CHAPTER I

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Foreign policy of India is unquestionably a critical realm of Third World studies due to its peculiar global engagements as a postcolonial state. Embedded deeply in the political economy of the State, the foreign policy of India has many other distinctive variables like geopolitics, historical tradition, character of the people etc. which play equally important role in providing substance and character to its global engagements. As India entered a critical phase in the last decades of the twentieth century, its economy, polity and society have been affected by grave structural imbalances and distortions. These would have their impact on foreign policy too. In fact, this chapter tries to bring out some of these problems in the broad context of the study.

The foreign policy of India, in general, and India’s Third World policy, in particular, is placed within the framework of the political economy of the Indian State. Surveying the different interpretations and explanations of the nature of the Indian State, this chapter tries to examine the evolution and consolidation of capitalism in India in its historical context. It also outlines the ideological shift of the Indian State from liberalism to neoliberalism, which had a bearing on India’s domestic and foreign policy priorities and strategies.
The Nature of the Indian State

The nature of Indian State is a critical factor in understanding the dynamics of India’s foreign policy. An exercise in determining the character of the Indian State may be based on an analysis of its economic postulates and functions, besides its ideological functions. This will enable us to find out the nature of the relations of production and the dominant mode of production in India. A political economy approach to a study of the State proceeds to make a distinction between a socio-economic formation and a mode of production. It assumes a conflicting co-existence of various modes of production in a socio-economic formation and, therefore, recognises the need to identify the dominant mode of production. There are several interpretations and characterisations concerning the mode of production in India and the nature of the Indian State.

Analysing the Indian State involves comprehending the changing articulations between several modes of production in the process of transformation, and the shifting alliances between various classes which emerged as dominant within these modes. The identification and characterisation of these classes and alliances, and their relationship with the State, and with imperialism, are important factors in the debate on Indian State. Before analysing this, it is necessary to trace the
evolution of capitalist development in India in its historical setting, particularly since the colonial days.

The advent of colonialism and the European capitalist penetration into India was a decisive factor in the development of capitalism in India. The primitive accumulation of capital and the formation of a capitalist social structure had taken place during the colonial days. However, bringing about capitalist production relations was not the chief objective of capitalist colonialism. The British were interested in introducing capitalist relations into India to the extent that they would augment the revenue and profit that could be gathered by the British tributary state and by the British or the European capitalist class in general. According to Pavlov, in the course of imperialist exploitation an economic environment was set up which was conducive to the formation of capitalist relations on a massive scale. This was of great importance for the development of Indian capitalism. Pavlov says such an environment developed in the branches of agriculture and industry which soon lost the patriarchal features of the natural economy and evolved a structure...

appropriate to small commodity production. A.K. Bagchi points out that the British colonialism hampered the growth of capitalism in many parts of India in the early 19th century. He says that in colonial India a number of factors had operated against the growth of capitalist relations in society. The British themselves did not allow capitalist farming to grow fast, while at the same time extracted a major part of the surplus out of India and invested it elsewhere. This continued to hamper the growth of Indian home market. All these factors led to the underdevelopment of productive forces in the country, and also led to the underdevelopment of the capitalist classes. According to Pavlov, the British colonialists made use of the slogans of the free trade to prevent the development of the Indian national industry, asserting that a vigorous enterprise required no assistance from the state. The British, however, introduced many fundamental changes in the Indian economy to facilitate the colonial exploitation. The crisis of the British empire consequent upon the World War I and the growth of the nationalist movement in India opened up new opportunities. Accordingly, the British government was compelled to modify its free trade policy. Thus India was granted a measure of financial autonomy to shelter some existing Indian industries against

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2 Pavlov, n. l. p. 160.
foreign competition. Though the colonisers did not have any intention to industrialise India, they had built railways, established a few industries and initiated commercialisation of certain agricultural products in their own interest. The inability of the British to control all activities pertaining to trade and other business compelled them to create a subservient class of bureaucrats and other officials who would serve them effectively.

However, some of the Indians utilised the business opportunities thrown open to them and began their career as traders. But unlike the experience in other countries, the Indian traders could not totally ignore their Indian identity. Alongside the British trade associations, many Indian trade associations were formed in the nineteenth century itself. The Indian businessmen did not confine themselves to mere trade and commerce. Since the late nineteenth century, they gradually began to engage themselves in the industrial field. To promote their interests, they even organized themselves into associations such as Bombay Mill Owners’ Association (1875) and the Ahmedabad Mill Owners’ Association (1891). The economic nationalism that shook the country during the early nationalist phase gave an impetus to many nationalist-minded Indians to start their own industries. In the absence of any

encouragement from the State, the Indian industrialists had to face many difficulties during the initial years. The British government paid little attention to the demands of Indian businessmen to protect the native industry. However, after the World War I, the British government was forced to revise its economic policy. Many factors, including the fear of foreign domination of the Indian market compelled the British government to give certain concessions to the native industry. The tariff protection they introduced played an important role in promoting industrial development in India.

Aditya Mukherjee and Mridula Mukherjee point out that after World War I significant changes were under way in the Indian economy and a certain measure of domestic development was taking place, albeit in spite of and in opposition to colonialism, which enabled the Indian capitalist class to grow and establish a considerably large independent economic base for capitalist accumulation during the colonial period and on a qualitatively bigger scale after independence. Despite several setbacks, especially during the period of the Great Depression, the Indian entrepreneurs made considerable progress. They established many factories in different parts of the country. Their progress can be seen from the fact that while the number of British group companies increased

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6 Aditya Mukherjee and Mridula Mukherjee, "Imperialism and Growth of Indian Capitalism in the Twentieth Century," in Ghanshyam Shah (ed.), n.1, p.78.
from 787 in 1931 to 798 in 1937, the number of Indian group companies during the same period increased from 172 to 366. Indian cotton textile companies increased from 64 to 80; sugar factories from 1 to 20; iron, steel and engineering units from 2 to 7; electrical generation companies from 6 to 22; and investment and finance companies from 15 to 51. The growing need of industrial finance and the indifferent attitude of the British government compelled Indians to start their own banks and insurance companies.

According to T.V. Sathyamurthy, Indian industrial capitalist class had its gestation in a laboratory of economic change, peculiar to itself, imposed by the colonial power. Its emergence followed complex interactions between the colonial power and the trading, landed and usurious components of the propertied classes that attained an established status by the beginning of the nineteenth century. Far from disappearing as a mode of articulation of power in the countryside, pre-capitalist relations of production gained a new lease of life. However, the emergence of an industrial capitalist class in India was neither rapid nor uniform nor

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At this level, the nature of capitalist development in India was different from that of the advanced capitalist countries. Since capitalism started developing in India at a stage when capitalism as a world system had already reached the stage of imperialism, the *laissez faire* model of development was not appropriate to India. Therefore, within a short period, indigenous capitalism began showing monopolistic tendencies. C. P. Bhambri argues that the Indian capitalist class had become monopolistic and its degree of concentration of economic power could be compared with large corporations in advanced capitalist countries. India did not pass through the stage of competitive capitalism, and it was under colonial rule that the Indian monopoly class had emerged. However, the roots of the Indian capitalist class were in trade, finance and speculation and very marginally in the industry. While the Indian capitalist class struggled against imperialism for control over the domestic market, they also negotiated the transfer of power in which many structural linkages remained undisturbed, though many linkages with imperialism were broken.  

