Chapter 3

Status of the Indian Economy
3.1 Status of Indian Economy before liberalization

3.1.1 Public sector

Meaning of public sector: The part of the economy concerned with providing basic government services. The composition of the public sector varies by country, but in most countries the public sector includes such services as the police, military, public roads, public transit, primary education and healthcare for the poor. The public sector might provide services that non-payer cannot be excluded from (such as street lighting), services which benefit all of society rather than just the individual who uses the service (such as public education), and services that encourage equal opportunity.

Before independence, there was almost no 'Public Sector' in the Indian economy. The only instances worthy of mention were the Railways, the Posts and Telegraphs, the Port Trust, the Ordnance and the Aircraft factories and few Government managed undertakings like the Government salt factories, quinine factories etc. After independence and with the advent of planning, India opted for the dominance of the public sector, firmly believing that political independence without economic self-reliance was not good for the country. The passage of Industrial Policy Resolution of 1956 and adoption of the socialist pattern of the society led to a deliberate enlargement of our public sector. It was believed that a dominant public sector would reduce the inequality of income and wealth, and advance the general prosperity of the nation. The planners also seemed to believe that by placing the management and workers in public enterprises in a position of responsibility and trust, they would be so imbued with a sense of the public good that their actions and aspirations would naturally reflect what was best for the country. The main objectives for setting up the Public Sector Enterprises as stated in the Industrial Policy Resolution of 1956 were

- To help in the rapid economic growth and industrialization of the country and create the necessary infrastructure for economic development;
- To earn return on investment and thus generate resources for development;
To promote redistribution of income and wealth; to create employment opportunities;

- To promote balanced regional development;
- To assist the development of small-scale and ancillary industries; and
- To promote import substitutions, save and earn foreign exchange for the economy.

In tune with the widespread belief at that time, the 2nd Five Year Plan stated very clearly that 'the adoption of socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries, which are essential and require investment on a scale, which only the state, in the present circumstances, could provide, have also to be in the public sector. The state has, therefore, to assume direct responsibility for the future development of industries over a wider area.

The Second Plan further emphasized that 'the public sector has to expand rapidly. It has not only to initiate developments which the private sector is either unwilling or unable to undertake, it has to play the dominant role in shaping the entire pattern of investment in the economy, whether it makes the investments directly or whether these are made by the private sector. The private sector has to play its part within the framework of the comprehensive plan accepted by the community.'

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<tr>
<th>Particulars</th>
<th>Total Investment (Crore)</th>
<th>Enterprises (Numbers)</th>
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<tbody>
<tr>
<td>At the commencement of the 1st 5-Year Plan (1.4.1951)</td>
<td>29</td>
<td>5</td>
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<td>At the commencement of the 2nd 5-Year Plan (1.4.1956)</td>
<td>81</td>
<td>21</td>
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<td>At the commencement of the 3rd 5-Year Plan (1.4.1961)</td>
<td>948</td>
<td>47</td>
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<td>At the end of the 3rd 5-Year Plan (31.3.1966)</td>
<td>2,410</td>
<td>73</td>
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<td>At the commencement of the 4th 5-Year Plan (1.4.1969)</td>
<td>3,897</td>
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The year 1990-91 was the threshold year for the beginning of a new Five Year Plan. The Seventh Plan, which ended in the previous year, provided a promising backdrop for the formulation of a new plan. The overall performance of the economy during the Seventh Plan had been impressive with an average annual growth rate (of GDP at factor cost) of 5.6% as against the target of 5 per cent. Agriculture, despite a run of poor monsoons in the first three years of the Plan, picked up in the remaining two years. Overall industrial production maintained the pace of growth of earlier years. The performance of the infrastructural sector also contributed to the success of the Seventh Plan. In addition, qualitative aspects of life also improved. The number of poor as a percentage of total population was brought down to 30 per cent in 1987-88 from 37 per cent in 1983-84. The enrolment figures at primary and upper primary stages had reached 9.89 crores and 3.25 crores respectively.
A few areas of concern, demanding renewed attention, also surfaced. The public sector undertakings had not been able to mobilise additional resources upto the desired levels. Fiscal deficit persisted and increasing non-plan expenditure affected availability of resources for development. Increasing current account deficits further aggravated the situation.

During 1990-91, the year under review. Gross Domestic Product (GDP) was anticipated to increase by about 5 per cent. The year experienced the third successive good monsoon. It is expected that the foodgrains production may rise above the target of 176.5 million tonnes. Generation of power by public utilities during 1990-91 was 264.14 billion units as against 245.40 billion units in 1989-90. Coal production was 211.73 million tonnes as against 200.89 million tonnes in 1989-90. Crude throughput of petroleum was 51.77 million tonnes. Railways maintained the growth rate in terms of the revenue earning goods traffic despite loss of freight traffic due to civil disturbances, shortage of diesel and natural calamities. The performance of the industrial sector was encouraging, with the average index for the first ten months of the financial year 1990-91 at 205.00 being 8.4 per cent higher as compared to the index of 189.10 for the corresponding period of the previous years.

Without reforms, India would have defaulted on its foreign debt, been cut off from commercial financial flows, and not obtained the fast-disturbing assistance it finally managed to get from the IMF and World Bank. The reforms enabled India to attract enough foreign financing to liberalise imports, run trade deficits of 1.55 billion in 1991-92 and 3.55 billion in 1992-93, and yet build up $8 billion foreign exchange reserves by September 1993, which then rose steadily for the rest of the decade.

In the absence of reforms, imports would have been subjected to a much greater squeeze. This would have hit industrial production and stoked inflation, so both the price and employment effects on the poor would have been far worse. This would also have made it difficult to curb the fiscal deficit, and hence given a further push to inflation.
3.1.2 Agriculture Sector

THE economist Joan Robinson once remarked that whenever something was asserted as true of India, the opposite could also be shown to be true. With regard to agriculture, this situation still prevails. Punjab farmers produce nearly 10 tonnes of foodgrains per hectare per year by growing rice and wheat in the same plot in succession. Many Punjab farmers also take a crop of potato in between rice and wheat. On the other hand, farmers in the north-eastern part of the country still practise shifting cultivation, causing both soil and gene erosion, and harvest about 500 kg of grain per ha. Such regional imbalances in the productivity and profitability of major farming systems are considerable. India thus provides opportunities for studying the many evolutionary steps involved in the history of agriculture.

In spite of regional variations, agricultural advance occupies pride of place among the achievements of independent India. Famines were frequent in the last century when, according to the 1891 Census, the combined population of India, Pakistan and Bangladesh, constituents of the then British India, was about 290 million. India alone has now a population of over 960 million and yet famines of the kind witnessed frequently during the last century have fortunately become tragedies of the past. Widespread under-nutrition and malnutrition still prevail, largely because of the lack of adequate purchasing power in families possessing no assets such as land or livestock or fish ponds or trees. Experience shows that given the needed political will, this problem can be overcome through appropriate public policies such as the Maharashtra Employment Guarantee Scheme and the Tamil Nadu Nutritious Noon Meal Programme for schoolchildren.

