CHAPTER I

INTRODUCTION

The study of state is of special relevance to any social science research. It is the central agency by which power and resources in the society are mobilised and distributed. In order to understand the nature of state and the role it plays in society, an analysis of its policies is essential.

The Conventional liberal-pluralists and Marxists treat the state as an arena in which conflicting interests are balanced (pluralists) or the coercive powers of the dominant classes are exercised (traditional Marxists). In both of these approaches, the state has been regarded as mere expression of other socio-economic forces. These society-centred theories of state, however, distract our attention from the concept of state as a "potentially autonomous" actor, that is to say, that state could be relatively autonomous of societal formations.

Our concern in this thesis is to examine the nature of state intervention in the specific area of drug industry.

As in other late industrializing countries of the "Third World", the state in India after independence was expected to participate in the economic development of the country. The political leadership had to initiate immediate steps regarding the nature, form and character of state intervention in economy after independence. The hopes and aspirations of the masses were aroused during the freedom struggle and hence specific policy measures and programmes were to be announced. The content and thrust of the new policies had to be such as would correct the distortions in the Indian economy that the colonial rule had created to promote and sustain the economy of British Empire.

During the two World Wars, a small capitalist class had developed in India due to disruption in the supply of goods during War years. These capitalists were conscious of the fact that if the Indian private capitalist industry had to grow, it would need to be actively promoted and protected by the Government from unequal and unfair foreign competition. A group of leading industrialists including J.R.D. Tata, G.D. Birla and Lala Sri Ram had even worked out a plan, which later came to be known as "Bombay Plan", soon after the end of World war II. The Plan made a plea that Government intervention was necessary to cope with the huge task
of pushing through the extensive industrial programme in a short period of time. Thus, there was almost a consensus of a very important regulatory role for the state which must not only prescribe the pattern but also control the process of industrial change.

Realising the need for large scale development of infrastructure, requiring large investments, the then Prime Minister Jawaharlal Nehru was convinced that the country could make a rapid stride in the economic front only if state participated in the economic development on a large scale. Thus, immediately after independence, the state intervention in economic activities war initiated.

OBJECTIVES OF THE STUDY

State intervention in industrial development started immediately after independence. The political leadership initiated a number of measures and policies for rapid industrial progress. The subject matter of this study is, to examine the role state has played in the country's industrial growth. How has the state intervention in India affected its industrialization? Has the state in India been autonomous from societal forces? What does the role of state in industrialisation suggest about the nature of state itself?
As a specific case, the Drugs and Pharmaceutical industry has been taken up for the present study. The drugs being crucial to our national health, an active support of state was imperative for any rapid development of its indigenous capabilities. It was essential that state should support indigenous drug industry so that country could be relatively self sufficient for its drug requirements.

Most studies on Indian state have been theoretical. In this study, an attempt has been made to understand the role of state in India in its operational aspects. Further, a study of drug policy has never been undertaken in the past by political scientists. The thesis seeks to fill this gap.

**Hypothesis/Research Questions**

This study is based upon the premise that there has been a distinct shift in the role of state in India since early eighties from an interventionist to a more regulatory kind of role. State has gradually allowed greater role for the market forces to operate in the Indian drug industry. Keeping this in mind, the study seeks to examine the following research questions about the nature of state intervention in India:

(i) How has the Industrial Policy (in general) and
drug policy (in particular) affected the growth of indigenous and foreign sector?;

(ii) What has been the role of public, private and foreign sector in the structural development of pharmaceutical industry in India and its repercussions thereby ?;

(iii) What has been the role of multinationals in the Indian drug industry vis-a-vis production of essential and priority drugs, Research & Development etc?; and

(iv) What kind of interventionist role has the state played in industrialisation and what does this indicate about the nature of state itself?