According to Aditya and Mridula, the Indian capitalist class, through a process of economic and political struggle and taking advantage of the

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9 Ibid.

two wars and the Great Depression as well as the specific crisis faced by the British imperialism, was able to significantly increase its hold over the Indian economy vis-à-vis foreign capital during 1914-47. The data brought out by the Gokhale Institute in 1951 indicated that the control of the Indian capital in the large industries in India extended rapidly in comparison with European capital between 1915 and 1944. While the Indian private capital control was about 62 per cent of the large industrial units in 1944, the corresponding figure for British private capital was 27 per cent.¹¹

During the early years, the Indian capitalist class did not actively participate in the nationalist struggle initiated by the nationalist intelligentsia. However, once the capitalist class consolidated its position, it began to play an active role in the freedom struggle and, by the mid-thirties, it became the most influential class on the anti-imperialist front. The capitalist class could easily exercise its influence on the Indian National Congress and became a decisive factor at the time of the transfer of power. This class demanded a share of India’s captive market then under the control of British capitalists. The struggle for control over the Indian market led to a contradiction between the British colonial power and the Indian capitalist class. The Indian business groups who

¹¹ Aditya and Mridula, n.6, p.80; also see Ajit Roy, *Indian Monopoly Capital* (Calcutta, 1953), pp.18-20.
were at loggerheads with the colonial power, drew closer to the Indian National Congress (INC), which, under Mahatma Gandhi’s leadership, was emerging as an anti-imperialist mass movement aimed at putting an end to British rule. For its part, the Congress was committed to a policy of rapid industrialisation, which it believed would benefit the capitalist classes. Jawaharlal Nehru wrote: “At no time ... had the Congress been opposed to the development of big industries and whenever it had the chance, in the legislatures or elsewhere, it had encouraged this development. Congress provincial governments were eager to do so.”

The Indian capitalist class during its struggle against British imperialism had clearly recognised a crucial and critical role of postcolonial State in India for capitalist development. During the early thirties and forties, a strategy of economic development was evolved within the Indian National Congress, which envisaged planned development as a critical factor. Even in the thirties, the Economic Affairs Committee of the Congress had admitted the possibility that the State might not be in a position to own all the crucial means of production. The perspective of the Indian business class in respect of a planned economy on the lines proposed by the Congress was reflected in the speech of A.R. Dalal, the President of the Indian Chamber of Commerce at the beginning of 1939. He said that

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12 Jawaharlal Nehru, *Discovery of India* (New Delhi, 1993), p. 403.
the steps taken by the Congress in establishing a planning committee to
survey and prepare the ground for the formation of an all-India scheme
for India's economic regeneration was a move in the right direction. At
this time, the leading Indian industrialists were hoping that the new
economic policy of the Congress would enable them to break out of the
constraints imposed by the imperial framework of the economy.

In 1944, the leading men of Indian business and industry came together
to put across what was known as the 'Bombay Plan' for the development
of India. The Plan envisaged the doubling of the per capita income within
fifteen years. The net output of agriculture would have to be doubled, and
of industry, large and small, to be expanded five times. In the initial
stages, effort was to be directed to production of power and capital goods.
Progress in this direction would reduce India's dependence on foreign
countries for plant and machinery. Priority would have to be given to
power, mining, metallurgy, engineering, machinery of all kinds,
chemicals, armaments, transport, railway engines, ship building,
automobiles, aircraft etc. The Plan had clearly recognised the necessity of
active participation of the State in promoting industry. State ownership
and State management of key sectors were accepted by the Plan. To them
any State intervention was welcome so long as it did not aim at any

13 See Rajat K. Ray, Industrialisation in India: Growth and Conflict in the Private
radical changes in the relations of production. Referring to the Bombay Plan of 1944, Jawaharlal Nehru wrote: "Revolutionary changes" were inherent in the plan. Some of the authors of the plan were members of the National Planning Committee and they had "taken advantage" of it. Nehru says, "...it is a welcome and encouraging sign of the way India must go. It is based on a free India and on the political and economic unity of India." The post-independence economic policies of India clearly reflected this thinking.

Nature of the Postcolonial Indian State

Thus, the nature of the Indian State, as it has historically evolved, is an important factor in determining the economic and foreign policies of post-independent governments. However, scholars still differ on questions concerning the nature of State and its class character and development dynamics. This is not peculiar to India alone. Analysing the nature of postcolonial states in the Third World, scholars developed different theoretical perspectives. A.G.Frank, Immanuel Wallerstein, Samir Amin, Hamza Alavi, et al offer rich insights as to how countries like India

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14 The authors of the Bombay Plan stated: "State control appears to be more important than ownership or management. Mobilisation of all the available means of production and their direction towards socially desirable ends is essential for achieving the maximum amount of social welfare. Over a wide field, it is not necessary for the state to secure ownership or management of economic activity for this purpose. Well-directed and effective State control should be fully adequate." For details, see Purshotamdas Thakurdas, J.R.D.Tata et al., A Brief Memorandum Outlining A Plan or Economic Development for India (Bombay, 1944).

15 Nehru, n. 12, p. 501.
should be placed in a wider context of the world capitalist system. While denying the possibility of autonomy to the decolonised states, Frank maintained that the Third World countries have been dependent by their incorporation into the capitalist world system and, consequently, they have been expropriated of their economic surplus, which have been appropriated by the developed metropolitan countries through the world market. Hence, the underdevelopment of countries has been caused by their incorporation, on exploitative terms, into the chain of metropolis-satellite relationships.\textsuperscript{16} Taking the capitalist world system as a unit of analysis, Wallerstein argued that the incorporation of the Indian subcontinent into the world system involved a restructuring of production processes and the creation of India into a subordinated political entity that had to operate within the rules of the inter-state system.\textsuperscript{17} Samir Amin maintained that the native bourgeoisie of the peripheral capitalist countries was structurally implicated in the process of mutual reinforcement between international specialisation and unequal international exchange. He maintains, “the bourgeoisie as a whole stops being national it cannot fulfil the historical function of primitive accumulation i.e., radically destroy the pre-capitalist modes.” Amin argued that even after their political independence, the ex-colonies

\textsuperscript{16} For details, see A.G. Frank, \textit{Capitalism and Underdevelopment in Latin America} (New York, 1967).

\textsuperscript{17} See Immanuel Wallerstein, n. 1.
continued to be a periphery of the capitalist world system.\textsuperscript{18} Hamza Alavi, however, saw the dependency theory as inadequate because it denied the fundamental structural differences between the postcolonial and colonial situation whereby, instead of native capital being subordinated to imperialism, there was a postcolonial convergence of interests. Accordingly, though dependence continued, in the areas of technology and finance, indigenous industrialisation could take place on a much large scale under the leadership of the bureaucratic capitalist elite. However, in 1980 Alavi began to speak of the "subordinate, peripheral capitalism" of post-independence India.\textsuperscript{19}

