CHAPTER VI

CONCLUSION

At the time of getting independence, India was economically one of the most backward country of the world. More than eighty percent of our countrymen depended on agriculture for their sustainance. The country during colonial rule had undergone a phase of de-industrialisation. Traditional Indian industry had declined and it was attributed to or deemed to be the consequence of policies pursued by the alien Government. The issue of Indian backwardness was raised by various nationalist leaders like Dadabhow Naoroji, M.G.Ranade etc. from time to time. Against the background of this de-industrialisation thesis, there were others like M.G.Ranade who stressed the importance of industrialisation as a remedy for poverty. By the first two decades of the twentieth century, the need for industrialisation to ameliorate country's poverty was widely accepted. There was even a plea for state protection and promotion of private investment from an unequal and unfair foreign competition. It was believed that Government policies and, to some extent, direct Government support was a pre-condition for industrial development.

The requirement of active Government support in the
process of industrial change, even before independence, was also being ardently felt by Jawahar Lal Nehru and a group of leading industrialists. In 1938, a National Planning Committee was constituted under the chairmanship of Jawaharlal Nehru, at the instance of the Indian National Congress. The Committee had a diverse membership that included well-known industrialists, financers, economists, professors, scientists and representatives of the Trade Union Congress and the Village Industries Associations. There was wide consensus in the Committee of a very important regulatory role for the state which must not only prescribe the pattern but also control the process of industrial change. A Group of leading industrialists including J.R.D.Tata, G.D.Birla and Lala Sri Ram appealed for Government intervention to cope with the huge task of pushing through the extensive industrial programme in a short period of time. According to them, an enlargement of the positive as well as preventive functions of the state was essential for any large scale economic planning.

Congress Government which took over state power in 1947 had a complex and contradictory character. The positions to leadership were occupied by men drawn from diverse political philosophies that ranged from staunchly conservative (e.g
Sardar Vallabhbhai Patel) to those committed to socialist ideals (e.g. Jawaharlal Nehru). The ideological influence upon the regime thus pulled into different directions. This somewhat delicate political balance between the more radical elements in the Congress Party and the conservative segment was reflected in the Industrial Policy Resolution (IPR) of April, 1948 and the adhoc economic policies that were pursued in the first three or four years after independence. These policies generally favoured private capital. The IPR, 1948 made a specific mention of the urgent need of foreign capital and further provided assurance of non-discrimination between foreign and Indian undertakings in the application of general industrial policy. These official policies opened the door for the entry of foreign drug companies in India, either as subsidiary Companies or collaborators with Indian entrepreneurs.

With the demise of Sardar Vallabhbhai Patel in early


2. In addition, there was an important contradiction between aims and objectives of a major fraction of the leadership, committed to socialist ideals and the base of the Congress movement. Congress did not really have a mass base, depended as it upon locally dominant rural elites.
fifties, the political equations changed dramatically. The conservative elements weakened and the radical section gained prominence. Jawaharlal Nehru emerged as the undisputed leader of Congress Party. Subsequently, Parliament adopted the socialistic pattern of society as the objective of social and economic policy of the state and passed the Industrial Policy Resolution (IPR), 1956 that sought to increase the role of state in economic sphere. The 1956 policy attacked the position of private sector as it provided for increasing supervision and control over the private enterprises under the framework of the Industries (Development and Regulation) (IDR) Act of 1951. It was made compulsory to obtain licence from the Central Government for the establishment of new industrial units or substantial expansion to existing plants. The Central Government was empowered to investigate the operation of any industry to make regulations concerning the quality and price of production. Further, 1956 Resolution emphasized the displacement of the private sector as the pre-eminent agency of Industrial development.