That poverty alleviation is a must for the elimination of hunger is evident from the following conclusion of the Famine Inquiry Commission, which investigated the causes of the Bengal Famine of 1942-43: It was a sad task to inquire into the course and the causes of the Bengal Famine. Over two million of the poor of Bengal died of starvation. Society, together with its organs, failed to protect the weaker members following moral, social and administrative breakdown. Amartya Sen's advocacy of public action to ensure entitlements for eliminating hunger at the household level is thus the most appropriate pathway.
AGRICULTURAL PROGRESS: We are now approaching a food production level of nearly 200 million tonnes as compared to 51 million tonnes in 1950-51. Wheat production has gone up from 6.4 million tonnes in 1947 to over 65 million tonnes in 1997. Milk production has more than trebled and egg production has been going up on an average by 7 per cent a year since 1971. Fish production has also gone up. Consequently, the per capita net availability of food went up from 468.7 grams per day in 1961 to 511 grams per day in 1991. Today, we not only produce substantial quantities of wheat, rice, oilseeds, cotton, sugarcane, jute and other food and industrial crops, but also over 100 million tonnes of fruit and vegetables and 70 million tonnes of milk.

Such progress in a country that had been regarded by foreign experts in the mid-1960s as a hopeless case from the point of view of its ability to end agricultural stagnation, is the result of the toil of farm women and men, supported by mutually reinforcing packages of technologies, services and public policies. West Bengal, where a combination of land reform and empowerment of grassroots level panchayati raj institutions has triggered significant agricultural progress in recent years, illustrates the power of appropriate public policies.

DARK CLOUDS ON THE HORIZON: In spite of India emerging as a major agricultural power in the world within a short span of three decades, there are now real concerns about our ability to maintain the tempo of agricultural progress and to end widespread chronic hunger and deprivation. These concerns arise from the lack of an all-party political consensus on issues relating to population, environment and farm policies. The countryside is still witnessing what Gandhiji termed in the 1930s as "the drain of brains and resources from villages and their transfer to towns and cities." We still do not have well-defined policies for the conservation of arable land and the sustainable use of groundwater. Heavy energy subsidies are promoting the unsustainable extraction of groundwater. "Waterlords", water markets and water conflicts are growing. We have an excellent scientific infrastructure in agriculture and have the capability to mobilise space, information and bio-technologies to accelerate agricultural progress. But our advances in science are only leading to a situation where we are data-rich, but action-poor.

The per capita availability of arable land and of irrigation water is going down year after year, since we are adding over 16 million children to our population each year. At the same time,
problems of pests and diseases and soil degradation are growing. This is why experts like Lester Brown of the World Watch Institute believe that we may have to import over 40 million tonnes of foodgrains annually in about 30 years. Under the prevailing conditions where trade is becoming free but not fair, the international prices of foodgrains will go up enormously if India enters the world market for the purchase of large quantities of foodgrains. The poor will suffer more, because of high prices and increasing unemployment. Even today 70 per cent of our population, particularly the poor, earn their livelihoods directly or indirectly from agriculture. Hence, inadequate attention to agricultural intensification, diversification and value addition will result in an increased number of women and men lacking secure livelihoods. While further agricultural intensification will be ecologically disastrous in industrialised countries, the lack of progress in promoting sustainable intensification will be socially disastrous in our country, since food imports will have an impact similar to importing unemployment.

Also, the prevailing mismatch between production and post-harvest technologies is harming both producers and consumers. This is why we need to reverse the current pattern of the "drain of brains and resources" and make them flow from cities and towns to villages. The countryside is crying for investment in infrastructure and management skills, both for improving farm productivity and for reducing food losses.

SUSTAINABLE FOOD SECURITY: The onward march of democratic forces, the onset of the information age and the continuing spectacular progress in science and technology have created uncommon opportunities for a food- and livelihood-secure India. Environment-friendly technologies are knowledge-intensive and we should harness both the electronic and print media as well as computer technology for providing rural families with location-specific information on meteorological, management and marketing factors. This is essential to enable farmers to adopt precision-farming techniques involving the correct application of inputs at the correct time and in correct doses.

With a rapid reduction in the size of farm holdings, the Kerala model of group farming needs to be adapted in other States. The National Dairy Development Board has demonstrated the power of cooperatives in strengthening the income and livelihoods of the rural poor. A small farm is ideal for intensive agriculture based on ecological techniques. A small farmer, however, suffers
from many handicaps caused by the cost, risk and return structure of farming. It is only by helping the small farmer to overcome his or her handicaps that the untapped production potential of a small farm can be realised. Unfortunately, such issues are receiving little attention.

It is now many years since the term "Green Revolution" came into use. "Green" denotes chlorophyll, which enables plants to harvest solar energy. Agriculture is the largest solar energy-harvesting as well as private sector enterprise both in our country and in the world. The term "Green Revolution" denotes agricultural progress through the improvement of productivity per units of land, water and time. In the coming millennium, we will have no option other than producing more food and other agricultural commodities from diminishing per capita land and water resources. This can be done only by blending the best in frontier science with the ecological wisdom of the past. Had yields per hectare of rice and wheat remained at the levels at which they were in 1966 and had the improvements in productivity achieved in wheat and rice during the last 30 years not been achieved, we would have needed about 80 million ha more land to produce the quantities of these foodgrains that our farmers produce today. The productivity-based pathway of agricultural progress is best described as forest-saving farming.

It is equally clear that we would not have been in a position to take an independent stand on important foreign policy issues, such as the decision not to sign the Comprehensive Test Ban Treaty (CTBT), if we had to depend on industrialised countries for our food needs. I am mentioning this because there are environmental and social scientists who criticise India's recent progress in achieving food self-sufficiency based on yield-enhancing techniques on grounds of ecology and equity. Ecological problems must be addressed through education, through technologies, such as integrated nutrient supply and integrated pest management, and through regulations relating to land and water use. Equity issues will have to be addressed through appropriate public policy measures. However, it will be suicidal just to recommend going back to old methods of cultivation, ignoring the fact that recurrent famine was the dominant feature of the farm scenario in the past. Our environmental movement should not only oppose unsustainable development but should propose sustainable options.

THE NEXT 50 YEARS: Our population is likely to range from 1.4 to 1.5 billion by 2050. It will be even higher if our population policies go wrong. Will it be possible for our farmers to produce
over 300 million tonnes of foodgrains, assuming one tonne will support five individuals, from less land and water? The answer is "yes", provided appropriate technologies, services, farm management structures and public policies are introduced. We have to graduate from a mere "Grow More Food" approach to farming for more income and employment in addition to more food. This will call for an end-to-end approach in agriculture, with special emphasis on assured and remunerative marketing opportunities. The private sector should help women and men operating small holdings through contract cultivation and should not attempt to buy their land and resort to corporate farming. Further increases in the number of families without productive assets in rural and urban areas will lead to increased social conflicts and disintegration.

Both home trade and external trade in farm commodities need to be enlarged. Agricultural exports now earn about Rs. 20,000 crores annually, but this can be more than doubled in the next five years through value-addition to primary products, investment in infrastructure for perishable commodities like fruits, vegetables, flowers, milk and eggs, and greater attention to the promotion of a green health movement. Our heritage in medicinal plants should be fully utilized and our vast coastal areas can be developed into "Green Health Tourist Centres". There are special opportunities for the production and marketing of organically grown foods and plantation crops. Such steps will help to create more on-farm and off-farm employment.

If agriculture has grown by barely one per cent per annum and industry by not more than 4.5 per cent in the years since 1991-92, the average annual rate of increase in the material production sector as a whole between 1991-92 and 1996-97 could not have exceeded three per cent. The prospects for 1997-98 are no better; were the rains normal for the tenth successive year, farming activities would continue to be adversely affected by the lack of capital formation: public investment is taboo as per the Fund-Bank formula and private investment has dried up. In industry too, no ground exists for the assumption that the cloud of demand recession would lift soon; the data for the first couple of months of the current fiscal year are uniformly bleak.