The debate on the mode of production in India, initiated in the 1960s, which assumed new dimensions in the 1970s, had thrown open many critical questions about the nature of Indian State. The participants of the debate included a wide spectrum of scholars like Utsa Patnaik, Ashok Rudra, Paresh Chattopadhyay, Banaji, Ranjit Sau, Hamza Alavi, A. G. Frank et al. The context of the debate was the green revolution. All the participants in the debate seemed to have agreed that this represented a


development of capitalism in agriculture. While analysing the mode of production in Indian agriculture, Utsa Patnaik noted that the specificity of the colonial system marked it off from the capitalist mode of production of the 'core' countries. Paresh Chattopadhyay said that the British imperialism preserved as well as destroyed the conditions of India's pre-capitalist economies, accelerated as well as retarded the development of capitalism in India. In analysing the mode of production in colonial India, Banaji said that it was neither feudal nor capitalist, though resembling both at different levels. However, it acted as a conduit through which capital was drained out of India, which led to the accumulation process in the metropolis without unleashing any corresponding expansion in the forces of production. Hamza Alavi argued that imperial capital brought about an internal disarticulation of India's pre-colonial/pre-capitalist economy and external articulation of it into the worldwide structure of imperialism. According to him, this structural specificity of India's colonial mode of production made it distinct from both feudapism and capitalism in the metropolis. Regarding the postcolonial situation, many argued that there was the co-existence of the capitalist and pre-capitalist modes of production in India. This was

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20 For details, see Utsa Patnaik (ed.), Agrarian Relations and Accumulation: The ‘Mode of Production’ Debate in India (Bombay, 1990); also see Utsa Patnaik “Capitalist Development in Agriculture: A Note,” EPW, Vol.6, No.39, September 1971.

because of the weakness of the dominant proprietary class in the Indian social formation. The innate weakness of the capitalist class forced them to allow the continuation of the pre-capitalist mode of production in the Indian society and through it, they tried to maximise their accumulation of capital.

Pranab Bardhan considers the industrial bourgeoisie as the dominant proprietary class and the principal beneficiary of state policies in India. This class, under the leadership of the top business houses, supported the government policy of encouraging import-substituting industrialisation, quantitative trade restrictions providing automatically protected domestic markets, and of running a large public sector providing capital goods, intermediate products and infrastructural facilities for private industry, often at artificially low prices. Bardhan says that since the mid-fifties the government began to provide several public lending institutions loans from which formed the predominant source of private industrial finance. An elaborate scheme of industrial and import licences was allowed to the advantage of the industrial and commercial interests. The richer industrialists having better connections and better access got away with the lions share in the bureaucratic allocations of
the licences, thus pre-empting capacity creation and sheltering oligopolistic profits.22

Budhadev Bhattacharya asserts that the transfer of political power was from the imperialist rulers to the newly constituted ruling party representing the interests of the Indian capitalist class as a whole and mediating and reconciling between the functions of this class. According to him, this marked the beginning of the domination of the Indian bourgeoisie over the politico-economic structure in the country.23 However, many argued that the Indian State had a relative autonomy vis-à-vis the world capitalist system. Achin Vanaik described that the autonomy of the Indian State was a striking and unique fact. There was no major capitalist country in the Third World which had a more powerful State than India’s or an indigenous bourgeoisie with more autonomy from foreign capital. Achin Vanaik argued that in any analysis of dominant class relationships in India, as they had emerged and matured, one could not find a meaningful place for imperialism or foreign capital. There was widespread agreement that the two dominant classes of the Indian social formation were the agrarian bourgeoisie – or rich

22 Pranab Bardhan, The Political Economy of Development in India (Delhi, 1998), pp.40-41.

capitalist farmer class - and the industrial bourgeoisie led by the big capital.24

Pranab Bardhan also argued that the State should be seen as an autonomous actor, which in certain cases was far more important in shaping and moulding class power than vice-versa. In the first decades after 1947, “the state elite in India enjoyed enormous prestige and sufficiently unified sense of ideological purpose about the desirability of using state intervention to promote national economic development - it redirected and restructured economy, and in the process exerted pressures on proprietary classes.”25 However, over the years, the autonomous behaviour of the State was reflected more often in its regulatory rather than its developmental role. Here Bardhan seems to be comfortable with Skocpol’s concept of ‘potential autonomy’ than Miliband’s or Poulantza’s concept of relative autonomy.”26


Achin Vanaik offers an adequate description of the concept of the autonomy of the State as postulated by Skocpol and Hamza Alavi, especially of the postcolonial societies. In the case of India, where the indigenous bourgeoisie was relatively well-developed, the State must be seen, as Skocpol argued, in organisational and realist terms, as actual organisations with certain interests distinct from those of the dominant classes controlling real peoples and territories. According to Hamza Alavi, both the colonial and postcolonial states were overdeveloped and, consequently, they had to play a major role in the accumulation process, in developing and expanding capitalist production relations, and in consolidating capitalist ruling classes. The substantial and necessary autonomy of the overdeveloped postcolonial state posed, in a particularly sharp way, the issue of the Third World intelligentsia, the state bureaucracy, or in another formulation of similar vagueness, the middle classes. This was partly because the state was manned by members of this middle class and partly because it pursued policies which did not meet with the approval or support of the industrial or agrarian bourgeoisie but apparently became more easily explicable if they were seen as promoting the interests of those who manned the state and who seemed to benefit from the extension of the state's role in the economy.27

Aditya and Mridula contended that the Indian State had an autonomous nature. Challenging the writings of radical left scholars - which implicitly assumed that colonial economies, or even postcolonial peripheral economies, after achieving political independence, necessarily developed in a fashion which led to the further structuring in a dependent fashion of these economies and their bourgeoisie, making it impossible for them to break out of this dependent status without opting out of the world capitalist system altogether - they argued that this formulation was generally made on the basis of the experience of certain colonies and neo-colonies of Latin America, Africa etc. which exhibited certain specific growth patterns and was then sought to be generalised, almost as a kind of law of development, for all colonies and ex-colonies. The study of the actual historical evolution of the colonial economy and colonial bourgeoisie (in the case of the latter, particularly its political and ideological evolution) of a country such as India, which demonstrated a different tendency, was not even attempted. They pointed out that the strength of the Indian bourgeoisie and the Indian economy at independence was far greater than was the case.
in most other postcolonial societies at a comparable stage, and this had important implications for post-independence development.28

Influenced by the formulations of Michael Kalecki, K.N. Raj maintained that India was ruled by ‘an intermediate regime’ in which the lower middle class and the rich peasantry performed the role of the ruling class. Both Kalecki and Raj shared the notion that in several postcolonial states certain conditions have made the petit bourgeoisie or the intermediate classes somewhat autonomous from the big bourgeoisie and the feudal landlords. They suggested that by striving to assert a measure of autonomy from the foreign bourgeoisie, carrying out land reforms and using state capitalism for continuous economic growth, the intermediate regimes could establish its dynamism.29

In a seminal study, Srikant Dutt characterised the Indian State as ‘sub-imperialist’. He argued that because of its policies, India could not be said to be totally beholden to a Western imperialist centre, for it was simultaneously dependent on two centres, one of which, the Soviet Union, was not directly a part of the world capitalist economy. This, however, did not make the term difficult to sustain in India’s case.

28 Aditya and Mridula, n.6. p.78.

Though India was not able to transcend its dependent status, its autonomy had influenced the conduct of India's external relations. According to him, the Indian capitalist class had never been a pure compradore class: rather it was a genuine national bourgeoisie. He further argued that the Indian investments abroad in developing countries, the growth in the Indian arms trade and military aid, and other economic activities in developing countries, all suggested a different, if related phenomenon to 'sub-imperialism.' Srikant Dutt's proposition was derived from an analysis of the policies of the post-independent Indian State. His position emerged in the background of the role of the Indian State in the late 1970s or early 1980s. During this period, the State and the monopoly capitalism had shown sub-imperialist character and tendencies, and India's intervention in other countries in South Asia and the export of capital to the Third World countries were seen as signs of this character. Srikant Dutt's position appeared to have lost credence since the late 1980s, when the 'relative autonomy' of the state started eroding and the functioning of the state capitalism has been increasingly under the direction and control of global capitalism.

