CHAPTER I

INTRODUCTION

The devolution of authority to the representatives of the Indian National Congress, by the withdrawing British colonial power, as envisaged in the Indian Independence Act, 1947, passed by the British Parliament, transformed one of the biggest national movements for independence into a legitimised power-structure. Congress -- the major forum for mobilising the people of India for national independence -- suddenly found itself in the position of a government called upon to run a continental polity.

At the time of the transfer of power the country was faced with a variety of challenges. On the one hand, the partition of India, the widespread communal riots, the massive migration of population and the consequent problems of settlement of refugees, had to be dealt with, with speed and firmness; and on the other, in addition to the post-World War II programmes of reconstruction, the political leadership had to take immediate steps for deciding on the nature, form and character of the state intervention in the economy of independent India. Mere reaffirmation of the objectives of ending "poverty, and ignorance, disease
and inequality of opportunity" was not sufficient (1); the government was required to announce specific policy measures and programmes in order to fulfill the hopes and aspirations aroused among the masses during the freedom struggle. The content and thrust of the new policies had to be such as would correct the distortions in the economy that the colonial government had created in order to protect and promote the British interests in India. The Congress Party and its leadership had been actively engaged in discussions on the need for adopting a number of socio-economic policies. There were alternative policy frameworks which were under debate during the immediate preceding years i.e. from 1944 to 1947. Thereafter, the government announced a number of economic policies. In the area of industrial policy, the Industrial Policy Statement was placed before the Constituent Assembly (Legislative) on April 6, 1948. The Statement also announced the setting up of the Planning Commission. The approach towards foreign capital was articulated in the Statement on Foreign Investments exactly a year later, on April 6, 1949. The same day the Industries (Development & Control) Bill, 1949 was placed before the Constitutent Assembly (Legislative). The sum total of the various economic policies adopted in the years immediately following Independence, became the basis for the determination of the precise role and character of state intervention in the economy.

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1 Jawaharlal Nehru in his now famous "A Tryst with Destiny" speech delivered in the Constituent Assembly on August 14, 1947 had considered this part of the service to the suffering millions to which the members of the Assembly (as well as the rest of the political leadership) should be, and were, pledged. cf. Independence and After, Speeches of Jawaharlal Nehru, (1946-1949), (Delhi: Director, Publications Division, 1949), pp. 3-4.
One of the more controversial areas of public policy is the industrial policy followed after Independence. As a part of the effort to locate the roots of current problems (2), our study seeks to examine the development of Indian industrial policy in the light of the interaction between the government and Indian big business, particularly in the period from 1947 to 1966.

Objectives of the Study

The FICCI is generally considered as the representative apex body of Indian big business. There are probably historical reasons for this, as also the belief that FICCI has been able to maintain very close contacts with the government and the leadership of the Congress Party. (3) The modus operandi of FICCI to reach this position of influence on the party and government is a matter of inquiry for students of social sciences. It would be of interest to see why one group of industrialists succeeded more than the others -- if at all there were differences in the actual levels of success.

The subject matter of this study is the interaction between the business and political leadership in India and the resulting effect on

2 For instance, Bhagwati and Desai, in their study have sought to locate the causes of India's current economic problems, by an analysis of the policies of industrialization followed in India after 1951. They however have not examined the role of pressure groups in influencing these policies. There is only one reference to FICCI and to ASSOCHAM in their book. cf. Jagdish N. Bhagwati and Padma, Desai, India Planning for Industrialization -- Industrialization and Trade Policies since 1951, (London: Oxford University Press, 1970), see especially pp. 1-9, 29.

3 See for example Stanley A. Kochanek, Business and Politics in India, (Berkeley: University of California Press, 1974).
the formulation and implementation of Indian industrial policy. The study seeks to examine the party and government responses to the group strategies and to evaluate the change in business stances. We are paying special attention to the statements and policies in the broad area of economic policy during the pre-Independence period, and to industrial policy in the years immediately following Independence.