To conclude, we can be proud of the achievements of Independent India in eradicating a begging-bowl image and in creating self-confidence in our agricultural capability. The tasks now relate to the total eradication of hunger and the promotion of an ever-green revolution rooted in the principles of ecology, social and gender equity and employment generation.
3.1.3 Industrial Sector

The basic element of early industrialisation strategy was import substitution. Export pessimism was the underlying assumption. Consequently, since 1956, India placed high emphasis on the capital goods sector or the heavy industry. The choice of capital or investment goods sector over consumer goods' sector was made on the assumption that the economy suffered from serious "capital constraint". Capital constraint was said to be operating in terms of both financial capital [due to low propensity to save] and availability of physical capital goods. Allocating a larger share of the nation's limited investable resources to create the capacity to produce capital goods whose output will also be used to produce capital goods was expected to remove this capital constraint.

The policy imperatives to implement this strategy includes industrial licensing, control on capacity, import and export controls, control of capital issues, control of foreign exchange, allocation of raw materials, price controls and allocations of credit. These measures suggest that the planners and policy makers understood the need for using a wide variety of instruments and controls to steer the industrial development in a desired direction.

During the late 1960s and early 1970s, government introduced further regulations to restrict the growth of monopoly in Indian Industries and monitor the foreign exchange flows into the economy. The heavy industry biased industrialisation strategy stressed heavily on a "closed economy" approach. Very limited role was assigned to international trade. Achievement of national self-sufficiency was given top priority in the policy formulation. It was widely believed that controls and regulations of exports and imports, and state trading in select commodities, are necessary not only from the point of view of utilising limited foreign exchange resources available but also for securing an allocation of the productive resources of the country in line with the targets defined in the Plan [Planning Commission 1950]. The implementation of import substitution was ought to be achieved through the insistence on indiginisation requirements of the industrial output in most industries.

These elaborate system of government control over production, investment, technology, locational choice, prices and foreign trade instituted in the mid 1950s led to lackluster growth, an
internationally uncompetitive industrial structure, a perpetually precarious balance of payments, and above all, rampant rent seeking and the corruption of social, economic, and political systems. Consequently, India neither achieved self-reliance in industrial growth nor eradicated poverty. Moreover, during the late 1960s and 1970s, Indian industry experienced a deceleration due to low productivity, high costs, low quality of production and obsolete technology. Recognition of these bottlenecks led to some fresh thinking among Indian planners on the need to promote technological modernisation and competitiveness, apart from efforts to remove these supply-side hurdles.

In the early 1980s, three important committees namely, the Abid Hussain Committee, the Narasimhan Committee and the Sengupta Committee were set up to review industrial and trade policies. These committees recommended easing up of trade policy, the substitution of physical and quantitative controls by fiscal and other means of macroeconomic management, the promotion of greater public sector autonomy in business and operating decisions and the need for measures for enhancing productive efficiency and technological modernisation.

These recommendations resulted in the process of de-regulation during the 1980s, but gathered more momentum in the early 1990s. The measures introduced in the 1980s include (i) de-licensing without any investment limit of thirty-two groups of industries (ii) broad-based classification of commodities for issue of licenses, (iii) automatic permission for expansion of capacities, (iv) permission to MRTP and FERA companies also to avail (ii) and (iii), if they are located in an industrially backward region, (v) increase in the paid up capital limit of the firms to be covered under the MRTP Act from Rs.20 crores to Rs.100 crores and key changes in trade policy including increasing access of exporters to inputs at international prices and classification of several important inputs, parts and components under OGL. Further, selective permission for foreign direct investments was also granted in cases where the FDI involve transfer of technology.

As a result, during the 1980s industrial output and productivity performance improved significantly. However, in spite of showing an up-beat performance during the early years of moderate reforms, the industrial sector exhibited severe structural rigidities by the end of this decade. The industrial growth rate, for the first time, turned out negative in 1990-91.
The economy in early 1990s was seen as having a variety of problems including an inefficient, high cost and non-competitive industrial structure, serious infrastructure related bottlenecks and significant constraints on the availability of financial capital. It was argued that policy induced rigidities had constrained the choices of industries, apart from protecting them from internal and external competition. Efforts were directed to identify these rigidities and it was widely recognised that bureaucratic determination of plant capacity, product mix and location resulted in ignoring the market processes. Trade in scarce materials became more lucrative than efficient manufacturing. Further, the trade policy also had an anti-export bias, which blunted export orientation. This bias was reinforced by curbing of imports via tariffs and quantitative restrictions as a part of the import substitution strategy. All these necessitated major reforms not only in the industrial sector, but also in the trade, exchange rate, financial and fiscal sectors.
3.2 Status of the Indian economy during post independence period

The rise of the Indian economy is one of the most important economic developments of our day. To put it in context, one needs to start by considering how India gained independence. The year was 1947, and it was the culmination of a long struggle between the British government and the Indian independence movement. That movement was led by Gandhi, but his most important lieutenant was Nehru. The two had very different views on a number of questions, and in particular on economic issues. Gandhi believed in a very simple life, while Nehru had absorbed the doctrines of British socialism. The British socialist movement at that time aimed to build up a modern economy as rapidly as possible.

THE POSTINDEPENDENCEYEARS

India in 1947 was characterized by very low per capita income. There were a lot of people, so there was always a big GDP, but per capita income was very low. In some ways India had a fully developed capitalist economy, and it had some of the oldest capitalist institutions in Asia, such as the Bombay Stock Exchange, founded in 1875. So there was a modern economy, but it was very thin. There was a manufacturing sector, but it didn't cover many industries. There was even a steel industry and a relatively strong textile industry, but these were limited. It was predominantly a subsistence economy. Most of the villages at the time didn't even have road connections. They were connected only by tracks to the outside world. They weren't part of the market economy.

During the independence struggle in the final days of the war, Nehru was put in jail, along with a number of his Congress colleagues. In a matter of weeks, they drew up a consensus which has been called subsequently the Indian Congress Consensus. At that time the Indian Congress absolutely dominated India, so what the Indian Congress thought went. There was certainly a widespread agreement on the need to develop, to create an industrial revolution, to grow rapidly, and to build a modern economy. This would involve moving agricultural workers to the cities, which it was argued-this was a popular line of thought in the early days of development economics-wouldn't really cost anything, because the marginal products of those agricultural workers was negligible anyway. They really weren't contributing in the countryside. In any event, with a little agricultural modernization, it would be possible to increase output.
It was generally agreed that society should be based on collective action, not capitalist acquisitiveness. Basically, the view was that the state ought to seize control of the economy and ought not be run by the capitalist sector. Consequently, for the best part of forty years after independence, growth was slow. But the "License Raj" developed very quickly. Everything needed permission. If you owned a business that officially was in the private sector, in order to expand you needed a license. You couldn't get foreign exchange to import until you had the industrial license to expand. The government effectively controlled everything through a series of interlocking controls of that type.

Even the banks were nationalized in due course. The banking system was one of the later things to be nationalized, in the late 1960s and early 1970s, but even then this philosophy prevailed. The system was dominated as in many developing countries by the idea of import substitution, the idea that you would get expanding markets for industrial goods essentially by producing at home things that had formerly been imported. That was because you simply couldn't import most goods. There was on the other hand continuous macroeconomic discipline. Unlike many developing countries in Latin America, or in Africa, or even in Southeast Asia (such as Indonesia), India never suffered from hyperinflation. India never went above about 20 percent a year. Instead, where the macroeconomic problems showed up was in balance-of-payment pressures. The fact that one required a license to import just about everything was strangling the economy.