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Post-independence Economic Policies

Though the relative supremacy of the capitalist class in India gave an opportunity to attain political power, its position vis-à-vis the other classes was not very comfortable at the time of independence. Rural society was still dominated by semi-feudal relations of production. Foreign capital still had hold on Indian industry. Despite the progress that it had made during the World War II, the Indian industry was yet to gain ascendancy over the traditional sectors. In 1948, the share of Indian industry in national income was only 17 per cent while that of agriculture was 49 per cent. Here, the share of organised industry was only one-fifth of the total. In 1951, only 9.5 per cent of the working population was in industry whereas 71.8 per cent remained in agriculture. Basic infrastructure necessary for the development of industry was very weak. The private sector did not have the ability to undertake any large-scale industrialisation on its own, particularly in the basic industries. The Indian capitalist class did not have adequate finance, technology and expertise to establish large-scale industries, which needed long gestation periods.

The Indian capitalist class was well aware of its limitations. Even before independence, it sought to give general guidelines for planned economic

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development to be implemented in independent India. Both the National Planning Committee set up by the Indian National Congress and the Bombay Plan prepared by the leading Indian industrialists pointed to the necessity of active participation of the State in promoting Indian industry. The extent to which the State could play a dominant role in the process of capitalist development depended upon the constellation of class forces in the post-independence period. The main issue was whether the apparatus of state power should be directed towards building an indigenous capitalist class.

However, those factions of the bourgeoisie, which sought to embark on the path of capitalist industrialisation, had to come to terms with the fact that it was the State, which could create the necessary infrastructure for their growth. It was the government which became the principal instrument to mobilise capital on a sufficient scale to build-up the necessary infrastructure needed to sustain changes in the fortunes of a capitalist class. It was the State which became the principal instrument to mobilise domestic resources, foreign aid and loans, and to provide the necessary guarantee to foreign capital, to retain their investments and

32 For Jawaharlal Nehru’s statements on the subject, see India, Ministry of Information and Broadcasting, Jawaharlal Nehru’s Speeches: 1946-1949, Vol. I (New Delhi, 1983), pp. 111 and 114.

make new investments in the domestic economy. This reflected the Keynesian approach to the role of the State in the capitalist development. Keynes had maintained that the stimulation of employment, directly connected with investments, was bound to stimulate consumer oriented industries and thus bring about a general employment increment in a multiple proportion to the original levels of employment directly connected with investments. Many western theorists declared the Keynesian theory a revolution in political economy while states began employing his recommendations in their practical economic policy. The theory had emerged to become a very convenient ideology to shore up state monopoly capitalism.

The concept of welfare state was thus advanced to sustain the capitalist development. The successive governments in India held the concept of mixed economy in high esteem so as to legitimise the welfare agenda of capitalism. Speaking on the subject, Jawaharlal Nehru said that those countries which did not want either of the two (capitalist or socialist) extremes “must find a middle way.” In that middle way, there was bound to be more emphasis on some factors than on others but obviously a middle way or a mixed economy was inevitable. He said that the private sector in India did not have the strength or capacity to undertake large-

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scale industrialisation and hence "the state inevitably has to take them up."  

Echoing the Keynesian approach to capitalist development strategy, Nehru said:

Every modern economic theory today bases itself, unlike the previous ones, on full employment in the country. We cannot produce employment by legislation. Our economic approach must be such that we can reach a stage of full employment within a measurable period of time.

Elsewhere Nehru said that India's policy must inevitably be one of raising production and increasing employment as rapidly as possible. The logic of mixed economy and State intervention could be justifiable from this point of view.

The major documents brought out by the Indian National Congress including its National Planning Committee emphasised the supremacy of the state sector in the development of large-scale industries and the need to control foreign companies and foreign vested interests. The Advisory Planning Board (APB), in its report to the interim government in 1946, while advocating state ownership and management of basic industries in

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37 On another occasion Nehru said: "we cannot have a welfare state in India with all the socialism or even communism in the world unless our national income goes up greatly" and that "our economic policy must aim at plenty." Ibid., pp. 13-14 and 18.
principle, recommended a combination of State capital and regulated private enterprise excluding foreign capital and removing foreign control. It also recommended the temporary continuance of foreign management of highly specialised industries. An analysis of India's industrial policy resolutions of 1948 and 1956 would reveal that the state had agreed to intervene in where, for various reasons, the private sector could not carry out the task alone 38

Paresh Chattopadhyay says that the State intervention was meant primarily to create conditions for the rapid development of capitalism and secondarily to prevent excessive concentration and monopoly of economic power. 39 In the beginning, the public sector plus the State capitalist sector was sufficient to take India along the capitalist path of development without substantially dependent upon foreign capital. However, the Industrial Policy Resolutions of 1948 and 1956 were not opposed to tolerating foreign capital as a means of importing industrial technique and technical knowledge. Things began to change towards the end of the Second Five Year Plan when India faced certain alarming trends in the economy such as the slow down of industrial production, falloff investment etc. which ultimately resulted in a serious balance of

38 Ramesh Thakur, The Politics and Economics of India's Foreign Policy (Delhi, 1994), p.135.

payments crisis. By this time, the principled opposition to foreign private capital had come down. The background was thus set for a shift in the whole trend of foreign capital inflow. Addressing a meeting in New Delhi in 1956, Jawaharlal Nehru said:

I am not against foreign capital coming in. But when foreign capital comes in, it produces a certain effect. When the state borrows on its own terms and gives aid to the private sector we know where we stand. If foreign capital is associated with the private sector through the agency of India's capital, it may play a greater part. I am not saying that foreign capital should be kept out, but it is right that we should be aware of the complications that arise.40

Thus, within two decades of independence, private foreign capital came to play a considerable part in the organised sector of the Indian economy. Yet many economists say that the Indian attitude to foreign capital was characterised by ambivalence. The initial attitude was an intrinsic hostility to foreign capital particularly to foreign private investment, which slowly began to be tempered by the recognition of its need for closing the balance of payments gap and removing other structural bottlenecks. The foreign exchange crisis of 1956-57 forced the government to make changes in the attitude towards the foreign capital. Planning began to be done on the assumption that foreign capital would enable the economy to circumvent the hump posed by foreign trade and

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40 Speech at a meeting of the standing committee of the National Development Council, 7 January 1956. Nehru's Speeches, n. 36, p.83.
would lift the economy from low growth rate equilibrium to a high growth rate equilibrium. The attitude towards foreign capital thus slowly became one of enthusiastic welcome almost uninhibited by other considerations. Foreign private investment, in particular, was looked upon as relatively advantageous and all efforts were made to improve the climate for foreign private investment in India. The thirty-second annual session of the Federation of Indian Chamber of Commerce and Industry (FICCI) held in March 1959 had also called for substantial foreign investment, which represented an important point of departure for a remoulding of India’s economic policy.

