed 25 per cent of the total licensed production; and (d) these did not include any of the 71 items reserved for the small-scale sector. Moreover, licensed industrial units were permitted to increase production up to 25 per cent over earlier licensed production, subject to the above conditions together with the further stipulation that there would be no additional demand by the unit for scarce raw materials. (154)

The liberalisation of industrial licensing policy in 1966, following the submission of the reconstituted Swaminathan Committee report, taken as a whole amounts to a substantial liberalisation for, as well as a significant deregulation of, the private corporate sector. Yet this liberalisation of industrial licensing policy, was only a culmination of the policy of piecemeal concessions to the private sector, increasingly adopted by the government from 1957 onwards, as we have seen above.

The 1966 Budget

The Budget which had been announced in end February 1966, had also incorporated concessions to the private sector. Significantly, the tax concessions made in the Budget, corresponded to the recommendations made

154. Ibid., pp. 290-293.
in a confidential FICCI note "on (the) Present Economic Situation and
the Budget", which had been appended to a confidential letter of 28th
January from S.L. Kirloskar to Sachin Chaudhuri, Minister of Finance.
(155) In the note, FICCI proposed the abolition of the tax on bonus
shares and the equity dividend tax as well as reductions in the surtax
on company profits and the taxes on inter-corporate dividends. (156)
Thus in a press communiqué on 28th February, S.L. Kirloskar, the FICCI
President, appreciated the fact that the Budget had "removed some
irritants" e.g. expenditure tax, and the tax on bonus shares. (157) The
FICCI E.C.'s press communiqué on 4th March also expressed its
appreciation of the removal of the above taxes, as well as the reduction
in the surtax on company profits and the liberalisation of dividend
taxes. (158) The E.C. however, objected to the proposals for additional
taxation, through other or enhanced taxes in both the corporate and
personal sectors. (159)

Conclusions

In the 1964 to 1966 period, the earlier policy of making piecemeal
concessions to the private corporate sector, including Indian big

155. Confidential D.O. letter dated 28th January 1966. This letter
apparently followed a meeting between Kirloskar and the Minister,
as the former thanked the latter for his "patient hearing" of the
FICCI views during the "wide" discussions on "measures that need to
be taken to improve the economic situation." Ibid., p.191. The
note is reproduced in Ibid., pp.192-195.

156. Ibid., pp.193-194.


158. Ibid., pp.180-181.

159. Ibid., p.181.
business, continued, despite the findings of the Mahalanobis Committee and the Monopolies Inquiry Commission (MIC), which had revealed that government policies had resulted in the absolute and relative growth of the large Indian industrial houses, or 'monopoly' groups, as they are popularly known. Significantly, the government never moved a motion to allow a discussion of either the Mahalanobis Committee Report or that of the MIC, in Parliament, despite the obvious importance of both the Reports. If this is examined in the context of the actual measures adopted in the area of industrial policy during this period, the government's action in shelving discussion on these Reports, was in keeping with its now overt policy of concessions to the Indian private corporate sector, including its monopolistic upper crust.

The representation given to big business, especially to the representatives of FICCI, in both Swaminathan Committees, was another telling indication of the orientation sought to be imparted to industrial policy. In view of the composition of the two Swaminathan Committees, their recommendations, which incorporated a substantial measure of delicensing, were only to be expected. The acceptance by government of the fairly far-reaching recommendations of the Swaminathan Committees, including the simplification of licensing procedures for "key" industries, (which included a number of industries in Schedules 'A' and 'B'), apart from the delicensing of a number of industries, amounted to substantial deviations from the industrial policy framework envisaged in the 1956 Industrial Policy Resolution and in the Second Plan document. The decontrol of various commodities and the concessions made to the private corporate sector in successive budgets, further highlight the clear bias in changes in official industrial policy, which
were directed at accommodating private sector interests, including those of Indian big business.

In the case of the liberalization of industrial policy, particularly in 1966, it would appear that internal factors were not the sole cause. Pressure from the World Bank, as well as the Aid-India consortium, which culminated in the devaluation of the rupee in June 1966, probably contributed to the developments in 1966. (160) A discussion of external factors that impinged on developments in industrial policy, is however, outside the scope of our study.