After Independence, we have had several decades of controlled economy. The focus tended to be on self-sufficiency and import substitution. Indian industry developed both in the public and the private sectors to make India self-sufficient in a variety of fields. Our progress after Independence was, for the most part, quite impressive. Unfortunately, however, distortions were bred in the extremely protected environment that had been created. Our cost of production was high and productive efficiencies were low. There was no incentive to be competitive, and India remained, for much too long, a high-cost manufacturing country. In course of time, we were overtaken by some of the developing countries in Asia, which recently embraced the notion of free market forces. Thus, while India was far more industrialised than many other Asian countries (with the exception of Japan) through the 1940s, 1950s, 1960s and even into the 1970s, you will see that by the end of the 1970s, some of these countries began to get ahead at a pace far
greater than what India was able to achieve in terms of industrial development. That came from the liberalization of their economies, while we continued to be a controlled economy up till the early 1990s.

India took the cue in 1991, when comprehensive liberalization of the economy was introduced. A number of impediments to industrial growth, like licensing, were reduced or eliminated. New fields were opened up to competition, particularly in the area of infrastructure and areas that had hitherto been reserved for the public sector. Consequently, what we have seen in this decade has been the considerable restructuring and modernization of Indian industry, which is trying to be more cost-efficient and technologically advanced to face enhanced competition and globalization.

Those companies that have either enjoyed monopolies or operated somewhat inefficiently through protection will find the new environment threatening. Those companies which are willing to change, willing to modernize and willing to restructure themselves, will find the coming years very rewarding. The demand growth in India is expected to be quite phenomenal, and for those companies that successfully make the transition to the new environment, there will be great opportunities.

ON R&D IN INDIAN INDUSTRY: The achievements of independent India in the area of industrial research and development. Almost without exception, industrial enterprises in the private sector have undertaken very little research. Most have adopted the policy of buying licences, operating through collaborations or reverse engineering products. Reverse engineering involves taking a product apart and replicating it, but without necessarily having a deep knowledge of the technology behind it. It is firmly believed that if India is to take its place among the leading industrial countries, industrial enterprises will have to earmark a far larger amount of their profits than they have been doing for the development of new products and technologies.

In contrast with the private sector, the Indian Government has invested enormously in various research laboratories belonging to it. These laboratories have sometimes undertaken quite
interesting work, but their motivation has primarily been to facilitate import substitution rather than undertaking frontier research.

On the whole, although India has used its research laboratories to create very many products, a proportionate amount of research time has not been devoted to new technologies or technologies of the future.

ON INDIA'S POTENTIAL: India is rich in natural resources. It has a population of more than 900 million people and, therefore, a large market. It has a middle class (the consuming class) that is now estimated to be between 100 million and 150 million. Its people have considerable talent and intellect. It is now recognized the world over that the pool of skilled and technical manpower that India has is higher than most people expected.

My view is that if we really set free the entrepreneurial spirit of our people, if, within a proper legal framework, we reduce the controls and restrictions, if we encourage enterprise, India will definitely be a major force in the industrial world.

ON POPULATION: A most impressive achievement of independent India, which tends to be accorded little recognition, is the fact that while India, at the time of attaining Independence, was unable to feed its 350 million people fully, India today, with about 930 million people, is self-sufficient, in fact surplus, in food.

We have enormously improved our capability to be self-sufficient despite the fact that our population has been increasing at a very high rate. But I am concerned about the fact that with our population increasing by about 18 million each year (which is equal to the entire population of Australia or Malaysia), the challenge for the India of the future is not whether it can become a successful industrial nation but whether it can provide food, shelter, education and jobs for 18 million Indians coming into this world every year.

Will the next generation really be able to find a place in society in the coming years? I think it is crucial that we have a growth rate - an industrial growth rate, a GDP growth rate - that will support the kind of population growth that we have. Simultaneously, we must take steps to
control our population growth, primarily by educating our people and conveying to them the many constraints that large families can create.

ON THE FUTURE: We are enthusiastic about India's future. This is a very exciting time for India, and India is going to be a force to contend with on all fronts. There is little reason so far to think that the Indian growth rate is currently above 9 percent on a trend basis, but that's a lot higher than most countries have achieved for long periods of time. It's high enough to take India into the first world in the course of some of our lifetimes. This is not a threat to the United States in any event. For all the jobs that are being outsourced to India, there's some outsourcing in the opposite direction, opportunities that are only going to increase as India grows richer. So the outlook is basically optimistic.

LIBERALIZATION
Then something changed. Initially we didn't realize that it had changed. Dani Rodrik, a well-known growth economist at Harvard, and Arvind Subramanian, an Indian economist at the IMF, continuing a line of work pioneered by American economist Brad Delong, have argued that the acceleration in Indian growth really came long before 1991, which is from when reformers had liked to date it. They claim there is evidence that growth speeded up in the mid-1980s. However, up until then, you can explain away the faster growth rate as a consequence simply of catching up, because there was a severe recession in 1979, due to the second oil shock. In any event, by the mid-1990s one has indisputable evidence that the Indian economy had moved to a faster growth rate, following the first, limited reforms.

One example of liberalization was known as "broad-banding." In the earlier period, if a private-sector entrepreneur was given permission to produce something, he produced exactly that and nothing else. Broad-banding meant that as long as he didn't use more raw materials, he was entitled to make something else. They were entitled to produce was broad-banded, or extended. And that in itself led to an important liberalization of the economy.

Another example is that the trucking industry was deregulated in the mid-1980s, which meant that people who owned trucks, still in the private sector, were allowed to go out to bid in order to take loads from one part of the country to another, at prices they could choose. This was
There was the beginning of divesting the public sector of its ownership of enterprises. India was not adventurous in this respect. It certainly didn't do anything like the mass privatization in the former Soviet economies. It pursued disinvestment, which meant selling minority shares in enterprises on the stock market. You don't pay a lot of money if all you think you're going to buy is a minority share in a state-owned enterprise. This isn't a good way of raising money or changing management incentives. So India was slow in divesting, but the program was started, and it's gradually built up steam. There has been much more willingness to contemplate private enterprises competing against state-owned enterprises in recent years.

Finally, there was financial reform. Where India used to have one stock exchange, which still operated pretty much like in the nineteenth century, today it has a modern stock exchange running parallel to that one. The Capital Issues Committee was abolished, and companies were allowed to borrow freely. Where the banking system at one stage had to lend over 60 percent of its deposits to the government, and most of the others had to be lent as the government dictated, now it has a large degree of freedom to lend where commercial considerations dictate. Today India has a rather impressive financial system by developing-country standards.

CONSEQUENCES: Growth didn't in fact accelerate much from the 1980s average to the 1990s average. But the 1980s ended in a crisis because some factors were clearly unsustainable, and although some of us worry about some features of the present economy, there's no suggestion that the present growth rate is unsustainable. So it may have been only slightly faster, but it was sustainable. The growth translated into a fairly substantial fall in poverty over the course of the 1990s. The 1997 East Asian financial crisis really stopped growth in its tracks in many countries. Those countries, some of them more voluntarily than others, had all liberalized their capital accounts, allowing money to flow in and out fairly liberally. In contrast, in India, if you brought money in, you could take it out again, but domestic Indians weren't allowed to take their money out freely, and India in any event hadn't borrowed a great deal. So it wasn't vulnerable to the 1997 crisis.