In a study on the Congress policy towards the foreign capital, S. Chaudhury points out that the collaboration with foreign private capital was a new guideline for the Indian big bourgeoisie and it had deliberately sought the path of collaboration with international capital, under whatever necessary climate and terms. And the government obviously concurred with this view. Meanwhile, the planning process was well under way in the 1950s, focusing on ways and means to accelerate economic development at different levels. During the First Five Year Plan,

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42 Thakur, n. 38, p.136.
the public sector was assigned an important place. It emerged as an essential element in the development of the capitalist mode of production and provided an essential resource base to set up infrastructural services such as modern public utilities and communications and brought up the trained manpower to run the capitalist sector. The public sector also provided massive access to credit from public development finance, institutions and mediated access to foreign resources.44

During the Second Five Year Plan, a strategy of development of basic and heavy industries was initiated with Mahanolobis as the chief architect.45 It was argued that the development of a heavy capital goods base would eventually lead to diversification of the export basket in the direction of manufactured goods, including machinery and equipment, while the increase in employment, leading to an expanded demand for consumer goods, would be met by following ‘capital light’ methods of production. But this did not materialise due to various reasons.46 Among them was

44 India, Planning Commission, *First Five Year Plan* (New Delhi, 1952); also see *Nehru’s Speeches*, n.36, pp. 48 and 62.

45 The Mahanolobis model suggested that the higher the proportion of investment installed in the capital goods sector, the higher would be the output and income generated in the long run, though initially the rate of growth would be lower. The emphasis here is on the capital goods sector, i.e., on heavy industries. For details, see P.K.Bose and M.Mukherjee (eds.), *P.C. Mahalabnobis’s Papers on Planning* (Calcutta, 1985); also see India, Planning Commission, *Second Five Year Plan* (New Delhi, 1956).

the absence of proper indigenous technological developments, foreign technology and goods, which were imported, making production highly foreign exchange-intensive. In the late 1950s, the accumulated foreign exchange reserves were almost exhausted and after that India had to rely on advanced capitalist and Soviet bloc countries to meet the deficit in foreign trade accounts, which tended to increase over time.47 A major impact of the trade deficit was a steady erosion of India's bargaining position vis-à-vis the debtor countries and international financial agencies and this was manifest in unfavourable terms of lending and in direct or indirect pressure on India's economic policy exerted by creditor countries and international agencies. A.K. Bagchi says:

India's economic policy has been periodically checked by various International Monetary Fund and World Bank missions, and by other Wise Men from the West. Under pressure from the U.S. government and the US controlled international agencies, the government of India has relaxed many controls on foreign investment. In June 1966 a reluctant government of India was more or less forced to devalue the rupee after American and World Bank "persuasion."48

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Bagchi further pointed out that such pressures were welcomed by the top Indian capitalists who had profited by the lenders' insistence on allowing private enterprise to have fuller say. The need for and the actual manner of securing foreign assistance made the economy so dependent on the big monopolists from the western capitalist countries that the very national independence, which was the starting point for all the attempts at modernising and reconstructing the economy, was under challenge.

Looking at the post-independence history of private investment in India, we find that industrial production and investment picked up after the post-Korean war recession under the stimulus of massive doses of public expenditure. The protection afforded by the combination of import tariffs and import quotas, regulation of investment in specified fields and various subsidies in the form of low-interest loans and tax exemptions for investment also lured investors in search of easy monopolistic profits. Private industrial investment boomed over the decade 1955-64 or so. Provisions for industrial licensing, control of capital issues, etc., could be regarded as a way of rationing the scarce resources when the private sector on its own was unable to generate enough finance, or usable capital goods and import-saving technology to sustain its own expansion. Private investment and the partial planning process were soon caught up
in their own contradictions—contradictions that were brought into focus by the harvest failures of 1965-66 and 1966-67.49

With an increase in foreign private investment and the inability of the Indian private sector to acquire independently technology for such industries as oil refining, drugs and pharmaceuticals, synthetic fibres and consumer durables of various kinds, foreign private capital often came to dominate these technology-intensive fields. Many firms, which had been importing industrial goods from abroad, entered into collaboration agreements with their foreign majors, or the foreign firms themselves set up subsidiaries. Contradictions between the interests of foreign capital and those of Indian capital rarely induced the Indian bourgeoisie to make common cause with ordinary people in fighting imperialist penetration. The official reluctance of the western bloc countries and the World Bank to aid public sector projects and the willingness of the Soviet Union in the atmosphere of the cold war diplomacy to provide assistance needed initially limited penetration of the public sector by foreign capital. Public sector plants in technology-intensive fields came more and more to depend on foreign private capital and accepted the restrictions imposed by their foreign

49 A. K. Bagchi, n.4, p. 232.
collaborators.\textsuperscript{50} From 1964 onwards, private companies producing consumer goods suffered from a recession. At the same time, the capital goods industries in the public and private sectors experienced a massive decline in sales, because the demand emanating from agriculture or small-scale industries was not nearly enough to compensate for the shortfall of demand from large-scale industry and government.\textsuperscript{51}

Meanwhile the agriculture sector experienced serious problems, which ultimately resulted in the launching of the Green Revolution that facilitated the penetration of foreign capital in different areas. India’s eagerness to obtain food aid gave the United States and its agencies an opportunity to get hold of Indian agriculture and agricultural education in a major way.\textsuperscript{52} The major thrust of American-inspired Indian policy in the field of agriculture was technology. Land reforms, which had been

\textsuperscript{50} See Reserve Bank of India, \textit{Foreign Collaboration in Indian Industry: Survey Report} (Bombay, 1968); also see India, Planning Commission, \textit{Basic Statistics Relating to the Indian Economy} (New Delhi, 1969).

\textsuperscript{51} The industrial growth on the whole was losing momentum in the 1960s with a better performing industrial sectors showing signs of decline. By 1967, the growth of all kinds of industries had slowed down and this continued for almost a decade. See Dilip S. Swamy, \textit{The Political Economy of Industrialization: From Self-reliance to Globalisation} (New Delhi, 1994), pp.94-95.

already stalled by the resistance of landlords and big farmers, were
practically shelved in the sixties. In any case, in most parts of India, the
Green Revolution failed to raise the income of the rural poor. And in
many parts of the country real earnings of agricultural labourers and
poor peasants were apparently lower at the beginning of the seventies
than in 1960-61. Thus the Green Revolution failed to resolve the
contradiction in the Indian agriculture sector.53

It has been argued that the monopoly nature of Indian capitalism led to
inefficiency in production. The concentration and centralisation of
wealth and means of production increased during the successive plan
periods. It was officially brought into notice by the Mahanalobis
Committee in 1964 and was confirmed later by the Monopoly Inquiry
Commission. Though the Monopolies and Restrictive Trade Practices
(MRTP) Act was passed in 1967, it was inadequately implemented. The
result was the concentration and centralisation, which continued to grow
until the MRTP Act was itself diluted of its power to control monopolies.54
The policy of import substitution industrialisation amounted to a policy
of protecting inefficient and monopolist producers. In the meantime,

53 See Hari P. Sharma, "The Green Revolution in India: Prelude to a Red One," in
Gough and Sharma, n.27, pp.77-102; also see Vandana Siva, Violence of the Green

54 R.C.Dutt, "The Indian Experience of Democratic Socialism," IASSI Quarterly,
July/September 1992, p.56.
Indian monopoly bourgeoisie began to collaborate with multinational corporations for technology and capital and also for getting an edge in the internal and external markets.