The IPR, 1956 marks the second stage in the evolution of industrial policy in India and that continued to be the stated or officially declared position of state with respect to industrialisation, until seventies. It was only in the beginning of eighties (after the return of Indira Gandhi) that official stance changed to some extent. However, it may be pointed out here that, contrary to the common belief that the Industrial Policy Resolution, 1956 established an area of activity which was not open to private sector and that the role of private industry would be increasingly circumscribed, the text of the Resolution allowed much greater flexibility in policy operation. In other words, the framers of the Resolution envisaged situations where the public sector might enter into areas normally reserved for the private sector and to some extent, vice-versa. The 1956 Resolution, further, contained commitment that it will be the policy of the state to facilitate and encourage the development of industries in private sector in accordance with the programmes formulated in Five Year Plans. The resolution provided that while the private sector must necessarily fit into the framework of the social and econo-

ic policy of the state, and subject themselves to control and regulation in terms of the relevant legislation, the Government of India recognised the desirability (in general) to allow such (private) units to develop with as much freedom as possible consistent with the targets and objectives of the National Plan. In situations where both privately and publicly owned units exist in the same industry, the resolution stated that the policy of the state would be to continue giving fair and non-discriminatory treatment to both of them.

With the introduction of Planning and Industrial Licensing and continued shortage of foreign exchange, which emerged towards the end of fifties and persisted throughout later two decades, a trend towards greater centralisation gained strength. Decisions regarding the import of capital goods as well as the availability of raw materials, partly or wholly imported, came exclusively under the control of the Central Government.

Broadly speaking, the Industrial Policy Resolution (IPR), 1956 continued to guide the industrial policy for over two decades. The period, however, witnessed numerous important developments that had a bearing on the 1956 policies, enunciated or implicit, and it required a review of
the procedures and administrative mechanism evolved therein. However, in practice there was considerable resistance to the introducing of major changes. Over the years, the gap between objectives and achievements, i.e., between what the particular policy instruments were supposed to achieve and what, infact, they did achieve continued to widen. An overview of the successive Policy Statements show that this happened because Government's policies were relatively strong on statement of goals or objectives, much inadequate on the elaboration of operating strategies and infact there existed no regular mechanism for the appraisal of policy. Successive reviews of Five-Year Plans were not followed either by modifications in policies or by any improvement in mechanisms to achieve the stated objectives. At the same time, the elaborate regulations and controls such as industrial licensing, import controls, price and distribution controls, foreign exchange regulations, control over induction of foreign technology and capital, and FERA/MRTP approvals etc. had dynamics of its own. This system, in interaction with the social and political milieu of the nation, led to the growth of a powerful lobby of bureaucrats, politicians and industrialists, each having a vested interest in avoiding any major modification of the prevailing system.
While the elaborate structure of controls and regulations that began with IPR, 1956, continued (broadly) in the later two decades, a retreat from socialist objectives had already begun even Nehru's death in 1964 and the process was swiftly completed during brief tenure of Sri Lal Bahadur shastri. Shastri lacked a mass support base of his own and in the face of growing domestic opposition and criticism of international aid-giving agencies to the ambitious industrial plans in the public sector that ignored incentives to private (domestic and foreign) investment, he allowed a complete re-orientation of the approach to the economy. The Planning Commission was effectively superseded as a policy-making agency with declaration of Plan holidays. It was at this time too, that there was a shift from controls to incentives as major instruments of development planning, and an enlarged role for private domestic and foreign investment was encouraged. Under the pressure of international capital and US Government, the rupee was devalued in 1966 inspite of strong opposition within India. The period of mid-sixties thus marks the third stage in the evolution of industrial policy in India. Since mid-sixties, there has been a general relaxation of industrial controls, the passing of the Monopolies and Restrictive Trade Practices Act in 1969 has been largely a matter of 'show' for the provisions of the Act.
were almost immediately undermined. The principal beneficiaries of this relaxation seem to have been the top business groups and the rich farmers who have prospered from the "new strategy" while paying very little to the state in taxes. This is evident from the fact that inspite of general sluggishness of the industrial economy since about 1966, the big business houses have performed relatively well. Similarly, the rural rich—the rich peasants/landowners have frustrated attempts at taxation by the state and have even deprived the state of public resources through their non-payment of electricity and irrigation dues.