Methodology

This study concerns with various sorts of developments in the drug industry - its structure, growth and policies etc - over the years. It would involve comparing statistical data of production of drugs, the contributions of different sectors of the industry, the relative contribution of these sectors in research and development (R&D), and in the production of essential drugs. That is to say, the study would compare the contributions of the different sectors with regard to these variables over a time period. For this statistical compilation of data would be undertaken.
Sources of Information

There exists a plenty of primary data on drug industry. This study would primarily rely on documentary evidence, chief among them being the following:

- Reports of Government appointed Committees on Drugs and Pharmaceuticals
- Reports of Parliamentary Committees
- Policy Documents on Drugs
- Parliamentary Debates
- Reports of Ministries dealing with Drugs and Pharmaceuticals.
- Newspaper Reportings

The Ministry of Chemicals and Fertilizers publishes annual statistics regarding production, import, export, R&D expenditure etc on drugs and pharmaceuticals. Apart from these primary resource, some secondary sources such as market surveys, Journals, reports of National Seminars and Voluntary agencies etc, would also be used as sources of information.

Survey of Literature

Theories on the Nature of the Indian State

To theorise is to make a sense of something. It in-
volves looking at a phenomenon from within as well as without, so as to understand it better. Scholarship on Indian politics has been dominated by empirical-descriptive studies that have generally avoided theoretical issues. Moreover, the concept of state was not in currency outside the Marxist literature with the advent of political systems theories in fifties and sixties. The idea of a political system (as argued by its proponents) had been developed consciously in the fifties as a way of avoiding the irresolvable ambiguities surrounding the term.\(^2\) Notwithstanding a relative lack of literature in liberal-pluralist paradigm, it is customary to divide reflections on the Indian state, into two schools: the liberal and the Marxist. However, it would be more fruitful to redraw the lines of division a bit into the following two groups of theories: Political-Institutional and Political-Economy perspectives on the Indian state. In the first group would fall theories which focus on the political institutions and processes as the key to understanding the character of public power in India. These are usually put forward by political scientists who hold liberal-modernist values. The second set of theories are those that regard political economy as holding the clue to the

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nature of the state. Coming from students of social sciences with an emphasis on economics, these theories are mostly of Marxist persuasion.

**Political-Institutional Perspective**

Most liberal theorists identify the Indian state as one ruled by the middle-classes or by the "middle sectors". Myron Weiner, in his studies on Indian politics, contends that the ruling congress elite represents the "middle sectors" in urban and rural life, i.e, the educated and professional groups, town merchants and small businessman, and the middle and rich peasantry. He states, "the Congress Party.... is today very much the party of peasant proprietors in the Countryside and of businessmen in the towns and cities...."\(^3\) This understanding is based on his assessment that "while businesss in India is well organised, its influence on central government policy is negligible. Weiner, however, doesnot elaborate or clarify, how an economically powerful organised force, like big business, can have a "negligible" influence on government.\(^4\)

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Baldev Raj Nayar and Morris-Jones have similar views on the character of the Indian state, that it is ruled by the middle classes or the intermediate strata.\(^5\) Morris-Jones, further, refers to the relationship "between business and Congress and Government", as a "triangle (which) according to him was likely to remain in flourishing existence.\(^6\)

K.N. Raj (1973),\(^7\) based on a concept developed by Kalecki, also suggested India as an example of 'intermediate regime'. The term "intermediate regimes" has been used to describe governments in which the lower middle class and the rich peasantry could be identified as performing the role of the ruling class. Certain specific conditions had emerged recently in many underdeveloped countries that transformed these lower middle classes as the ruling class; some specific conditions cited were the numerical dominance of the lower middle class at the time of achievement of independence of these countries, the extensive involvement of gov-

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ernments in economic activity, and the availability to them of credits from socialist countries. Given these conditions, the state, could, in his view, perform the role of 'dynamic entrepreneurs', and promote a pattern of amalgamation of the interests of the lower middle class with State Capitalism.