In the second half of the 1990s one also began seeing the rise of the IT sector. Two explanations are given for why that sector became so successful. The first is that the bureaucrats didn't notice what was happening until it had already happened, so they couldn't really interfere and put up a
web of regulations and restrictions. That's probably overly harsh. The other is that the
government did some things right. Its founding of the Indian Institutes led to a flow of highly
qualified manpower, many of whom found vocation in the IT sector. India at long last found its
niche in the world economy, which wasn't in exporting manufactures, like the East Asian
countries, but instead was in the services sector, and IT in particular.

One important consequence of the 1990s is the sharpening of regional differences within India.
The fast-growing states were in the south and west: Maharashtra, Haryana, Delhi, Gujarat, etc.
The large states of the Ganghetc plain--Bihar, Uttar Pradesh, Madhya Pradesh, and Orissa--became relatively poorer during the 1990s. Policy, which became more attuned to rewarding
success over the 1990s, may have exacerbated these regional differences.

Since there were a whole succession of governments over the 1990s, the Congress lost its
monopoly as the party of government. There was a period when the regional parties were
dominant in the mid 1990s, then the Bharatiya Janata Party (BJP) entered the government and
early in this decade there were even several years when there was a solely BJP government. In
Indian politics, there's very little notion of economic ideology. The BJP tended to be a little more
pro-market, a little less internationalist than the Congress, but the big difference is whether
you're in or out of government. Government will introduce something—to privatize the insurance
industry, for example; MPs will vote in favor of it when they're in government, and then three
years later when the government has changed and they're in opposition, everyone who previously
voted in favor now votes against, and vice versa. So there's no sort of socialist ideology in the
way that there was in many European countries. All the governments of the 1990s were
effectively reforming governments, even if not as strongly as some of us would have liked. They
tried to push the reform agenda, and if they were slow, at least there were no big reversals as in
Latin America and elsewhere.

DEVALUATION
Finally, in 1966, a year before the UK's famous devaluation, came India's. An attempt was made
to undertake some liberalization of the economy at that time, and India sought U.S. aid. But since
India wouldn't support the Vietnam War, President Johnson withheld aid. So the envisaged flow
of aid that would help make it possible to liberalize the economy wasn't there, and India went back to slow growth for another 15-20 years.

Another feature of this period was that the educational system was very skewed. Illiteracy continued, and in particular female illiteracy, which is still quite common in India. But at the same time the elites have a very good educational system, typified by the Indian Institutes of Technology and Management, which were established in this period to cater to the elites. The education they received has been important in the subsequent development of the country's economy. But in the early years, the economy grew rather slowly, at what became known as the Hindu rate of growth, merely 3-4 percent per year. At the time, the Indian population was growing at 2.5 percent per year. If GDP is only going up 3.5 percent a year, that doesn't give much scope for an improvement in living standards and cutting poverty, the ultimate objectives of economic growth. In fact, there was actually an increase in poverty in India in the middle of that period. After reasonably respectable growth in the immediate post-independence years, by the early 1970s it had really slowed down to about 3 percent.

INDIATODAY
At the moment, the Congress-led government is in alliance with some of the regional parties. The BJP is out of government, having run an election campaign that was altogether too complacent last time around. Man Mohan Singh is now prime minister, but Sonia Gandhi, who was born in Italy, leads the National Congress Party. To avoid the complications of having a foreigner be prime minister, she handed over running the government to Singh, who sits as a member of the upper house. The other key reformer is Palaniappan Chidambaram, the finance minister and the current Home Minister. He is a member of one of the smaller regional parties. While they haven't been able to move as fast as they may have liked, they've unquestionably been moving in a reforming direction since coming into power two years ago.

Externally, there's no hint of a balance-of-payments crisis. India has something like $130 billion of reserves. Indeed, there's been some debate as to whether it couldn't spend some of those reserves to advantage. There's a sense of great optimism in India at last. It's found its place in the world economy as the place to which the multinationals outsource jobs. Indian economy has grown rapidly at the pace of 9.2%. Earlier growth rate of 6 percent was regarded as a miracle.
It's what Italy did in the late 1950s and early 1960s, when we talked about the Italian miracle. Today, developing countries tend to regard 6 percent as the minimum. In India the debate is how much faster it should be able to grow. But there are still some big challenges.

First of all, there's the fiscal deficit, which is around 8 percent of GNP and has been up toward 10 percent. Now India is growing faster than the U.S., so it can afford a deficit larger than the 3-4 percent U.S. deficit without debt's getting out of control relative to GDP, but it still has one of the highest debt ratios in the world outside of Japan. It's still a 90-100 percent debt to GDP ratio. Sixty percent is supposed to be the limit in Europe, by the Maastricht Treaty; the Latin Americans have decided that they really shouldn't go that high, that 30-40 percent is the maximum prudent rate. And here's India with 90+ percent and still rising. They haven't had a crisis yet and seem confident that they're not about to. They do have a high private-sector savings rate, which means that the debt is almost all held at home rather than abroad, which makes life simpler. But at some stage they're going to have to get the deficit down. Otherwise, they'll be spending their tax money on nothing but servicing the debt. There are some signs that they're beginning to get a grip on this, but it's still a major problem. As a Brookings Institution economist put it in the 1980s, "The fiscal deficit is not a case of the wolf at the door, it's termites in the woodwork." It diverts resources away from investment in productive activities into excessive spending by the government.

A second difficulty is one that it's hard for people in most developed countries to believe is a real problem. But a large part of that deficit goes to financing the losses of the electric companies. Two and a half percent of GNP goes into power subsidies; only half the electricity that's generated actually gets paid for. Some of the other half goes in unfortunate (we economists think) programs to give free power to the farmers. Unfortunately, the farmers who qualify for free power are the ones who are rich enough to be able to afford power in the first place. But having gotten free power, they let their neighbors tap into it. That's another portion of the power goes that way. Then there are those who tap the lines. It's dangerous, but people know how to do it. So half the power doesn't get paid for even while there's a big increase in the fiscal deficit, while one has very expensive power for those who do pay, which includes large industry. What do you do if you're an industrialist with power that costs more to buy than you can generate it for? You buy a generator, which is socially wasteful. A lot of the investment in India is wasted
by companies' generating their own power so as to bypass the power system. So while there have been some attempts at privatizing the power sector and at imposing a regulatory system, there are still big problems at the moment.

Third, there is the social situation. Education is still a problem in just the same way as it used to be. There's excellent education for a small minority in the elite, and poor or no education at all for some people at the base of the pyramid, particularly women. India's in the region where there are a hundred million missing women, as Amartya Sen wrote. Even if they get born, they don't get educated properly. Malnutrition is another problem. About half of India's pupils are malnourished. The problem is worse than even Subsaharan Africa. In all the other dimensions, India has now passed Subsaharan Africa easily, but in this one it's still worse.