The process of liberalisation of industrial regulation which began from the very inception of the system itself (161), culminated in the far-reaching concessions made between 1964 and 1966. The large-scale private corporate sector or Indian big business, was facilitated as a consequence of the liberal economic policies to grow exponentially, and not only its economic strength but apparently its political leverage, or

160. Bhagwati and Desai do not refer to the liberalisation of industrial licensing policy as a consequence of Western pressure. See Bhagwati and Desai, n.139, Chapter 22. Also Jagdish N. Bhagwati and T.N. Srinivasan, Foreign Trade Regimes and Economic Development: India, (New York: National Bureau of Economic Research, 1976), Chapters 8, 10 & 11. Similarly, Cheryl Payer does not refer to the decontrol of the industrial sector as a consequence of World Bank pressure. cf. Cheryl Payer, The Debt Trap: The International Monetary Fund and the Third World, (New York & London: Monthly Review Press, 1974), Chapter 8. She is however aware that the IMF and its sister organisations the World Bank, pressure debtor governments to reduce or to jettison state controls over the private sector in the respective economies. cf. Ibid., Chapter 10.

161. See Chapters V, VI and VII above.
its ability to wrest concessions from the government, also increased correspondingly. Writing in November 1960, D.R. Gadgil, an eminent economist who later served as the Deputy Chairman of the Planning Commission, already considered that the consequence of such policies was that "the actual possessors of the politico-economic power in the country", were "the large business interests." (162) While this may be considered an over-statement, it was by no means wholly incorrect. Because of their increased politico-economic power, large business interests had been able to significantly shape industrial policy in their favour in these years, from 1964 to 1966.

Deviations from the 1956 Industrial Policy Resolution, 1956-1966

The cumulative effect of the deviations from the 1956 Industrial Resolution was brought out by the most comprehensive study of the actual operation of the industrial policy measures from 1956 to 1966, undertaken by the Industrial Licensing Policy Inquiry Committee (ILPIC). The ILPIC Report revealed very substantial deviations from the Industrial Policy framework as represented by the 1956 Industrial Policy Resolution. The Report noted, "that the licensing system...provides considerable scope for favour to be granted and... these favours mostly... are secured by firms belonging to the Large Industrial Sector." (163) It catalogued the actual extent of the issue of licenses to the private sector for industries reserved for the state under Schedules A and B of the 1956 Industrial Policy Resolution, which we have reproduced in Tables I & II below.

The ILPIC Report also found after an examination of the financial assistance rendered to the private sector, by the three main all-India financial institutions: the Industrial Finance Corporation of India (IFCI), the Industrial Development Bank of India (IDBI), and the Industrial Credit and Investment Corporation of India (ICICI), that,

163. India, Ministry of Industrial Development, Internal Trade and Company Affairs, Department of Industrial Development, Report of the Industrial Licensing Policy Inquiry Committee (Delhi: Manager of Publications, 1969), Main Report, p.74. The term 'Large Industrial Sector' referred to the top 73 industrial houses, with assets of Rs.5 crores or more in 1964.
"The share of the large industrial sector is predominant, that of the 20 Larger Houses is very large and a few individual houses get a major share." (164) In the case of the public sector banks, its findings were substantially the same:

"the public sector banking institutions are also found to extend favoured treatment in the credit facilities offered by them to the Large Industrial Sector. Not only does large scale assistance go to the Large Scale Industrial Sector but the Share of the 20 Larger Houses, is very large..." (165)

The ILPIC Report also brought out the very considerable growth in the assets of the large industrial houses. Table III below shows the increase in assets between 1951 (Hazari's estimates) and 1966 (ILPIC estimates).(166)

164. Ibid.,p.170. The '20 Larger Industrial Houses' all had assets of Rs.35 crores or more in 1964.

165. Ibid., p.179.

166. Strictly speaking the two are not comparable as there are divergent definitions of assets, and differing methods of attributing house affiliations. Nonetheless, the data in this Table III may be considered generally indicative of the trend in the increase in assets.
<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Industry</th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Iron &amp; Steel</td>
<td>4</td>
<td>42</td>
<td>46</td>
</tr>
<tr>
<td>2.</td>
<td>Heavy Castings &amp; Forgings of Iron &amp; Steel</td>
<td>6</td>
<td>306</td>
<td>312</td>
</tr>
<tr>
<td>3.</td>
<td>Heavy Plant Machinery required for Iron &amp; Steel production, for Mining, Machine Tool Manufacture and for such other Basic Industries as specified by Government.</td>
<td>3</td>
<td>103</td>
<td>106</td>
</tr>
<tr>
<td>4.</td>
<td>Heavy Electrical Plant including Large Hydraulic &amp; Steam Turbines</td>
<td>3</td>
<td>58</td>
<td>61</td>
</tr>
<tr>
<td>5.</td>
<td>Coal and Lignite</td>
<td>46</td>
<td>344</td>
<td>390</td>
</tr>
<tr>
<td>6.</td>
<td>Mineral Oils</td>
<td>3</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>7.</td>
<td>Aircraft</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>8.</td>
<td>Ship Building</td>
<td>-</td>
<td>12</td>
<td>12</td>
</tr>
</tbody>
</table>