Stanley Kochanek, in his work, Business and Politics in India (1974), had similar views. According to him, the Congress elite that initially comprised highly westernised, professional, middle class interests, also came to include the middle sectors in the rural areas, after Congress Party was turned into a mass movement at the initiative of Mahatma Gandhi. Among his broad conclusions was the finding that, "...business collectively has not been able to influence the broad outline and direction of public policy in India".8

In his classic, Asian Drama, Gunnar Myrdal characterised India, like other South Asian Countries, as a 'soft state' for its failure to perform on the front of mass poverty. The term was meant to highlight the severe limits to the scope of public power in India, the inability of the state to enforce policies and to place obligations on the

The most innovative attempt to understand the nature of public power in India in the liberal framework, has been Rajni Kothari's, Politics in India. According to him, the Indian state (the dominant political centre) had the following attributes: autonomy in dealing with demands and pressures, a high degree of legitimacy and authority, an elaborate institutional edifice, and the capacity to perform. In his study it is contended that neither interest groups nor political parties "have ... taken on a 'class character'..." as,

"significant interest articulation in India is not in respect to social and economic interests in the modern sector but it was in respect to antecedent structures of Caste and Community, in the large and pervasive traditional sector". 10

In the state structure, a coalition of urban caste (mainly Brahmin) elites with the local rural elites, dominate. Because of "the large and pervasive traditional sector", "trade and business associations, farm lobbies, (and) even trade unions are not considered legitimate bases for polit-

ical bargaining. In Kothari's model of Indian politics, the question of modern interest groups, particularly business lobbies playing a major role in shaping government policy, does not arise.

In his recent work, *State Against Democracy*, Kothari views the Indian state as having lost its autonomy to the narrow interests of the neo-rich and its allies who control and manipulate it.¹¹

**Political - Economic Perspective**

Most of the Conscious theories of the Indian state are from the perspective of political economy. It sensitise the analysts to the systematic linkage between the operation of public power and the dominant interests of the society. The classic Marxist study of Indian society was written by the British Marxist, Rajni Palme Dutta. According to him, the leadership of government and the state vested in the hands of "the national bourgeoisie" (or the Indian Capitalist class), which sought to pursue independent Capitalist development.¹² His evaluation of the 1944 Bombay plan, whose

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authors included important FICCI leaders, namely Purshottamdas Thakurdas, G.D.Birla, Kasturbhai Lalbhai and Shri Ram, makes clear his belief that "top-rank" industrialists enjoyed a major share of political power.\textsuperscript{13}

Charles Bettelheim in his work, \textit{India Independent}, deals quite explicitly with the relationship between the Indian Capitalist organisations and the political leadership. In his assessment, big Capitalists and other bourgeois factions control the Congress and through it, the functioning of the government. Thus, according to Bettelheim, the Congress "by (its) social and economic policies...has satisfied the majority of the bourgeoisie, while being of particular advantage to big capital".\textsuperscript{14}

A.R. Desai\textsuperscript{15} seeks to demonstrate that despite contrary appearances, the state in India is a Capitalist state. C.P. Bhambhri allows for conflict within the ruling classes and the consequent weakening of the state, but the latter is seen simply as a vehicle of Capitalism.

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Mathew Kurien and Biplab Das Gupta, after a brief
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\textsuperscript{13} ibid., pp.632-635.


survey of the increasing concentration of production and capital in the monopoly sector, going together "with foreign finance capital", and the failure of land reforms, observe that,

"The state in India is an organ of the class rule of the bourgeoisie and landlords, led by the big bourgeoisie which is increasingly collaborating with foreign finance capital in pursuit of the capitalist path of development". 16

Mohit Sen, 17 in his work on Indian society, identifies the ruling class as the national bourgeoisie as a whole, or the Indian Capitalist class, including both the monopoly and non-monopoly strata of the capitalist class. It also includes the agrarian bourgeoisie, both the rich peasants as well as the capitalist landlords.