Finally, India is still a poor country. The average person still earns less than $2 a day. The figure is controversial, but the World Bank reckons that a quarter of the population are poor by its measure of $1/day in 1985 prices—that's a destitution level, rather than a poverty level. The reforms enabled India to attract enough foreign financing to liberalise imports, run trade deficits of 1.55 billion in 1991-92 and 3.55 billion in 1992-93, and yet build up $8 billion foreign exchange reserves by September 1993, which then rose steadily for the rest of the decade. In the absence of reforms, imports would have been subjected to a much greater squeeze. This would have hit industrial production and stoked inflation, so both the price and employment effects on the poor would have been far worse. This would also have made it difficult to curb the fiscal deficit, and hence given a further push to inflation.
3.3 Pre independence phase of Indian economy

India economy, the third largest economy in the world, in terms of purchasing power, is going to touch new heights in coming years. As predicted by Goldman Sachs, the Global Investment Bank, by 2035 India would be the third largest economy of the world just after US and China. It will grow to 60% of size of the US economy. This booming economy of today has to pass through many phases before it can achieve the current milestone of 9% GDP. The history of Indian economy can be broadly divided into three phases: Pre-Colonial, Colonial and Post-Colonial.

Pre Colonial: The economic history of India since Indus Valley Civilization to 1700 AD can be categorized under this phase. During Indus Valley Civilization Indian economy was very well developed. It had very good trade relations with other parts of the world, which is evident from the coins of various civilizations found at the site of Indus valley. Before the advent of East India Company, each village in India was a self-sufficient entity. Each village was economically independent as all the economic needs were fulfilled within the village. Then came the phase of Colonization. The arrival of East India Company in India ruined the Indian economy. There was a two-way depletion of resources. British used to buy raw materials from India at cheaper rates and finished goods were sold at higher than normal price in Indian markets. During this phase India's share of world income declined from 22.3% in 1700 AD to 3.8% in 1952. After India got independence from this colonial rule in 1947, the process of rebuilding the economy started. For this various policies and schemes were formulated. First five year plan for the development of Indian economy came into implementation in 1952. These Five Year Plans, stared by Indian government, focused on the needs of Indian economy. If on one hand agriculture received the immediate attention on the other side industrial sector was developed at a fast pace to provide employment opportunities to the growing population and to keep pace with the developments in the world. Since then Indian economy has come a long way. The Gross Domestic Product (GDP) at factor cost, which was 2.3% in 1951-52 reached 9% in financial year 2005-06.
Big Industry before Independence
1860-1950

The world over, in the eighteenth and nineteenth centuries, private sector units were of a laissez-faire variety i.e., the private sector was completely free of state interference. Private enterprises were units owned and managed by individual proprietors and partnerships. Even in India, private business houses in spite of many obstructions placed by the British government flourished and managed to earn huge profits. This was also the era when government investment in industry was zero. Thus, in this paper we try to analyse the rationale behind government investment in industry post independence. At the beginning of the First World War, Europeans managing agency houses enjoyed

Unchallenged supremacy in the private corporate sector of the Indian Economy. At the end of the Second World War this supremacy had been broken and Indian entrepreneurs, advancing by rapid strides in the inter-war period, were now in a position to take over the business of the departing British. On the whole there had been substantial progress with regard to the expansion of the industrial complex as well as the industrialization of the corporate enterprise. At the end of the British rule,

India had a larger industrial sector, with a stronger element of indigenous enterprise, than most underdeveloped countries in the world. The First World War ushered in a new phase of British imperialism in India—a phase which was fundamentally different from the pre war period in the method of appropriation of India’s commodity surplus by Britain. The Second World War, by bringing about the liquidation in India’s sterling debt, decisively ended this phase of British domination over India. In the post war period there was a clear shift in the relationship between India and Britain in all respects. Not that the importance of India to the British economy declined, but there was a change in

the nature of benefits flowing from the possession of India. In the triennium before the First World War, UK’s share in India’s imports was 62.8% on the eve of the Second World War it stood at 30.5%. 
Industrial Growth 1880-1947

The diminishing inflow of British investment enabled Indian merchants and manufacturers to seize the initiative for developing newer industries. On the other hand the repatriation of British capital acted as an adverse factor on general conditions of trade and industry which have been particularly prosperous during 1900-14 on account of an ample flow of British capital. A comparative study of tropical development between 1880 and 1913 shows that India had done better in organised industry than most other tropical countries, such as Egypt, Kenya, Uganda, Nigeria, Indonesia, Philippines and Venezuela. India's annual rate of industrial growth from 1880 to 1913 was about four to five per cent. During this twenty year period the early growth rate of manufacturing activities in the Philippines was 4.7 per cent; for India the corresponding rate of growth, as estimated by K Mukerji, was 6.4 per cent. State, Market & Economy Centre for Civil Society

Index Of Manufacturing Production Country

India's rate of industrial growth was well above the world average. Both in the period preceding the First World War and in the period following it, India’s considerable industrial development occurred through import substitution. The very process of import substitution on a large scale was, bound, in the long run, to create a new demand for basic capital goods. A typical instance was the move for the inception of a cotton-textile machinery industry by the Birlas on the eve of the Second World War. Such a move was possible because by then the cotton-textile industry had established its dominance in the domestic market for piece goods. Having completed a substantial phase of import substitution, India seemed poised on the threshold of a new stage in industrial growth. The outbreak of the Second World War hastened the transition to the new phase of production. It implied a structural transformation of India’s industrial economy leading to production of heavy chemicals, sophisticated machinery, aircrafts, automobiles, locomotives, ships and a variety of other heavy capital goods.

Three important factors of Indian participation in business and industry were: the availability of surplus liquid assets for investment in new fields by the merchant classes (who might be expected to invest the whole of their normal working capital running existing enterprises), the forward push of opportunities for investment in new industries (which would have to offer similar if not better rates of profit than the existing enterprises and which in addition must not be
barred by monopolies to new entrants) and the backward pull of traditional enterprises (which might offer improving prospects as well as safer and more efficient employment of assets). The differential of these factors on different regions and different industries determined the rate of participation of particular groups of Indians in modern business and industries. As mentioned earlier conditions in business and industry were profoundly altered after the First World War. In the twenties and thirties, new industries such as cement, paper and sugar became very profitable. The development of the following industries historically indicates certain well-marked phases of the process of industrialisation in India.

**Steel**

Iron and steel industry had its origin in 1907 with the establishment of the Tata Iron and Steel Company (TISCO) at Sakchi in Bihar. Later on two more companies followed suit; one in 1908 established at Hirapur in Bengal called Iron and Steel Company (IISCO) and another in 1923 at Bhadrawati called Mysore State Iron Works.

Table 2

**Steel Ingot Production of TISCO**

<table>
<thead>
<tr>
<th>Year</th>
<th>Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>1911-12</td>
<td>3000</td>
</tr>
<tr>
<td>1912-13</td>
<td>1,000</td>
</tr>
<tr>
<td>1915-16</td>
<td>23,000</td>
</tr>
<tr>
<td>1920-21</td>
<td>70,000</td>
</tr>
<tr>
<td>1923-24</td>
<td>35,000</td>
</tr>
<tr>
<td>1924-25</td>
<td>370,000</td>
</tr>
<tr>
<td>1925-26</td>
<td>471000</td>
</tr>
<tr>
<td>1927-28</td>
<td>00,000</td>
</tr>
<tr>
<td>1930-31</td>
<td>625,000</td>
</tr>
<tr>
<td>1936-37</td>
<td>51,000</td>
</tr>
<tr>
<td>1937-38</td>
<td>99,000</td>
</tr>
<tr>
<td>1939-40</td>
<td>,018,000</td>
</tr>
<tr>
<td>1941-42</td>
<td>,084,000</td>
</tr>
</tbody>
</table>
Shipping and Shipbuilding

The Indian shipping and shipbuilding industry was considerable at the beginning of the nineteenth century. On the eve of the Second World War, the share of Indian shipping in the coastal trade was 21 per cent. In 1939 eight Indian concerns were operating in coastal trade. They were: the Scindia Steam Navigation Company Limited (1919), the Bengal-Burma Steam Navigation Company Limited (1928), the Indian Cooperative Navigation & Trading Company Limited (1905), the Patnagar Steam Navigation Company Limited, the Malabar Steam Navigation Company Limited (1928), the Merchant Steam Navigation Company Limited (1921), the Eastern Steam Navigation Company Limited (1919) and the Haj Line Limited (1937). Of these, Scindia, Bengal-Burma, Indian Cooperative, Ratnagar and Haj Line were already in the Scindia group, and in 1939 a British concern, the Bombay Steam Navigation Company Limited, was taken over by Scindias. This premier Indian shipping company further acquired control of the Eastern Steam Navigation Company Limited in 1941.

