1. India is an under-developed country. Her economy is characterized by low productivity (due to capital poverty) and by the predominance of agriculture and ancillary activities, small scale decentralized production, and self-employment. Consequently, the employment problem in India is basically different from that in the advanced capitalist countries. In the latter countries, in normal peace-time conditions, the basic problem is deflationary unemployment, i.e. involuntary unemployment due to insufficient effective demand. In India, the basic problems are chronic unemployment and under-employment due to lack of complementary resources and low productivity of employment due to exceedingly low capital-labour ratio. Accordingly, while the basic problem in the advanced private enterprise countries is to attain and maintain the level of effective demand consonant with full employment, the basic problem in India is to increase the country's fund of complementary resources. The employment problem in India, being in essence the problem not of demand deficiency but of capital poverty, its solution demands not merely expansion of demand but economic development.

2. The essence of economic development is capital accumulatio (and the incidental skill-formation), or what a UN study has termed, capitalization. But in a densely populated country with a low land-labour ratio, capitalization necessarily implies industrialisation, for only through industrialisation can such a country attain anything like the capital-labour ratio prevalent in the advanced countries. When land-labour ratio is very low, the scope for capitalisation within the frame work of a predominantly agrarian economic structure is very limited, for the point is soon reached when further investment will add more to nation income if directed to industry than if directed to agriculture and associated facilities.
3. Industrialisation of a densely-populated, predominantly agrarian country signifies a process of allround technological progress. It involves, first and foremost, the creation of modern large-scale industries, especially metal, engineering and chemical industries, and their development to the level where they acquire a predominant position in the economy. Secondly, it involves the expansion and development of mining, construction, power-capacity, transport and communications, financial and banking institutions, distributive trades, and education, health, social security, social welfare, employment and repair services. Finally, it involves the modernisation and development of agriculture. Industrialisation is thus synonymous with general, balanced, allround economic development, though the essence of this process is the creation and expansion of heavy, especially engineering, industries. It involves structural remoulding of the economy in the direction of increasing the importance of industry as against primary production, of large-scale industry as against cottage and small-scale industry, of heavy industry as against large-scale light industry, and of investment goods industries as against heavy industry producing durable consumers goods.

4. Industries need minerals, raw materials and power. India's endowment of natural resources - her capacity to meet from within her own bounds the raw material and power requirements of highly developed modern industries, though it may not be so large as that of the Soviet Union or the United States, indubitably compares very favourably with that of Western Europe and Japan. Gaps do exist. But, given mutually beneficial trade with other countries, particularly the Asian countries, it would not be difficult to fill them. So far as raw material and power supplies are concerned, India is surely in a position to develop and maintain a highly industrialised economy.

5. Industrialisation involves capital accumulation on a gigantic scale. The required investible resources may be
obtained from three sources: from abroad, from current economic activity of the country, and from the conversion of the accumulated savings of the community into productive capital. Foreign funds may flow into India in one or more of the following forms: (a) private loans and investments, (b) loans and grants by foreign governments, and (c) loans guaranteed and granted by the IBRD. In the past, foreign funds have flowed into India in all three forms. An examination of the future scope for the flow of foreign funds into India, however, suggests that India's industrialization must be financed almost entirely from domestic resources.

6. The Great Depression virtually stopped the flow of private international portfolio investment. And it has never recovered from the low level to which it then sank. Nor is it likely to stage a recovery in the future.