A. Mitra and Prabhat Patnaik 18 argue that a coalition


18. A. Mitra (1977), Terms of Trade and Class Relations (London: Frank Cass); Prabhat Patnaik (1972), "Imperialism and the Growth of Indian Capitalism" in R. Owen and R.B. Sutcliffe, eds., Theories of Imperialism (London: Longman); P. Patnaik (1979), "Industrial Development in India since Independence", Social Scien-
between the bourgeoisie and large landowners - or, in Mitra's words, "a duopolistic arrangement between the rural oligarchy and the industrial bourgeoisie" - forms the basis of state power in India. Mitra suggests that the rural rich play a crucial role in state power because they control the majority of votes. They are especially strong in state legislatures, while the big bourgeoisie enjoys greater power and influence at the centre. This formulation, expressed by other writers more graphically as "the strangulating embrace" of rural oligarchy and industrial bourgeoisie, is close to that of the CPI(M). The CPI(M) line is that "The present Indian state is the organ of the class rule of the bourgeoisie and the landlord, led by the big bourgeoisie who are increasingly collaborating with foreign finance capital in pursuit of the capitalist path of development". This differs really only in emphasis from the CPI formulation. For the CPI, the national - bourgeoisie is the ruling class: the state can hence resist pressure from the big bourgeoisie and the landlords to play a progressive role.

Of late, there is a greater willingness now, among the Marxists to recognise the 'relative autonomy' of state.

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Hamza Alavi was among the first to argue that a post-colonial state like India has a relative autonomy in mediating the competing interests of the dominant classes.

In *Political Economy of Development in India*, Pranab Bardhan identified three proprietary classes in India - the Industrial Capitalist class, the rich farmers and the professionals in the public sector. He views the Indian state as an autonomous actor in that it acts neither at the behest of nor on behalf of the ruling classes; it plays a catalytic role in industrial-technological transformation, and is an important part of the economic base itself. The conflict within the heterogenous ruling classes is such that this autonomy is reflected more in the regulatory than the developmental functions of the state.

Not all political economy arguments are from the point of view of Marxists. Francine Frankel's work, *India's Political Economy, 1947-1977*, gives the impression of the Indian state in the sense of an actual organisation controlling territories and people. Her theme is that India's

19. ibid., n.1.
20. ibid., p.39.
public power is a 'paradox of accomodative politics and radical social change. According to her, interests of both groups - rural elite and big bourgeoisie do seem to have been generally favoured by the actions of the state, but not unfailingly so. Political exigencies, make the modern Indian state, a very imperfect instrument of the interests of the economically dominant classes.

Recently Susanne and Lloyd Rudolphs have presented an elaborate and in some ways innovative argument in their book, *In Pursuit of Lakshmi: The Political Economy of the Indian State*. In their view, India is a paradox of a 'weak-strong state', for, in the past four decades, the Indian state has alternated between autonomous and reflexive relations with the society. Drawing strength from various historical legacies, the state acts as the 'self-determining third actor', independent of both capital and labour, and has served at different times the capitalist, socialist and the liberal-constitutional objectives or sometimes its own partisan interests. Highly mobilised albeit fragmented social forces are its sources of weakness. The paradox is reflected in the realm of economic policy in the alterna-

tion between two models: 'Command Polity', when the state makes authoritative allocation, or 'demand polity', when the state surrenders to popular sovereignty and fulfils societal interests and values.

Chapter Scheme

The second chapter entitled as "State Policy in Post-independence period: Impact on Structure and Growth of Drug Industry", looks into the Industrial Policy in general and Drug Policy in particular soon after independence. It traces the evolution of public sector, private sector and multinational drug units in the country. It seeks to ascertain why the multinational companies came to dominate the Indian drug market. The chapter would also look into some of the serious compromises made by state that thwarted the growth of an independent state sector drug industry.