The growth of the Indian shipping and shipbuilding enterprise practically meant the growth of the Scindia Steam, for even smaller Indian companies, which were outside its direct control survived only because of its help. In coastal shipping, however, although Scindia Steam was confined by agreements to 64,000 tons until 1927 and to 100,000 tons until 1939, expansion of Indian enterprise took place through smaller companies not bound by these agreements, and Scindias indirectly increased their share in coastal shipping by acquiring control over many of these companies in the process of saving them from destruction by BISN and allied foreign concerns. Scindia Steam Navigation Company Limited was a co-operative venture launched with great resources of enterprise, managerial talent and capital; it could not have survived and grown without these resources. Unlike other enterprises in India such as steel, this was not a family concern and from the beginning its management was highly professionalised and its control was vested in a broad group of big and courageous capitalists with a patriotic outlook. Because of the large and prestigious group, which stood behind this co-operative venture, there was no difficulty in raising the initial share capital of Rs 4.5 crore, a large chunk of which came from maharajas,
princes, zamindars, sardars and other feudal elements. So far as coastal shipping was concerned, Scindias were in fact able to finance more than double the tonnage allowed by the agreement with BISN. In 1928 Scindia Steam, applying to the government for revision of this agreement, stated that it could provide the necessary finance for an additional 80,000 tons of shipping costing Rs 1.6 crore. Clearly this shows the financial soundness that the Scindias had acquired by 1928. The Scindias followed a systematic policy of training Indians for the navigation, marine engineering and wireless branches. Though initially there were great difficulties in finding technically qualified Indians, an energetic policy with regard to technical training ultimately enabled Scindias to employ Indians exclusively as deck and engine officers, and wireless operators. Throughout the period under review, the Government of India was indifferent to the shipping and shipbuilding industry in India, which, unlike the iron and steel industry, was not considered vital to British strategic considerations in the East.

Automobiles

In 1935 selected leaders of Indian business and industry met under the guidance of Sir M Visveswaraiya, who had taken up the task of lobbying India’s capitalist circles for starting an automobile industry, at Tata House in Bombay to consider the question of starting a car factory in Bombay. The meeting responded favourably to Visveswaraiya’s urgings that with the development of Tata’s steel works at Jamshedpur and Bombay’s metallurgical workshops, India had now technologically reached the stage for car manufacture. On 17 April, 1936 at the Indian Merchants’ Chamber in Bombay, an Automobile Factory Committee was appointed to prepare a scheme for car manufacture. The scheme made no headway for a time. Characteristically it was Walchand Hirachand who first took up the scheme in earnest and he received assurance of patronage from the Kher ministry in Bombay. Meanwhile in Eastern India the Birla group had also taken up the project of a car manufacturing plant in India, and though neither group received any assistance from the Government of India during the Second World war, Walchand Hirachand and Ghanshyamdas Birla began to push their respective plans in rivalry with each other in spite of numerous obstacles. In 1942, the Birla group formed the Hindustan Motors Limited in Calcutta with a paid-up capital of Rs 4.96 crore. Also Walchand in 1944 formed the Premier Automobiles Limited in Bombay with a paid-up capital of Rs 2.2 crore. Since in India only a nucleus of ancillary industries existed at the beginning of the fifties, the Premier Automobiles set up their own ancillary industries. The following ancillary industries had
developed by the early fifties: pistons (India Piston started production in 1952), cylinder liners (started by India Pistons in 1952),
leaf springs (started by Metropolitan Springs in 1951), electric bulbs (started by Pradip Lamp Works in 1951), fuel pump diaphragms (undertaken by United Trading Company in 1944 for the Defence Department). The development of the above-mentioned industries can be better understood by taking a look at the way the Indian business houses grew in that period. The growth of Indian Houses If nationalist-minded professional service groups had exhibited the keenest interest in industrialization among all classes of Indians in the swadeshi period preceding the First World War, after the war the task of promoting new industries was taken up mainly by traditional merchant communities who accumulated immense assets by wartime speculation and branched out from trade, contracting and speculation to modern industrial and manufacturing activities in the boom following the war. Especially prominent in this process of transformation of traditional merchants communities into modern entrepreneurial groups were the Gujarati Banias, whether Jain or Hindu, from whose ranks came Walchand Hirachand, Ambalal Sarabhai and Kastubhai Lalbhai, the Punjabi Hindu Khatris, Aroras and Banias, among whom figured Lal Shri Ram, Karamchand Thapar and Gokulchand Narang; and most dramatically of all, the Rajasthani (including parts of the Punjab) Maheshwaris, Agarwals and Oswals, both Hindu and Jain, grouped together under the generic name Marwaris, whose migrations throughout India threw up such large groups as Birla, Dalmia, Juggilal Kamlapat, Sarupchand Hukumchand, Surajmull Nagarmull, Jaipuria, Bangur, Goenka. Some details of the origins and investment patterns of some growing Indian houses during this period can be studied.1) Tata: Tatas emerged in the industrial field in the late nineteenth century as one of the three biggest Parsi houses in early cotton manufacturing enterprise, the other two being Wadias and Petits. The capital base for J N Tata’s entry into cotton manufacture was acquired in trade with the Far East. Tatas continued their import-export business with China, Japan and elsewhere on an extensive scale after their entry into manufactures. The import-export business was handed over to a new concern, R D Tata & Sons, with branches in Osaka, Shanghai, Rangoon, Liverpool and New York, and trading in cotton yarns, rice, metals, sugar with a capital of Rs 15 million. By 1914 Tata interests embraced trade, hotels, cotton manufacture, iron and steel and hydroelectricity. Industrial banking, insurance, construction,
soap and cement were taken up after the First World War. The thirties saw the floatation of Tata Airlines, the forerunner of Air India. The Second World War and its aftermath brought about another giant stride by Tata, as reflected in the floatation of Tata Chemicals (1940), Tata Tube (1940), Investa Machine Tools and Tata Locomotive (TELCO).

2) Birla: Birla Bros., Mahashwaris from Pilani (Rajasthan), reputedly grew into a firm with a capital of Rs 80 lacs from a base of Rs 20 lacs by trading operations during the First World War. They established several industries between 1918 and 1922. After a fierce battle against racial exclusiveness, G D Birla established direct connections with the London jute market during and after the war, becoming a leading raw jute exporter of Calcutta. Then he set up a jute mill in Calcutta. He also set up two cotton-textile mills in Delhi and Gwalior, and later on one in Calcutta. From this base followed expansion at a breakneck speed during and after the Second World War, further expansion of cotton and jute interests: manufacture of textile machinery, automobiles, bicycles, ball-bearings, fans, non ferrous metals, rayon, plastics, plywood and vegetable oil; takeovers of tea and coal interests; entry into aviation; expansion of insurance; assumption of banking and floatation of investment and trading companies on a large scale.