This study, encompasses an examination of the developments immediately following Independence which laid down the foundations for, and determined the general orientation of, the government policies towards most of the basic issues relating to industrialization. These include: the role of the state; the reservation of particular areas of industrial activity for specified sectors: the state, private, small-scale, cooperative and cottage industries sectors; the scope and content of the planning of industrial activities including the fixing of priorities; the licensing of industrial units; and the broad regulation of foreign investment and collaboration. The 1948 Statement of Industrial Policy, the 1949 Statement on Foreign Investments, and the 1956 Industrial Policy Resolution, were a consequence of these developments.

Major changes, modifications and developments in these policies, particularly relating to industry would be scrutinised in the background of the Congress Party's resolutions as well as the positions taken by FICCI. The study will attempt to discern if there was a particular pattern in these developments, either on the part of the Congress, the government or the FICCI. The lobbying techniques employed by FICCI would also be a focus of study. This would include both formal and
informal, direct and indirect lobbying. The efficacy of business strategies and lobbying techniques would be measured in terms of developments in the formulation and implementation of the industrial policy in India. Changes in the direction of industrial policy as lobbied for by the FICCI, would be taken as an indices of the success of the particular strategy and/or lobbying effort.

An examination of the interface between the Congress party leadership and its government on the one side, and FICCI on the other, may provide some explanation for the changes in attitudes on both sides. It would then be possible to locate and to assign relative weights to various factors responsible for the modifications in policy and the changes in attitudes and overall approaches.

On the basis of the above analyses, certain evaluations of the character of the Congress and Indian big business would be arrived at. Some controversial questions relating to the purported pro-business or anti-business nature of Congress policy would therefore be examined. Similarly, assessments of the character of Indian big business and FICCI would be evaluated.

As a result of the study therefore, some major aspects and dimensions of the path of industrialization followed in India from 1947 to 1966, would be brought out. This in turn may be of utility in an overall assessment of the political and economic forces that shaped the destiny of free India.
Hypotheses

We seek to evaluate the following hypotheses about the process of interaction between Indian big business and the government during the period, 1947 to 1966:

(1) While the FICCI was organized to promote and to protect the interests of trade and industry in general, in its actual working it has become the representative body of Indian big business; and it has consistently sought to promote and defend the interests of Indian big business and not that of the industry or trade at large.

(2) The main reasons for FICCI's influence with the Congress government were:

(a) The ties that the FICCI leadership had been able to establish with the Congress leadership of the nationalist movement in the pre-Independence period; and

(b) FICCI's general policy of seeking to avoid confrontations with the Congress by working with and within the ruling party as far as possible.

(3) FICCI's relationships with the Congress government's leadership enabled this constituent of the Indian big business to influence the formulation and implementation of industrial policy.

(4) In the 1947 to 1966 period, there were significant modifications of government industrial policy to the advantage of Indian big business.
(5) The processes of interaction between FICCI and the government contributed to the dilution over time of those elements of industrial policy which restricted the growth of Indian big business.

**Methodology**

Pressure group studies, by their very nature, are marked by difficulties of access to reliable data. This is more so in the case of studies of the activities of business lobbies (See Chapter II below). The critical portion of these activities is informal and remains highly confidential. Many of the records even when maintained are strictly confidential and are not accessible to individual and independent researchers. On the other hand, access to official government files and records is a near impossibility because of the high level of secrecy maintained under the plea of protecting public interest. Moreover, government records of even the early post-Independence period are not readily available in the National Archives.

One alternative to problems of available written records and data could conceivably be the interview and questionnaire method. For the reasons mentioned above, in studies such as ours, this method has severe limitations. Both business circles and representatives of government, seek to underplay, if not to actually conceal, the extent of the interaction between business and government, especially insofar as it affects official policies. One has also to be conscious that a insufficiently critical assessment of opinions and information, gathered from interviews and questionnaires, may lead to inadequate conclusions as these may carry the biases and prejudices of the respondents, who were directly involved in gaining advantages or in extending patronage.
which are usually prepared by FICCI representatives present. This volume is of special importance for a study such as ours, since it provides extensive documentation of the government-business relationship. We have substantially relied on data provided in this volume (4). The annual FICCI Volume III is the "Proceedings of the Annual Session". From 1958, the verbatim report of the proceedings was replaced by a summary report prepared by the FICCI Secretariat. Since FICCI Annual Sessions were generally inaugurated by the Prime Minister, and many of the Central Ministers and important government functionaries also attended, the speeches made at the Sessions had important policy implications.