7. In an under-developed country like India, foreign private direct investments are unlikely to develop manufacturing, especially heavy industries, the creation and expansion of which is the very essence of industrialization. The transfer problem involved in the servicing of foreign investment causes such investment to be directed mainly to primary production, or simple processing of primary products, for export, and to the associated transportation, financial and commercial facilities. Accordingly, such investment promotes not the industrialization but, what may be called, the 'colonisation' of the capital importing country. The latter increasingly tends to be transformed into a source of food, raw materials, and simple manufactures for the capital exporting country and a market for her basic industrial products. History, however, does provide instances where foreign equity capital, though it found investment in transport facilities, public utilities and the production or simple processing of primary products for export, nevertheless, led in due course to industrialisation. In these cases, the investment of foreign capital, even though limited to fields other than manufacturing, promoted such vigorous capitalist development that in due course native capitalist elements grew powerful
enough to set up heavy industries. But this course of
development requires conditions which do not obtain in India:
a high land-labour ratio, largely stable and expanding external
market for the under-developed country's output of primary or
simply processed products, scope for foreign direct investment
in fields where it forms an integral part of the economy of
the under-developed country, and a socio-economic set up
that does not impose heavy fetters on capitalist development.
It is on this account that, even though a century has passed
since foreign capital began to flow into this country, the
possibility of high-speed development of heavy industry is
nowhere on the horizon. Foreign investment is even more
unlikely to achieve this result in the future.

8. The grants and loans provided by the advanced capitalist
countries (including the USA) to under-developed countries
have been almost entirely for either military-strategic
purposes or for colonial type development, i.e. development
which seeks not to industrialise the country but to increase
its value as a source of food, raw materials and simple
manufactures, and a market for basic industrial products.
An India intent on industrialisation cannot, therefore,
count upon loans and grants from advanced capitalist countries
to finance it.

9. Loans from the IBRD to finance an integrated programme of
industrialisation should be welcome. But the Bank has important
limitations. Its owned financial resources are very limited.
The Bank can, therefore, find sufficient resources for large-
scale lending to member countries only by borrowing in
appropriate private investment markets, mainly the US
investment market. But it is unlikely that the advanced
capitalist countries, mainly the USA, will allow the IBRD to
float loans in their internal markets when the proceeds are
meant to finance the industrialisation of under-developed
countries, especially if the latter happen to offend the-
former by socio-economic measures required to restore health
and vigour to their economies. The stipulation that the Bank
must not encroach upon the fields normally within the province of the private sector, makes it lend mostly, not for industrial development, but for 'basic development', i.e., for the development of electric power generation, transport and communications, agriculture and forestry.

10. It follows that India's industrialization will need to be financed almost entirely from domestic resources. Since foreign capital cannot be an instrument for the country's industrialization, it is futile to rely on it; rather the object of policy should be to free the national economy from its influence and control. The existing foreign business investments, to begin with British and US business investments, should be nationalized. The foreign investors may be compensated by surrendering an appropriate amount of available sterling balances. This will free Indian economy from the currently powerful influence and control of foreign capital, will increase India's national income, government revenues and annual foreign exchange earnings by at least Rs. 20-25 crores, and the ruthless exploitation of the hundreds of thousands of Indian men, women and children working in British-owned plantations, reinforce the country's political independence, create a large public sector the surplus yielded by which may make a handsome contribution to the resources available for development, open out opportunities for the promotion of Indians to the highest posts in the enterprises concerned and ensure better conservation of nation's irreplaceable assets.

11. The essence of industrialization is the creation and expansion of metal and engineering industries. These industries being highly capital-intensive and high-skill, for the present, a high proportion of the capital goods and the technical skill required for their development must be imported from abroad. Accordingly, not only is the scale of investment involved very large, but the ratio of external to total outlay is very high. Without large loans for the purpose, India cannot immediately undertake high-speed development of these industries. The current overall rate of
investment and the balance of payments position both rule out this. Consequently, India's industrialisation must be effected in three stages. During the first stage covering some 5 years, steps should be taken to raise the current rate of investment to several times the present level, and to effect a radical improvement in the balance of payments situation. The foundation will then be ready for high-speed development of the capital-intensive and high-skill heavy industries. The creation and expansion of these industries would be the basic task during the Second Stage which may be expected to cover some 7-10 years. The Third Stage will begin with the attainment by machine and machine-tool industries of a level of development adequate not only for their own further development, but also for rapid expansion of light industries and for the basic technical reconstruction of the entire economy including agriculture and the transport system. This stage will be marked by rapid rise in overall labour productivity due to all-embracing basic technical reconstruction of the economy. In this way, in some 25 to 30 years India may be transformed into a country of highly developed industry and advanced agriculture.