The period beginning with early 1980 marks a new phase in the economic policy of our country. On coming into power for the second term, Indira Gandhi initiated a number of measures during 1981-82 to liberalize the economy. She completed a loan agreement of SDR 5 billion with the IMF. Thereafter, steel and cement prices were decontrolled, import of manufactured goods was liberalized and controls on both entry and expansion of national firms were relaxed. During 1981, her government sanctioned four times as many applications for expansion and new undertakings as were done
in any of the five preceding years. Over the next two years, as the perspective on the seventh plan developed, it became clear that the next emphasis would be on efficiency of investment together with a general move "away from administrative to financial controls". Following the recommendations of the L.K.Jha Commission on Economic and Administrative Reforms, the government placed 20 important industries under "automatic licensing." In reality this implied almost decontrol by the government on expansion and new production in these industries. This new economic direction was a part of the overall ideological shift that Indira Gandhi adopted.

The arrival of Rajiv Gandhi on the scene is significant from the point of view of economic policy; it marked a decisive shift from the state controlled and import substitution model to a liberal model of development. Shortly after a resounding victory in 1985 General Elections to the Parliament, Rajiv Gandhi summed up his government's ap-


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proach to the economy as involving a "judicious combination of deregulation, import liberalization and easier access to foreign technology". 8 This marked a sharp disjuncture from Nehru-Indira Gandhi era wherein there was a rhetorical emphasis on "socialism, planning and self-reliance". A sharp ideological shift in the governmental stance is also evident in the new group of Economic advisors of Rajiv Gandhi that included individuals such as Montek Ahluwalia, Abid Hussain, Bimal Jalan, Manmohan Singh and L.K.Jha. Some of them had World Bank background; most of them were known for their decontrol and pro-liberalization proclivities.

With the coming of P.V.Narasimha Rao to power in June 1991, the process of liberalization in the economy has witnessed a fresh momentum. The alterations made in the industrial policy since 1991 have led to the dismantling of most of the industrial controls and regulations that had remained in place by this time. The basic objective behind economic liberalization has been to reduce the discretionary role of government in economic matters with the objective of enlarging the role of market forces in the sphere of country's economy.

Now, let us discuss the major phases in the making of

8. Quoted in Times of India, 6 January 1986. New Delhi
drug policy in India.

II

After independence, Government adopted a liberal attitude towards the entry of foreign capital and technology into the Indian drug Industry. The Industrial Policy Resolution (IPR), 1948, made a special mention that foreign capital and technical know-how would be essential for the faster growth of drug industry. In order to encourage the inflow of industrial know-how and capital from overseas, the 1948 resolution assured them of non-discrimination between foreign undertakings and Indian firms in the execution of general Industrial Policy. After few years, Parliament passed the Industrial Policy Resolution, 1956, which placed the "Anti-biotics and other essential drugs" in schedule B industries implying that the public and private sectors would be participating in the growth of this industry. The Resolution also stipulated that the industry in which both privately and publicly owned units exist, both the categories would continue to get fair and non-discriminatory treatment.

With the above liberal policies towards the entry of foreign capital in the country, several transnational phar-
maceutical companies established manufacturing units here, either as subsidiary companies or as collaborators with Indian entrepreneurs. These manufacturing units were merely formulators that imported bulk drugs and sold them in packed formulations. It has been noted by Hathi Committee that, *were carried on without investing in factories* "all these activities or employing technical personnel." 9 Between 1952 and 1965, multinationals in the drug industry received "a big impetus to boost their turnover" as "permission letters" to produce 364 items were granted to 15 leading foreign units. 10 Only four of these items were bulk drugs, the rest being formulations "many of which could have been easily manufactured by the Indian sector." These formulations included what the Hathi Committee termed "household remedies" which did not require a doctor's prescription, such as "cough syrups, ring worm ointments, 'health salts', gripe mixtures, laxative tablets, eye drops, malted tonics, digestive tablets" and so on. These permission letters were in the nature of blanket orders which allowed the units to manufacture drugs and pharmaceuticals. In many cases, neither the capacities nor the drugs that a unit could produce were mentioned. 11

10. ibid., Chap.5, Annexure II, pp.110-120.
11. ibid., p.86.
The opening of door for the entry of MNCs in the drug industry, however, did not improve the availability of essential and life-saving drugs in the country. Also, prices of drugs were quite exorbitant. Bulk drug production being relatively less remunerative, the MNCs confined their activities to the highly profitable formulation business. They imported bulk drugs from their parent concerns and sold their formulations at exorbitant prices. In order to fulfill its responsibility of providing quality drugs to Indian people at reasonable prices, Government found it desirable to plan and regulate the industry for its proper growth. Further, Government entered into the production and distribution of basic (bulk) drugs and setup two public sector companies - Hindustan Antibiotics Limited (HAL), at Pimpri and Indian Drugs and Pharmaceutical Limited (IDPL) with one unit of each at Hyderabad and Rishikesh.