The early phase of development of the drug industry was simultaneously marked by two trends. The industrial policy statements (1948 and 1956), included commitments for non-discriminatory treatment to be followed towards foreign sector vis-a-vis Indian sector, in the application of general Industrial Policy. As a result Indian drugs market came under the grip of MNCs. A large number of harmful and irrational drug combinations began to be produced. The state
showed inability to check this trend. In addition to this, Jawaharlal Nehru also favoured setting up of drug units in Public Sector. With this, started the real production of drugs (Bulk) in India. Due to the state policy of setting up the public sector units, the drug industry by early seventies was well diversified, producing a wide range of antibiotics, hormones, vitamins, in addition to a large number of other synthetic chemotherapeuticals. Nevertheless, the drug scenario during this phase remained chaotic. The state showed no will to check this trend.

The Third Chapter entitled as, "Hathi Committee Report and its Implementation : Dilution of the Nationalist Perspective", discusses the Report of the Pharmaceutical Enquiry Committee (1975), popularly known as Hathi Committee and the Drug Policy (1978) that followed it. A brief review of circumstances under which Hathi Committee was setup may be taken up here.

The drug industry in seventies faced numerous problems. The prices of drugs had been soaring up in the Indian market for quite some time. A large number of drugs banned in other countries were being freely sold in the market. These issues had been attracting the attention of the members of Parliament. Also the Fifth Plan envisaged a higher growth rate for
the drug industry and hence needed careful scrutiny. Taking all this into consideration, the Government appointed the Pharmaceutical Enquiry Committee in February, 1974 under the chairmanship of Shri Jaisukhlal Hathi.

The Hathi Committee, based on a scientific analysis of the drug scenario in India, produced a landmark report. Its recommendations among other things called for a radical restructuring of the drug industry, so that the growing needs of essential and life-saving drugs in the country could be met. This required, as also recommended by the committee, nationalisation of drug industry, and limiting the area of multinational units operation in the limited field of production of high technology drugs. However, Government did not accept major recommendations of the Committee. Even the recommendations which were accepted, were diluted to such an extent that those provisions lost their effectiveness. For instance, the 1978 drug policy had no inbuilt production control mechanism to compel the companies to produce life-saving drugs. Consequently the production of essential drugs declined in the country from 21.2 percent in 1978 to 16.8 percent in 1980.

The Fourth Chapter, "Retreat of the State: A study of Drug Policies Since the 1980's", seeks to analyse the drug
policies that were initiated after economic liberalization in eighties and nineties. The following issues have to be thought over: What prompted the Government to revise the earlier drug policy? How are the new policies different from the earlier 1978 policy? What kind of role do the new policies envisage for public sector, private sector and foreign sector drug companies? Do the new drug policies in eighties and nineties provide an answer to the problems or maladies that afflict the drug industry? What does the Indian Government offer to its people in the drug policies with regard to drug prices, quality and availability of essential and life-saving drugs?

This chapter dwells upon the circumstances under which new policies were initiated. The new drug policies in eighties, it may be pointed out, were initiated by Mrs Indira Gandhi when she became the Prime Minister for the second time. She now initiated economic liberalisation and encouraged private sector. The economy was further liberalized under the rule of Mr. Rajeev Gandhi. This liberalization in the economic policy (Drug policy being a part of it), was a part of larger ideological shift of the Congress Party. The new economic policies brought down the public sector from the commanding heights of economy. The sectoral
reservation (1978 Drug policy), envisaged for the Indian sector was gradually withdrawn. Now the multinational drug companies could freely operate in the low priority and low technology drug formulation business where the profit margin was relatively very high in comparison to that in production of bulk drugs. The list of drugs under the price control was drastically reduced. Even many of the essential and life-saving drugs were not spared. The 1986 Drug Policy Document show a clear departure from the earlier role envisaged for the state. The Government moved towards decontrol of drugs in the area of pricing, production control etc.