The intra-bourgeoisie conflicts and differences would soon begin to surface in the aftermath of the crises of the sixties, of which India's war with China in 1962, the India-Pakistan war in 1965, and the agricultural crisis occasioned by the severe drought of 1965-67 were the most far-reaching and serious. The impacts of the military and agricultural crises were further compounded by the industrial crisis, though it was clearly more than a mere industrial crisis. This was the retrogression in the rate of growth of the Indian economy, which began from the mid-sixties and reached alarming proportions by the early seventies. The stagnation in the growth of industrial output was a consequence of all that had happened in the Indian economy so far. It was the product of the structure of income distribution as it had emerged through the first three plans, of the failure of land reforms, of the military and agricultural crises, of the emergence of monopolistic and oligopolistic structures in industry and agriculture and, above all, of the tapering off productive
public expenditure which had clearly fuelled the rapid growth of the economy during the First, Second and Third Plan periods.55

However, a great deal of controversy arose over the causes of this slow down of industrial growth. Scholars like A.K. Bagchi, K.N. Raj, S.L. Shetty, S. Chakravarthy, Lance Taylor et al. attributed the industrial stagnation to the lack of expansion of home market. While others like A.K. Desai, C. Rangarajan and I.J. Ahluwalia attributed it to supply factors, mainly labour inefficiency and the regulatory industrial policy. Bardhan explained the crisis in terms of the State's inability to reconcile the conflicting objectives of the proprietary classes. He argued that the role of the State had been to mediate between the dominant proprietary classes by evolving a system of subsidies to adjust and accommodate the conflicting pressures of big industrialists, rich farmers and the professionals in the public sector. According to Bardhan, a combination of stagnant aggregate surplus and the growing concessions extracted by the proprietary classes had caused the decline of public investment,

which adversely affected industrial growth. The bloated bureaucracy intensified this crisis.56

Yet another interpretation of the developments over the 1965-74 period depicted the Indian economy as one exhibiting semi-feudal relations of exploitation over a large area and dominated by dependent bureaucratic capital. It said that capital accumulation was constrained by feudal as well as foreign pressures. The State attempted to overcome these constraints within the framework of monopoly capitalism and activated new forces of production. In the process, the prevailing balance of economic forces was drastically altered.57 Dilip S. Swamy contended that this view underestimated the role of external constraints. According to him, during the mid-60s, the external constraints in the form of trade and credit became binding and that continued unabated for the next two decades until the economy was completely liberated from State regulations.58

Another problem that persisted in the economy was the lack of adequate innovations in industry. The failure to innovate and suitably adapt the  

56 For details, see Pranab Bardhan, n 22.  
58 Dilip S. Swamy, n.51, p.119.
borrowed technology resulted in high production costs of many industrial goods, besides draining resources out of the country and subjecting these industries to foreign control. In order to prevent the entry of other entrepreneurs, influential and powerful industrial houses took advantage of the sheltered market and industrial controls, by frequently obtaining licensing capacity much in excess of their requirements.\textsuperscript{59} The low innovative propensity and rent seeking tendencies of industrialists limited the growth of indigenous technology. Inadequate expansion of the home market along with continued dependence on foreign technology seriously eroded the accelerating tempo of industrialisation. All these necessarily created the conditions for a slow-down in industrial growth.\textsuperscript{60}

Thus the trends in the Indian economy clearly suggested that the slow-down in industrial growth during 1965-75 was mainly due to the slackening of public investment at a time when the demand generated by import substitution under sheltered market was tapering off.\textsuperscript{61} The poor performance of agriculture and unchanged income distribution constrained the growth of the home market throughout the period. These constraints and the exhaustion of import substitution possibilities were the necessary condition for industrial stagnation.\textsuperscript{'} The slow down of


\textsuperscript{60} Dilip S. Swamy, n.51, p.98.

\textsuperscript{61} Ibid. pp. 102-103.
public investment proved to be the decisive one. The industrial class nevertheless failed to acquire prime quality capital and an autonomous capacity for self-expansion even after fifteen years of growth. It continued to be dependent on the State as also on foreign capital and technology for further expansion. Its bureaucratic character and dependence on the State did not change much. Its need for foreign capital, in a sense, was greater in the mid-60s than in the 1950s despite the decade-long progress of import substituting industrialisation.

The government's response to the deceleration in industrial growth was suspension of planning. With this, the government also diluted the industrial licensing system. The suspension of planning and gradual delicensing of industries paved the way for enlarging the sphere of operations of big private Indian and foreign businesses. In February 1970, a new industrial licensing policy specified a list of eight industrial areas, constituting the 'core' and heavy investment sectors, in which the large industrial houses as well as foreign companies were allowed to invest. By 1973, the list of core industries was enlarged to nineteen and the Foreign Exchange Regulation Act (FERA) was passed to indianise the

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62 For details, see T.N.Srinivasan and N.S.S. Narayanan, "Economic Performance since the Third plan and Its Implications for Policy," EPW, Annual number, February 1977.
foreign companies and to permit their entry into the ‘core’ sector. With all these changes, the 1956 Industrial Policy Resolution was virtually reduced to a dead letter. The policy of import substitution was relegated to the background and the emphasis shifted to import-led export or export-led growth. According to Sathyamurthy, the government’s response to the endemic stagnation of the economy was to opt for a radical solution (1969-73) with the aid of slogans as well as with the military intervention across the East Pakistan border. This new ‘radical’ posture was dictated mainly by the political crisis that was developing in the wake of the agricultural crisis of the mid-60s, the military crisis of 1962-65 and the industrial crisis since 1965 onwards. However, the new radicalism did not surface until after the rupee was devalued and import policy liberalised under pressure from the International Monetary Fund (IMF).

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63 Critics of the industrial policy regime of this period argued that the M.R.T.P and the FERA were the principal cause of the tardy growth of industrial investment and production. See Fredie A. Mehta, “Growth, Controls and the Private Sector,” in Robert E.B. Lucas and Gustav F. Papanek (eds.), The Indian Economy: Recent Development and Future Prospects (Delhi, 1988), p.207; also see Isher Judge Ahluwalia, “Industrial Policy and Industrial Performance in India” in Lucas and Papanek (eds.), n.63, pp.152-153.

64 Dilip S. Swamy, n.51, pp.106-7.

65 T.V. Sathyamurthy, n.8, p.138.
The 1969 split in the Congress Party and the anti-monopoly legislation and bank nationalisation, which followed, were seen by some observers as representing a shift in the balance of power from the monopoly bourgeoisie to smaller capitalists. This, together with the growing political assertion of the rich peasants and emerging capitalist farmers, and the populist rhetoric of Indira Gandhi’s government, led them to characterise the Indian State as an ‘intermediate regime’.

This was also the period when various external agencies began to influence India’s policy choices. In 1969, the Organisation of Economic Co-operation and Development (OECD) and the Ford Foundation provided the necessary ideological thrust in favour of freedom of enterprise. The OECD brought out various studies along these lines. The Ford Foundation expert, John Lewis, submitted a memorandum to the Government of India arguing for reducing bureaucratic controls of

66 Addressing the Indian Merchants Chamber in Bombay on 25 October 1969, Prime Minister Indira Gandhi said, “... exercising a countervailing influence against the concentration of economic power, Government had to step in, whether it is nationalization of banks or the monopolies legislation, which is now on the anvil. All these should be viewed against the realities of our economy in which there is no effective force, except the state, which could mitigate the possible abuses of the concentration of economic power.” India, Ministry of Information and Broadcasting, The Years of Endeavour: Selected Speeches of Indira Gandhi, August 1969- August 1972 (New Delhi, 1983), p.258.