We have extensively utilised all three annual volumes of FICCI, particularly Volumes II and III, for the entire period of FICCI's existence i.e. from 1927 to 1966.

FICCI also publishes its own newsletter, which up to 1951 was called the "News Letter", from 1951 to 1956 was called "News and Notes," and after 1957 became the "Fortnightly Review". This newsletter which contains brief reports of FICCI constituents and bodies was also consulted.

Apart from the above cited sources, there are a number of other FICCI publications including the FICCI Silver Jubilee Souvenir published in 1951, which contained a fairly systematic year by year description of FICCI activities. These have also been used.

4 Since then access to this volume has been severely restricted, and these records are not generally available to researchers.
Chapter VI is an examination of the early institutional backdrop of industrial policy. The principles of social reconstruction and the nature of the policy envisaged in the Indian Constitution, especially the guiding 'macro' objectives enumerated in the preamble and amplified in legal terms in Part III -- Fundamental Rights and in Part IV -- Directive Principles of State Policy, are examined. The repercussions of having representatives of Indian big business on some of the vital committees of the Constituent Assembly are brought out. The developments in the framing of the Industries (Development and Control) Bill of 1949, in two Parliamentary select committees, and the political background in which the Industries (Development and Regulation) Act was enacted in 1951, is subjected to close scrutiny. The chapter concludes with a brief discussion on the establishment of the Planning Commission, and the efforts by a section of the congress leadership in reassuring Indian big business that planning per se was not intended to curb the role and significance of the private sector.

Chapter VII deals with the development of industrial policy from 1951 to 1956. It encompasses a brief discussion of the role of the private sector in the formulation of the First Plan, in its Draft and Final stages. The changes in FICCI reactions to the government policy towards private foreign capital are described together with a discussion of factors contributing to this change. The manner in which the goal of a "socialistic pattern of society" was adopted by Parliament in December 1954 and the possible reasons behind the Avadi Congress Session's espousal of socialism in January 1955, are examined. The nationalisation of various industries and enterprises in this period, the compensation offered and the private sector's reaction to these
acts, are briefly sketched out. A discussion of the manner in which big business objections to the ratio of public to private sector investment in the Second Plan were accommodated, resulting in modifications of the Draft, follows. These events provided the background in which the April 1956 Industrial Policy Resolution was formulated. An analysis of this Resolution and Indian big business's reaction to it is undertaken to conclude this chapter.

Chapter VIII delineates the trends in industrial policy between 1956 and 1963. Deviations from the letter and spirit of the 1956 Industrial Policy Resolution, are discussed. The possible effect of the 1957 General Elections and the relative weaknesses of the opposition (especially the Left), on the FICCI-government relationship is sought to be assessed. FICCI attitudes towards the Swatantra Party are also examined. The attempts by FICCI to have the outlay for the private sector increased in the Third Plan, and their success in this effort are brought out. The liberalisation of licensing policy in 1960, 1962 and 1963, and FICCI's reactions are assessed. The discussion concludes with an evaluation of the FICCI's role with reference to the proposed 1963 amendment to the Companies Act of 1956.

Chapter IX examines the development of industrial policy in the years, 1964 to 1966. The highlights of two major reports of the Mahalanobis Committee (1964) and the Monopolies Inquiry Commission (1965), are discussed insofar as they bring out the phenomenon of the growth of Indian big business in the post-Independence period. In particular, the role of government agencies in facilitating the growth of the monopoly houses is explained in some detail. The establishment and composition, together with the recommendations of the Swaminathan
Bahadur Shastri i.e. from 1947 to 1966. These years witnessed the formulation, as well as the development, of the basic framework of the industrial policy of free India. The following years were apparently marked by the accentuation of already existing trends in industrial development, established in this earlier period. It appears to us therefore, that the period: 1947 to 1966, provides sufficient evidence to bring out the nature of linkages between Indian big business and government, together with the actual degree of influence enjoyed by the large private corporate sector in the formulation and implementation of industrial policy. These relationships determined, at least in some measure, the foundations for, and the characteristic features of, Indian industrial development in later years.