The entry of Public sector to the production of bulk drugs marked the second stage in the evolution of drug policy and drug industry in India. However, against the background of developing shortages in the drugs industry during the 1965-67 period, the devaluation of the rupee and the liberalization of import policy, licensing policies were further liberalized. In 1966-67, existing manufacturers were
allowed to diversify production into the manufacture of "new articles" and to expand licensed or registered production capacities up to 25 percent, subject to the condition that no additional plant and machinery other than indigenously procured balancing equipment, was installed. Later, in 1970, this concession was withdrawn, and the diversification which had taken place earlier had to be regularised through "carrying-on-business (COB) licence. Under this new procedure, 12 foreign and five Indian Companies obtained COB licences covering 215 formulations and 20 bulk drugs.

The public sector's role in drugs production had a desirable impact on the industry. By early seventies, public sector undertaking emerged as pioneers in the production of basic drugs in our country. In 1973, the Public Sector and Indian majority units together manufactured approximately 89 percent of total bulk drugs (in terms of volume) indigenously. The industry was also quite diversified producing a wide range of drugs including the sophisticated ones like antibiotics, hormones, vitamins, in addition to a large number of basic chemicals needed in the manufacture of drugs. Notwithstanding the achievements of public sector in bulk drug production, it did not have a decisive impact on the industry as far as the control of drug industry was con-
cerned. Foreign sector in 1973-74 continued to control about 70 percent of the total sales turnover of drugs in the country. Though prices of drugs produced by public sector fell sharply, that of others where MNCs had monopoly, continued to rise unabated.

Later on, Hathi Committee (1975), noted that the liberal policies of Government (mentioned earlier) were mainly responsible for the foreign hold over the drug and pharmaceutical industry. Hence it recommended for curbing the role of MNCs in Indian drug industry. However, the committee's recommendations (such as nationalisation of foreign sector) were either not accepted or diluted to such an extent that those provisions when implemented lost their effectiveness. The 1978 Drug Policy for instance, left enough of scope for further expansion and growth of private sector including the foreign sector.\(^{12}\) Further, the policy lacked in a definite strategy for implementation of its provisions. Thus, for instance, the provision of ensuring production of at least 20 percent of drugs in the essential drugs category by the private sector was never acted upon. Similarly, the prov-

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12. The 1978 Drug Policy treated 40 per cent foreign equity holding companies as Indian Companies in respect of application of general Industrial policy. Thus, under the guise of Indian Companies, they could enjoy all the benefits meant for purely Indian Companies.
sion requiring production of bulk drugs and formulations by the foreign sector in the ratio of 1:5 was never monitored.

Notwithstanding its shortcomings, the 1978 Drug Policy had some commendable provisions. The policy of sectoral reservation in favour of public sector and Indian majority companies provided a strong basis for the growth and expansion of the indigenous sector. It was due to the positive features present in 1978 policy that the indigenous drug production achieved present status.

A major change in Indian drug policy began in early eighties. In its pursuit of economic liberalization, government diluted the policy of sectoral reservation in matters of drug production in favour of Indian sector companies initiated under 1978 policy and delicensed 12 bulk drugs in March 1983 and 82 bulk drugs in June 1985. This scheme of delicensing covered all anti-cancer drugs. With this scheme of delicensing, all companies including MNCs could manufacture these 94 bulk drugs, hitherto reserved for Indian sector. The 1986 Drug policy further extended the delicensing scheme to all the bulk drugs whose imports were allowed on OGL (Open General Licence). The scheme was also made available to all drug firms, including FERA Companies, in case of all new bulk drugs and related formulations de-
veloped indigenously.