67 Following Kalecki, K.N. Raj attempted to apply intermediate regimes analysis to India. But the theoretical validity and coherence of the concept of the intermediate regime came under criticisms in India. K.N.Raj, n.29; Kalpana Wilson, “Class Alliance and the Nature of Hegemony: The Post-Independence Indian State in Marxist Writing,” in T.V. Satyamurthy (ed.), n.8, p.262.
entrepreneurs and restoring the market mechanism in determining resource allocation. Emphasising the deepening economic crisis, they reiterated the policy of economic liberalisation, particularly in respect of imports and urged the government to negotiate for aid in order to overcome the resource crunch and to shore up the growth rate.\textsuperscript{68} John Lewis argued that the Indian economy was over controlled and wastefully starved of imports, and that the rupee exchange rate was too high to facilitate export expansion. He held the policy of import substitution as mainly responsible for sustaining industrial inefficiency, high cost and creating vested interest in continuing import controls.\textsuperscript{69}

However, the pressures resulting from the oil crisis of 1973–74 set the background for economic liberalisation in India. When the government decided to borrow from the IMF to cover the external deficit, the IMF seized the opportunity to ensure a decisive change in India's economic policies. The Planning Commission had also adopted a pragmatic approach towards licensing and controls. By 1974, the policy constraints were no longer there. Prime Minister Indira Gandhi was able to enlist mass support and the reins of power had also been tightened. It was an


\textsuperscript{69} See John P. Lewis (1997), n. 68.
opportune moment for taking the IMF loan, which became the catalyst for resolving the prolonged economic crisis.\textsuperscript{70}

At this time, the IMF while suggesting a stabilisation programme insisted that India should liberalise imports and stimulate exports by further depreciating the rupee. It also recommended stringent monetary and fiscal policies, incentives for investment, ban on strikes and wage freeze. Similarly, the World Bank, when asked for aid, pressed for a complete change in the policy in favour of more collaborations with western firms. Soon, the government began to implement the IMF-World Bank proposals without any hesitation. In 1974, wages and dividends were frozen, monetary policy was made stringent, automatic import licences were cleared and large business houses were allowed to expand production in select areas. When the IMF loan came to the rescue of the economy at a vulnerable moment, it turned out to be a change of far-reaching significance. The stabilisation programme under the IMF loan reversed the trend towards self-reliance. After 1974, the Indian economy was increasingly integrated into the world economy.\textsuperscript{71}

Meanwhile, the development of monopoly capitalism created many contradictions in the Indian society. Contradictions between different

\textsuperscript{70} Dilip S. Swamy, n. 51, pp. 146-47.

\textsuperscript{71} Ibid., p.147.
sections of the dominant classes, and most strikingly between the urban bourgeoisie as a whole and the class of capitalist farmers in the process of formation of certain regions, were becoming increasingly sharp. This intensified the exploitation of the direct producers. In the rural areas the process of capitalist transformation resulted in increased landlessness and often worsened conditions for agricultural labour. During this time, the emerging capitalist farmers were organising increasingly effectively to prevent the State - and the industrial sector - from appropriating a surplus from the agricultural sector through mechanisms such as prices and taxation. Consequently, the urban bourgeoisie depended increasingly on raising the rate of exploitation in industry in order to maintain their profits, and it was the urban working force, which, along with the rural poor, bore the burden of rising agricultural prices.72

The declaration of emergency in 1975 marked a new phase in the transformation of the Indian State. It served to conceal the contradictions between different sections of the Indian society. The Indira Gandhi government unleashed repression and violence even disregarding the constitutional obligations. Under the emergency the Indian government hoped to activate forces that would break the deadlock

72 A. Mitra, Terms of Trade and Class Relations (London, 1977); also see Kalpana Wilson, n. 67, p.260.
between the belligerent proprietary classes and stimulate growth. It wanted the bureaucracy to work efficiently, workers to increase production, state governments to carry out land reforms etc. Bardhan said that as tensions and frustrations with the old patronage system built up, the legitimacy of the political machine declined, the hegemonic hold of the dominant proprietary classes over the subordinate classes started slipping away even while their economic grip remained strong and some partners in the dominant coalition started looking for more centralised forms of arbitration. Bardhan pointed out that Indira Gandhi was too eager to provide a leadership in this centralised arbitration process.73

A.G.Frank noted that the institutionalisation of economic, political, and military repression under Indira Gandhi’s emergency rule was designed to further favour Indian and foreign monopoly capital without solving the country’s structural problems.74 Measures introduced during this time such as tax reductions and liberalisation of trade policies were most encouraging for profitable business, both Indian and foreign. The import

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policy for 1976-77 carried the country another giant step in the free market direction and away from planning, as with the industrial licensing it was difficult to say what remained of import control.\textsuperscript{75} According to Rajni Kothari,

On the policy front there emerged a highly sophisticated package. In the mid-seventies the World Bank announced the strategy of ‘direct attack on poverty’ (which neatly coincided with India’s call of \textit{garibi hatao}). This gave the bank and foreign aid a strategic role in national development. Alongside, it called for very large capital outlays and shifted the emphasis from poverty alleviation and narrowing of disparities to technological growth \textit{per se}; from raising living standards to the capacity of national economies to absorb institutional expertise and capital from abroad; from self-reliance to ‘catching-up’; from expanding international markets and purchasing power to producing exportable surpluses for the world market.\textsuperscript{76}

Ranjit Sau argued that during this phase of centralisation, productive investment was not on the agenda of big bourgeoisie; it was bent on grabbing other capitals. This, according to him, was one of the causes of the crisis of Indian economy at that time. Sau says: “the intense conflict among the Big Business Houses and, between the Big Houses on the one hand and smaller capitals on the other is there for all to see. This goes a

\begin{footnotesize}
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\item Rajni Kothari, “\textit{Capitalism and the Role of the State},” in Ghanshyam Shah (ed.), \textit{n.1}, p.119.
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long way also to explain the emergence of the Janata Party, the birth and
growth of Congress (I), and the likely continuing battle of the two for
some time to come.77

During the Janata rule (1977-79), the economic stagnation was
apparently over and public investment in key sectors had pushed many
industries up and out of stagnation. This was aided by the strict
regulation of industrial relations and good harvest during this period.
Dilip Swamy noted that the government tried to reorient the economy by
allocating more resources to agriculture and rural development and by
assigning a special place to small-scale industries.78 But, according to
A.G.Frank, this change was “more rhetorical than real” and the
temporary economic fortunes of this period would not alter anything
fundamental in India’s structural economic crisis.79 Nonetheless, the big
business, whose position had improved considerably during the
emergency, began to denounce the Janata policies as amounting to de-
industrialise the country. When it became unresponsive in terms of new
investment, the government attempted to offer concessions but that did
not yield desired results.80 However, the Janata government collapsed

77 Ranjit Sau, “India’s Economic Crisis: Dialectics of Sub-Imperialism,” EPW, March 3,
1979, p.496.
78 Dilip S. Swamy, n.51, pp. 171-72.
79 A.G.Frank, n.74, p.37.
due to its own internal contradictions and, as Dilip Swamy noted, the coalition, which accorded increasing power to the rich farmers, appeared “incongruent with the relative economic position of the underlying class forces.”

The 1980s witnessed major decisions, which greatly changed the political economy of the Indian State, reoriented industrial production, altered class alignments and prepared the ground for a far-reaching transition. The major features of the new policy regime that took shape in the 1980s were deregulation of industries, decontrol of prices, liberalisation of imports, tax reductions, downsizing of welfare funds and increase in deficit spending. These trends, which had emerged immediately after the 1974 low conditionality IMF loan, got crystallised into a coherent package in the early 1980s when India had gone in for another IMF loan. This was followed by various initiatives to further liberalise the economy in accordance with the recommendations of various official committees.