### TABLE - II

**LICENCES GIVEN IN SCHEDULE 'B' INDUSTRIES TO THE PRIVATE SECTOR, 1956-1966**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Industry</th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Machine Tools</td>
<td>9</td>
<td>226</td>
<td>235</td>
</tr>
<tr>
<td>2</td>
<td>Ferro-alloys &amp; Tool Steels</td>
<td>2</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>3</td>
<td>Basic &amp; Intermediate Products required by Chemical Industries, such as Drugs, Dyestuffs</td>
<td>17</td>
<td>233</td>
<td>250</td>
</tr>
<tr>
<td>4</td>
<td>Plastics, Antibiotics &amp; other Essential Drugs</td>
<td>1</td>
<td>334</td>
<td>335</td>
</tr>
<tr>
<td>5</td>
<td>Fertilizers</td>
<td>12</td>
<td>42</td>
<td>54</td>
</tr>
<tr>
<td>6</td>
<td>Synthetic Rubber</td>
<td>-</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>7</td>
<td>Aluminium</td>
<td>-</td>
<td>46</td>
<td>46</td>
</tr>
<tr>
<td>8</td>
<td>Non-Ferrous Metals (other than Aluminium)</td>
<td>-</td>
<td>87</td>
<td>87</td>
</tr>
</tbody>
</table>

**Source:** India, Ministry of Industrial Development, Internal Trade and Company Affairs, Department of Industrial Development, Report of the Industrial Licensing Policy Inquiry Committee, (Delhi: Manager of Publications, 1969), Main Report, p.106
### TABLE - III

**Illustrative List of Growth in Assets of Large Houses, 1951-1966**

<table>
<thead>
<tr>
<th>Name of House</th>
<th>Net Fixed Assets in 1951</th>
<th>Assets in 1966</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tata</td>
<td>54.31</td>
<td>505.36</td>
</tr>
<tr>
<td>2. Birla</td>
<td>24.23</td>
<td>457.84</td>
</tr>
<tr>
<td>3. Martin Burn</td>
<td>17.87</td>
<td>153.06</td>
</tr>
<tr>
<td>4. Bangur</td>
<td>3.53</td>
<td>104.31</td>
</tr>
<tr>
<td>5. Thapar</td>
<td>3.52</td>
<td>99.80</td>
</tr>
<tr>
<td>6. Dalmia Jain</td>
<td>14.32</td>
<td>58.75</td>
</tr>
<tr>
<td>7. Bird Heilgers</td>
<td>7.96</td>
<td>68.62</td>
</tr>
<tr>
<td>8. J.K. Singhania</td>
<td>4.33</td>
<td>66.84</td>
</tr>
<tr>
<td>9. Walchand</td>
<td>18.01</td>
<td>81.11</td>
</tr>
<tr>
<td>10. Shri Ram</td>
<td>4.98</td>
<td>74.13</td>
</tr>
<tr>
<td>11. Mafatlal</td>
<td>3.98</td>
<td>92.70</td>
</tr>
<tr>
<td>12. Andrew Yule</td>
<td>10.03</td>
<td>46.75</td>
</tr>
<tr>
<td>13. Kasturbhai Lalbhai</td>
<td>2.95</td>
<td>51.19</td>
</tr>
<tr>
<td>14. Kirloskar</td>
<td>0.64</td>
<td>43.02</td>
</tr>
<tr>
<td>15. Mahindra &amp; Mahindra</td>
<td>0.86</td>
<td>38.58</td>
</tr>
<tr>
<td>16. V. Ramakrishna</td>
<td>0.99</td>
<td>18.78</td>
</tr>
<tr>
<td>17. Khatau</td>
<td>11.44</td>
<td>40.09</td>
</tr>
</tbody>
</table>

Sources: (1) For 1951 figures which refer to net fixed assets, R.K. Hazari, *The Structure of the Private Corporate Sector*, (Bombay: Asia, 1966), pp. 33-35, Table 2.1.

What emerges quite starkly from the ILPIC Report is that the state-controlled industrial policy mechanisms operated substantially in favour of big business. The extent of the deviations from the 1956 Industrial Policy Resolution, catalogued in the ILPIC Report, further highlights the considerable measure of big business influence on industrial policy as it developed from 1956.