12. Industrialisation with domestic resources raises a two-fold problem. There is firstly the problem of real or physical resources, i.e. of effecting a sufficient increase in India's capacity for investment, for import of capital goods, and for import and domestic training of skilled personnel required to construct and man the new high-skill industries. The solution of this problem entails appropriate organisation of the economy. To achieve this would be the job of the production plan. Secondly, there is the financial aspect of the problem. To avoid inflationary pressures, aggregate consumption expenditure may be reduced to the volume just sufficient to buy the available supply of consumption goods and services at current prices; in other words, a rate of saving should be achieved without resort to unmanageable inflation as would exactly offset the investment outlay. Again, to ensure internal consistency of the development plan, the direction of savings must be brought into line with the
pattern of development provided in it. The problem of industrialisation with domestic resources thus has a physical and a financial aspect.

13. The rate of net national investment may be increased in the following ways:-

(a) Increase in the domestic output of investment goods.
(b) Increase in the import of investment goods through:
   (i) Larger exports and smaller imports of consumption goods (including services for purposes of current consumption);
   (ii) Larger drawings on accumulated savings;
   (iii) Larger inflow of foreign loans; and
   (iv) Elimination, or at least considerable reduction, of the negative balance of investment income.

An increase in the domestic output of investment goods and larger exports and smaller imports of consumption goods do not necessarily imply that the required increase in the rate of investment will be achieved at the cost of decline in consumption. By utilising the vast idle man-power, achieving the maximum level of labour productivity attainable with existing complement of land and real capital, releasing, through rationalization of the administrative machine, a portion of the labour force at present employed in public force and public administration for employment in the national economy, financing a portion of the required increase in the import of investment goods through not larger exports but faster drawings on accumulated savings and reduced negative balance on investment income account, and raising labour-productivity through capital intensification of the economy, a simultaneous increase in investment and consumption may be obtained. And that is precisely what is needed in view of the very low current living standards. Since the simultaneous increase in the output of consumer- and producer-goods means an increase in aggregate output, and since the structural remoulding of the economy involved in industrialisa-
tion means a rise in the ratio of investment goods to total output, the main question raised by the problem of industrialization with domestic resources in its physical aspect is how to increase national output and to raise the proportion of investment goods in it.

14. In the initial stage, the utilization of vast idle man-power provides the key to rapid increase in aggregate output. A part of this man-power may be utilized through the expansion of wage employment, mostly through fuller utilization of production capacity in the organized (or capitalised) sector of the economy and on public construction projects. The rest of it can be absorbed only through extension of self-employment mainly in agriculture and handicrafts. Self-employment is free from difficulties that at present inhibit the extension of wage-employment. The limit to the extension of self-employment is reached not when marginal net productivity falls to equality with the ruling rate of wages but when it falls to zero. Again, self-employment does not generate money incomes unrelated to a proportionate increase in output. Extension of self-employment, whatever the productivity of such employment, thus creates no net inflationary pressures. Nor does it require the transformation of small producers into wage workers or their shift from their present occupations to others.

The basic requirement of extension of self-employment in agriculture is the transfer of land to the tiller; in cottage industries, it is adequate demand for the output of such industries. The increase in the purchasing power of the peasantry and the direction of the bulk of industrial investment into heavy industries (which do not compete with cottage industries provide) the key to adequate demand for the output of the latter.

15. When idle man-power has been largely drawn into production, further simultaneous increases in the output of investment goods and consumption goods may be achieved mainly through
improvements in labour productivity. The higher rate of investment made possible by rapid increase in output in the initial stage through the utilization of idle man-power will help to achieve the improvement in the capital-labour ratio required by rise in labour productivity. The increase in the proportion of investment goods in total output may be ensured through directing the bulk of investment into the Investment Goods Department.