During this new phase of liberalisation, the Indian economy experienced a dramatic and fundamental shift in order to enable the Indian capitalist

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81 Dilip S. Swamy, n.51, p.172.
class to make up for the long-term stagnation of the domestic market by seeking external markets. Such a shift of priorities required that concessions should be given to foreign capital, in general, and US multinationals, in particular, and structural adjustments stipulated by the IMF be carried out. The justification given for the turnaround of economic policy was that it provided access to foreign technology as well as creating conditions under which Indian business houses as well as high-technology-using state enterprises would be in a position to enter external markets. Throughout the eighties, the Indian economy experienced a deepening integration with world economy and foreign capital and ever since it became susceptible to international economic fluctuations over which it could exercise no control whatsoever.

Meanwhile, the world capitalist system itself was in deep crisis as a result of a number of factors emerging from the sixties onwards. An important sign of this crisis was the unparalleled stagnation along with worsening inflation resulting in unprecedented fall in agricultural and industrial production and rise in unemployment and prices. This crisis

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turned out to be the worst, even questioning the basic tenets of Keynesianism. In fact, the first causality of this crisis was Keynesianism itself and the foundations of welfare capitalism. The US-led capitalist countries sought to put the burden of this mounting crisis on the shoulders of Afro-Asian-Latin American countries which culminated in an ever-increasing global appropriation by international capital using the multilateral institutions like the IMF, World Bank and General Agreement on Tariff and Trade (GATT) which subsequently became the WTO.

In the 1980s and 1990s India's monopoly capitalists, which supported the autonomous capitalist development in the immediate postcolonial period, became vigorous supporters of liberalisation and globalisation. The business houses began to identify themselves with foreign capital and the global economy rather than with the national priorities and interests. The tendency has been towards increased concentration of ownership, and preferential credit to small and medium-sized enterprise would be eliminated and, the big business families, in partnership with foreign capital, have been entering into a variety of areas previously reserved for small-scale industry. Apart from the big bourgeoisie, the

84 See Samir Amin, Spectors of Capitalism (Delhi, 1999), pp.11-40; also see Samir Amin, Capitalism in the Age of Globalization: The Management of Contemporary Society (Delhi, 1997).

85 See Susan George, A Fate Worse than Debt: The World Financial Crisis and the Poor (New York, 1990); also see Susan George and Fabrizio Sabelli, Faith and Credit: The World Bank's Secular Empire (London, 1994).
capitalist farmers and landlords of the rural areas, the urban middle-
class, the bureaucrats and professional elite whose personal benefits
flowing from globalisation provided the social base for SAP.86

By the beginning of the eighties, India was steadily moving in to a debt
trap. Three decades of policies had already brought the country to an
irreversible balance of payment crisis. The loan from the IMF in 1981 was
a decisive turn in India’s economic transformation. This loan agreement
with IMF completely exposed all self-reliant declarations of the successive
governments. In essence, this implied that the economy was pushed into
a vicious circle of trade and imports. The advent of Rajiv Gandhi in the
mid-eighties and the proclamation of a new economic policy regime left
behind slogans like ‘self-reliance’ and ‘import-substitution’ which were to
be replaced by catchwords of ‘export-orientation,’ ‘technological
upgradation, ‘efficiency’ and ‘modernisation.’ During this period, import-
pushed export-oriented development strategy accelerated the integration
of Indian economy with global capitalism. What followed were acute
fiscal and balance of payments crisis, inflationary pressures, and
deceleration in productive economic activities, including employment

Economic Reforms,” EPW, Vol.29, No 12, 1994, pp.683-90; also see Prabhat Patnaik and C.P.
For a pro-reform analysis, see Jagdish Bhagwati, India in Transition: Freeing the Economy
(Oxford, 1993); Jeffrey D. Sachs, Ashutosh Varshney and Nirupam Bajpai (eds.), India in the
growth rate, widening of economic inequalities, etc.\textsuperscript{87} The economic and industrial policies announced and implemented from the mid-eighties, not only undermined major public sector units as well as indigenous cottage and small-scale industries, but paved the way for large-scale entry of multinational companies into even those sectors which were denied to them previously.

The New Economic Policy announced in 1991 and the subsequent import-export policies were fully in accordance with the trade liberalisation prescriptions of the IMF-World Bank combine. The new policies can be categorised into two groups - the macro economic stabilisation and the structural adjustment policy. It was first initiated as 'stabilisation policy' under the direction of the IMF with a view to achieving both external payment viability and macro economic stability internally. It was followed by a structural adjustment policy dictated by the World Bank with the following important changes: a) gradual withdrawal of the State from the economic activities; b) the encouragement of private investment; c) increasing reliance on external private capital for economic development; d) the gradual privatisation of public enterprises; e) the introduction of fiscal and monetary policies that tend to pass on control over the overall direction of economic policies.

\textsuperscript{87} For details, see Bimal Jalal, \textit{India's Economic Crisis - The Way Ahead} (Delhi, 1991); Arun Ghosh, \textit{India in Transition: Economic Policy Options} (Allahabad, 1992).
from the Indian State to external private finance capital. These measures had tremendous implications for the Indian economy and its sustainability in the context of the fast-changing global economic scenario, particularly in the era of globalization.

In the 1990s, globalization got further momentum through the successful completion of the Uruguay Round GATT negotiations, which resulted in the Marrakesh Agreement (1994), and the formation of WTO. Obviously, the WTO seeks to ensure the legitimacy of the global market mechanism and the hegemony of global capital. Yet India decided to become a member of this trade regime. Its accession to the WTO made several policy changes inevitable in the realm of trade, investment, service, industry, and agriculture. The new commitments and obligations that India has been called upon to undertake in this post-accession period made the welfare agenda of the Indian State obsolete. This was a crucial phase of an ideological shift from a liberal to a neoliberal agenda of development. The transition from Keynesianism to the new political economy of neoliberalism fully brought to light not only the vulnerability

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of the Indian State but also the complex character of the Indian ruling class which became increasingly dependent on global capital more than ever before. This raises several questions about the sustainability of India's autonomy, sovereignty and independent decision making in the face of the pressures being brought upon by advanced capitalist countries.

In sum, the political economy of the Indian State brings to light the complex processes through which the country has gone through during the colonial and postcolonial phases. Evidently, the development of capitalism in India has been a decisive factor in the making of the State policies. Though interpretations of the nature of the India State vary, scholars generally agree that capitalist development has been a determining factor in shaping India's position and status in the global arena. In the postcolonial conditions, the Indian State had been able to effectively bargain with the dominant forces of the bipolar world because of the inherent potential of the development paradigm it followed. This was to prevail over four decades after independence, notwithstanding all problems that accompanied it. The autonomy and the sovereignty of the Indian State retained under the liberal
democratic framework began to lose momentum since the 1980s when, under pressure from the advanced capitalist countries and international lending agencies, India introduced economic liberalisation and reforms. The crises that set in by the late 1980s and early 1990s further weakened India’s bargaining positioning in the international system. The neoliberal policies which the successive governments adopted not only changed the role and character of the Indian State, but fully brought to light their implications for India’s domestic arena as well as for its global status. The changing role of the Indian State is, thus, kept in perspective while analysing India’s foreign policy, particularly vis-a-vis the Third World.