Further shift in the role of state took place in 1990's in the wake of balance of payments crisis in 1991. Government initiated structural adjustments in the economy under which the industry was further decontrolled. 'Background Note' to the 1994 Drug Policy favoured re-orientation of the 1986 Drug Policy whose chief motto has been to bring the drug policy in conformity with the spirit and philosophy of new liberal industrial policy. Now market has taken a clear precedence over all other considerations even in the area of drugs. This situation is in sharp contrast to those prevailing in even developed market economies. The drugs being a sensitive issue, connected with the right to life, is under Government control in many Western countries,
because of its special character.

The Fifth Chapter, "Impact of State Policies on the Structure and Growth of Drug Industry since 1980", will deal with the structure and growth of drug industry in eighties and nineties. An attempt will be made to evaluate the drug policies during this phase. In other words, the chapter would seek answers to the following questions: What has been the impact of these policies on the structure of the industry? Which of the three sectors of industry have benefitted maximum due to liberal drug policies in eighties and nineties - the public sector, the Indian private sector, or the foreign sector drug companies? What has been the impact of these policies on the production, availability and prices of life-saving and essential drugs? What has been the performance of drug industry vis-a-vis plan targets? If so, why has target not been achieved? Into which direction is the Indian drug industry proceeding? How has the foreign sector functioned in the light of decontrol in the drugs sector? What has been the production pattern of drugs in the three sectors - public, private and foreign? What has been the performance of foreign sector in the field of research and development? Has its presence in the Indian market led to a qualitative improvement in the drugs? This chapter
would carefully scrutinize the impact of drug policies on the three sectors of Indian economy and on the availability of quality drugs at reasonable rates to our countrymen.

In the Sixth and concluding chapter, the thesis seeks to bring out the emerging role of state in India in the post-liberalization period. An attempt would be made to understand the shift in the role of state in the economy. In which direction has the state moved and what does this suggest, about the nature of state in India? This thesis seeks to suggest, not only a shift in the technique of state intervention, but also a shift in its ideological foundation. To be more precise, there is a specific redistributive design at work - a movement away from 'welfare development' paradigm designed primarily to favour private capital, both domestic and international.

Limitations

The objective of this study (as stated earlier), is to examine the role of state in industrialisation. However, taken in general, Industrial Policy encompasses a large number of industries. We have limited our scope to studying industrial policy to the extent that it formed the part of Drug Policy. We have tried to study changes in broad industrial policy statements and resolutions, in the specific
context of drug policy over time. In order not to spread our enquiry too thinly, we have limited our enquiry in the specific areas of licensing, pricing, research and development (R&D), quality control and the production of essential and life saving drugs. On that basis, we will try to analyse shifts (if any), in the role of state in India over time.

This study does not examine the effects of external environment and foreign influences on the making of Indian drug policy as that would constitute a separate field of enquiry. Similarly, the role of pressure groups like OPPI (Organisation of Pharmaceutical Producers of India), IDMA (Indian Drug Manufacturers Association), AIPPA (All India Pharmaceutical Producers Association) on the making of drug policy and their implementation would not be examined. Further, the functioning of public sector undertakings was not examined. The data concerning the production of essential drugs constitute those compiled by the Department of Chemicals and Petrochemicals, Ministry of Chemicals and Fertilizers, Government of India.

The period of our study from 1975 to 1990's encompasses two contrasting phases. The 1970's (early) was a period when nationalism and self-reliance was the prime concern of
industrial policy. The period saw many restrictions (some apparent) on the foreign companies. Gradually, they were removed in 1980's and now in 1990's, we have moved towards almost total decontrol. This is not to deny that even in 1990's, state has sought to regulate the market. But the phase of licensing, production control etc seems to be over. This shows a sharp ideological shift in the attitude of state apparatus towards foreign investment. They are now sought in the country. What these changes would lead to, will be brought out in this study within the given limitations.