16. The industrialization of an under-developed country
by the richer classes, and development proceeds at an ever faster pace. Finance of development through public saving thus ensures rapid progress, economic equality and social justice.

18. The rate of public saving proper may be stepped in four ways: (a) by increasing tax revenue, (b) by increasing the surplus yielded by the public sector, (c) by slashing government non-development expenditure, and (d) by economising in development expenditure of a recurring type. The surplus yielded by a rapidly expanding public sector and an appropriate turnover tax provide the key to the expansion of public revenues required for a high rate of public saving. In India, the public sector is already fairly large. The nationalization of foreign business investments (to begin with British and American business investments) and of Indian cartel capital (i.e. capital owned by the handful of Indian business houses who have brought large segments of the capitalised sector of the economy under their control, the source of whose enrichment is not so much capitalist development as cartelsization of the economy, and who have close links with, and hence support, monopoly capital and native feudalism), necessary to free the economy from the influence and control of foreign capital with a view to facilitating its independent growth, will make a substantial addition to it. Further large increase in the public sector may be achieved through undertaking state trading wherever feasible. Thereafter high rate of public saving and rapid expansion of the public sector will feed each other. The channelling of a substantial proportion of private savings into the public sector will also promote rapid expansion of the latter. The surplus yielded by the public sector will, however, depend not only on the size of the public sector, but also on the measure of efficiency attained in the conduct of public enterprises. Such efficiency requires (a) an appropriate agency for the conduct of each type of public enterprise, and (b) efficient, devoted personnel.
The rate of public saving may also be increased through reduction in non-development expenditure and development expenditure of a recurring type. If national defence is organised on proper lines, civil administration rationalized, the country made self-sufficient in food, the refugees provided with employment, and due economies practised in development expenditure of a recurrent type, the rate of public saving may be substantially augmented through economies in the expenditure on defence, civil administration, food subsidies and relief and rehabilitation of refugees.

19. Compulsory deposits, compulsory purchase of non-negotiable savings bonds, compulsory employer and worker contributions to social insurance and welfare funds, limitation of dividends, direct restriction of consumption through rationing, and deficit financing are other methods of compulsory saving that may be adopted. The emphasis on compulsory saving does not, however, mean that voluntary savings are of no importance. Every possible effort should be made to promote them. The following may be expected to stimulate voluntary savings: a proper political, economic and psychological environment, adequate banking and saving facilities, stability of interest rates at an appropriate level, adequate incentives to ploughing back of profits, attractive opportunities for direct investment by savers, adequate attractiveness of private issues, regulation of stock exchanges, progress of life insurance and provident fund schemes, restrictions on finance of consumption from accumulated savings, and community spare-time work on capital formation.

20. To ensure the internal consistency of the development plan, the direction of savings must be brought into line with the disposal of real investible resources under the Plan. The capital budget, control of credit and investment policies of institutional investors, control of capital issues, industrial licensing, control on disposal of corporate undistributed profits, government encouragement of private
investment in the preferred fields and creation of appropriate financial institutions are some of the devices for the attainment of this objective.

21. The programme of India's industrialization outlined in this study — and we believe that this problem admits of no basically different solution — raises several political issues. The most important of these are:

First, the transfer of land to the tiller, the nationalization of foreign business investments in India and the Indian cartel capital, and the reform of administration are indispensable pre-requisites of industrialization. It is, therefore, imperative to remove all constitutional impediments to the implementation of these measures. As the Constitution has been amended to validate the Zamindari Abolition Legislation enacted by the States, there is no reason why other amendments to it should not be made if they are required by national development and progress.