It is thus clear from above that the policies in eighties with regard to drug industry, abandoned the earlier efforts of self-reliance in drug production. The policy showed a shift towards increasing reliance on private sector to meet the drug needs of country.

The New Drug Policy, 1994, marks a clear departure from the earlier ones, since major changes were introduced in the drug policy in the light of New Economic Policy in nineties, essentially to free the industry from remaining government regulations and to give freer scope to the foreign companies in their operation in Indian market without extracting any commitment from them in matters of production of essential drugs from basic stages and technology transfer. The new policy like the policy in eighties treats the drug industry like any other industry without regard to its special character or its social responsibilities. In other words, the 1994 policy does not address itself to the issues of price rise, non-availability of essential and life-saving drugs, quality control, brand name, abundance of harmful drugs in Indian market and so on.

Now towards the close of this chapter, let us endeavour to analyse the nature of state in India in the light of
above observations.

III

We have seen in earlier chapters, how state intervention has shaped industrial change in general and drug industry in particular. We have also seen that a major shift in the drug policy took place in eighties and ninties, the emphasis having shifted from self-reliant and import-substitution model of development to a liberal model of development with emphasis on deregulation and decontrol. Let us now examine what this shift in the role of state signifies and what it suggests about the nature of state in India.

The transfer of power from colonial rulers brought to culmination one of the history's longest struggle for freedom. Indian National Congress, the successor of British paramountacy in India was not a cohesive group; it had rather complex and contradictory nature. Congress Party's leadership consisted of broadly two contradictory forces: one group led by Jawaharlal Nehru comprised of socialists and, the other group led by Sardar Patel comprised of conservatives. Under such circumstances, Nehru adopted a mixed economy model of development which favoured growth of public sector while ensuring at the same time sufficient scope for
the growth and diversification of private enterprises.

Nehruvian state interventionism, however, did not represent a concession or a retreat of the Indian Capitalist class. Mixed economy model of development suited to both political exigencies and constraints of inherited colonial economy. Stifled earlier by the constraints of a colonial economy and striving to carve out a space for itself in the face of stiff opposition from metropolitan capital, Indian capitalist class urgently needed state intervention on their behalf against the metropolitan capital, for its own survival and growth. Another important reason for state promoting industrial development in the public sector was that immediately after independence, it could not show itself to be blatantly partisan towards private capital while promoting capitalist development in India. Hence state in India continued with the rhetoric of socialism, its stance of acting on behalf of all classes by imposing curbs on monopoly capital and providing a minimum of social security network to the industrial workers, and even, to some extent, to the rural poor. In other words, national interests were never officially made identical with the interests of any particular class.

The changes in the economic policy (of the country),
that were initiated somewhat hesitantly in early eighties but carried on throughout the decade, have since the mid-1991 gained momentum. The changes such as removal of state controls in various spheres are commonly perceived as involving a 'retreat of the state'; this perception however is misleading. This transition is not merely a shift from one technique of state intervention to another but involves a transition from one paradigm of state intervention to another, a shift in the ideological foundation of the state. In other words, there is a specific redistributive design\textsuperscript{13} at work, a specific kind of intervention embedded within the so-called 'retreat of the state'. This involves a 'retreat' from the welfare policy of state, which were begun in post-war Europe and adopted in newly independent countries of 'Third World'. Instead of standing above classes and acting in the interests of society, we are now witnessing a transition in the capitalist world to a blatantly partisan state - a state that favours untinted hegemony of private capital. The immanent contradictions of 'welfare capitalism' and receding socialist challenge internationally, together with the exhaustion of reformist efforts at finding solutions for them, paved the way for the regime-change. In the case of

\textsuperscript{13} See, Prabhat Patnaik "A Note on the Political Economy of the 'Retreat of the State'," \textit{Social Scientist}, Vol.20, No.11, November 1992.
India, while the pressure from the IMF and the World Bank for a regime change away from Nehruvian state interventionism towards 'economic liberalisation' has been very much there, it would be erroneous to ignore pressure emanating from the domestic monopoly capitalists for a change along similar (though not necessarily identical) lines.

The changes in Indian drug policy in eighties and ninties involves a broader shift in the ideology and commitment of the state, a movement away from welfare economics and in favour of private capital, both domestic and international.