Second, the basic continuity of socio-economic policy should be ensured. This problem is not peculiar to the programme of industrialisation outlined in this study; it confronts every socio-economic order. For instance, in a socio-economic order based on the concentration of ownership and control of capital in the hands of a small propertied class, the political set-up must ensure that power shall always be wielded by those who accept and seek to maintain this order. As long as capitalism ensures continued progress, Western democracy serves the purpose ideally. It allows a measure of liberty (at least in the negative aspect — that of absence of restraint, as against availability of opportunity), yet always returns to power those who uphold the basic tenet of the capitalist system, viz. concentration of control and ownership of capital in the hands of a small propertied minority, though those returned to power may differ in detail as to the best way of running the system. For as long as a
social order ensures progress, the people, when subjected to appropriate propaganda, can be expected to vote for its continuance. But whenever the failure of the system to ensure continued progress generates growing discontent with it, so that it is not sure whether Western democracy will always return to power those who stood by the system, the propertied classes have sought to scrap such democracy and substitute fascism for it. Even in England, where parliamentary democracy is most firmly rooted, should it cause office to alternate between political parties, — one of which may be pledged to abolish private property in the means of production, and the other determined to restore to private owners industries nationalised by the other party —, it would soon produce chaos. A choice will then have to be made. The political regime will then have to be recast either to subserve the ends of an economic order based on private property, or to facilitate the creation of an order based on social ownership of the means of production. Accordingly, in India, the political regime must harmonise with the economic order. A major political problem thus is the creation of a political regime that will ensure maximum liberty compatible with the continuity of basic policy required for rapid industrialisation.

Third, there is the problem of the unification of the people and their mobilisation for a determined assault on backwardness. This requires, first and foremost, a socio-economic order where there is ample room for development for all sub-national groups, communities, castes, cultural entities and individuals. For in a stagnant society, when one individual or group can make room for itself only at the expense of others, there are bound to be bitter internecine conflicts. Only an expanding social order, by creating conditions for the satisfaction of legitimate claims and requirements of individuals and groups, makes possible the substitution for bitter conflicts of enthusiastic co-operation. The proper approach to the problem of national unification,
in India is not through the denial of the existence of sub-national, linguistic, cultural and religious diversity and the suppression of its manifestations, but by meeting its legitimate claims (only a progressive social order can do this) and thus creating an enduring unity out of such diversity.

Mobilisation of the people means, not their regimentation, but their organisation for a mighty constructive effort through the irresistible appeal of an inspiring programme of national development. It requires, not the discipline of the circus ring master, but the esprit de corps of climbers on Mount Everest. To mobilise the people for national construction, it is necessary to draw them into mass organisations of youth, women, workers, peasants, students, writers, artists, teachers and other sections of the intelligentsia. It is also necessary to create a pyramid of Development Councils, comprised of representatives of mass organisations and individuals to lead and organise the constructive effort.

Finally, there is the problem of ensuring due co-operation between the Union and the States. In a Federal System, this can only be achieved through the creation of a political force that would ensure basic harmony between the policies of the Union Government and the State Governments.

22. The high-speed industrialisation of India requires planned development of resources. This underlines the importance of an appropriate machinery for the preparation and the enforcement of national Plans. The need to win the enthusiastic co-operation of the people for the implementation of the Plan, necessitates that the latter should be associated to the maximum extent practicable in drawing up the National Plan. And the need to ensure that the Plan would not be jeopardised through its non-fulfilment in certain vital sectors requires that there should be efficient machinery for its enforcement. At present, Plan enforcement is far from satisfactory.
Industrialisation provides the basic solution to India's employment problem. It will, however, do much more than this. It will provide an effective guarantee of the nation's economic and political independence. It is only when India can herself produce the modern equipment needed for national defence, and when her dependence on other countries for vital equipment and materials is no greater than the latter's dependence on her, that she will come to rank as a great nation. In the present epoch of world history, industrialisation holds the key alike to full and efficient employment, high standards of living, and economic and political independence. The nation's prosperity and greatness are thus indissolubly linked with industrialisation. Undaunted by difficulties, real or imagined, let the nation progress, step by step, to its high and inevitable destiny.

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