3) Dalmia: Ramkrishna Dalmia, a Maheshwari of the Jain faith from Rohtak in the Punjab moved into industry in the early thirties. He set up a sugar mill in Bihar, which he later diversified as Rohtas Industries. This initiative was followed up by manufacture of cement of its own. Dalmia emerged as an important group in the industrial complex of India in the thirties and in the next decade rapid expansion took place. Between 1948 and 1952 Ramkrishna Dalmia acquired control over the Punjab National Bank, Bharat Insurance, Lahore Electric, Bennet-Coleman (The Times of India), Govan Group (Dhrangadhra Chemicals, Raza Sugar, Buland Sugar, Indian National Airways). At the same time he took care to build up Rohtas Industries Limited. As a diversified concern producing sugar, cement, paper, vanaspati, chemicals, spun pipe he also expanded the group’s interests to airways.
4) Walchand: Walchand Hirachand was a Gujarati Jain Bania settled in Sholapur in Maharashtra. He accumulated his capital as a contractor in buildings, railway works and other construction during the First World War. His greatest achievement was the Scindia Steam Navigation Company that was floated in 1919 and in the thirties he set up the Ravalgon Sugar Farm Limited (1933). The group played a pioneering role in sugar manufacture on modern scientific lines, shipping, shipbuilding, aircraft manufacture, automobile manufacture, engineering and machine tools, and building and bridge construction.

There were many such business houses in India that helped in developing the organised industrial sector. Some of them are Thapar, Juggilal Kamlapat, Shri Ram. The overall growth of Indian business houses can be better understood from the following table.

Thus as is very much explicit from the above, the Indian industrial sector was quite developed and that too without government investment. The gulf between private and free economic thinking and the policy of the government increasingly widened during the Second World War. Complex interrelationships between the Congress and big business, and the drift towards planning came about from 1937 onwards. The Congress's philosophy particularly in regard to economics was not a ready-made answer to the economic needs of the Indian capitalist class. Their conception of Hind Swaraj, properly realised, left no role for capitalists. Thus, one element in Congress's philosophy, trusteeship, led to the break up of capitalist concentration of business and industry into units of agriculture and cottage industry. The process of Congress and big-business interpenetration started in right earnest, though Congress never became an instrument of big business as such, and ultimately the big business had to come to a compromise. The Congress Raj, which emerged after 1947 amidst the tension of this dynamic adjustment has been controversially depicted as an intermediate regime, standing midway between a fully socialist regime and capitalist regime under big business hegemony.

There were important divisions within the Indian capitalist class and the Indian National Congress and the interpenetration naturally took place at the periphery of each, along the points of contact between those elements on each side, which were closest to each other. The complexities of this interpenetration, so pregnant with explosive tension, must not be underrated.
The differences of approach to the Congress and its policies within the top FICCI leadership contributed to these complexities.

Paving the Road to Hell with Good Intentions

The government made the distinction between the public sector and the private sector more significant and wider by passing the Industrial Policy Resolutions in 1948 and 1956, which made India a mixed economy. These Industrial Policy Resolutions clearly demarcated the scope and role of the public and private sector:

(a) the fields exclusively reserved with the public sector,

(b) fields in which public and private sector can continue to exist but future development would be in the public sector alone, and

(c) fields exclusively reserved for the private sector.

In a broad way, the public sector was entrusted with the responsibility of developing heavy and basic industries, social and economic infrastructure while the private sector was broadly given the right to develop consumer goods industries. While banks and financial institutions, railways, civil aviation, power generation and distribution were in the public sector, the private sector in India embraced the whole of agriculture and allied activities, plantations, mining, internal trade, both retail and wholesale, much of the international trade, road freight traffic. Shyama Prasad Mukherji and Jawaharlal Nehru, the two architects of the Industrial Policy Resolutions of 1948 and 1956 clearly made the distinction between the public and private sectors on the assumption that:

(a) a large-scale investment in the public sector was necessary to initiate and accelerate the process of economic development;

(b) a high level of public investment in infrastructure and basic and key industries was a precondition for development and expansion of the private sector; and

(c) the growth and profitability of many private enterprises would depend upon public
activities and on the expansion in the public sector investment.

It was generally held that for a mixed economy like India, the private investment was more interested in quick-yielding industries and in large profits in as short a period as possible. Naturally the private sector was considered for the consumer goods industries that involved limited risk and short gestation period. On the other hand, public investment being autonomous was considered most suitable to low yielding, long gestation and heavy investment sectors. The infrastructure industries were thus reserved for the public sector.

Table 5

Growth of the Private Corporate Sector in India

<table>
<thead>
<tr>
<th>Number of Companies</th>
<th>March 1957</th>
<th>March 1971</th>
</tr>
</thead>
<tbody>
<tr>
<td>29,357</td>
<td>30,461</td>
<td></td>
</tr>
<tr>
<td>(a) government</td>
<td>74</td>
<td>314</td>
</tr>
<tr>
<td>(b) Non government</td>
<td>29,283</td>
<td>30,147</td>
</tr>
</tbody>
</table>

Paid up Capital

(Rs Crores)

All Companies

<table>
<thead>
<tr>
<th></th>
<th>1,078 (100.0)</th>
<th>4,423 (100.0)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Government</td>
<td>73(6.8)</td>
<td>2,074 (46.9)</td>
</tr>
<tr>
<td>(b) Non government</td>
<td></td>
<td>1,005 (93.2)</td>
</tr>
</tbody>
</table>

The Government and the Private Sector

In 1951, the government passed the Industries Act to control and guide the direction of private investment and also the growth and diversification of the private sector enterprises. The Act aimed at channeling private sector investment in accordance with the Five-Year Plans, bring about balanced regional development, protection of small scale industries against the competition
of large scale industries, prevent concentration of economic power in a few business families, and regulate and, if necessary, take over those industrial undertakings whose management was consistently flouting government directives or was working against public interest. Later, the government passed the
Indian Companies Act, 1956 and the Monopoly and Restrictive Trade Practices Act, 1969 to restrict and regulate the working of the corporate sector. The acts aimed at preventing restrictive trade practices on the one side and concentration of economic power on the other.

**Problems of the Private Sector**

There was an inherent contradiction in the attitude and policy of the government as regards the private sector. The government on one hand had continuously emphasised the importance of the private sector in the mixed economy of India, and at the same time, it had taken various measures, both direct and indirect, which did not help the private sector to develop freely and rapidly. What it actually did was to restrict and hamper its growth.

Post-Independence, some of the problems faced by the private sector were:

(a) **Procedural Delays:** There were too many regulations imposed by the government on the private sector and too many procedural delays. It is estimated that on an average, it took around seven years from the conceptual stage to the production stage for any significant investment to take place in India. Decisions, which were once taken at a low level of government bureaucracy, were now concentrated in the hands of top bureaucracy, or with the ministers and in some cases even in the hands of the cabinet. There was no delegation of decision-making, resulting in avoidable delay, cost escalation and higher burden on consumers.

(b) ** Unrealistic Controls:** The government was influenced by contradictory motives, for instance, the protection of the consumers (price controls) and the prevention of concentration of wealth and income (capacity restraint). The price controls imposed by the government on many of the goods did not give proper incentive for additional production. Actually, the government should have encouraged competition among the rival firms and increased production would have
automatically brought down the prices. On the other hand, price controls under conditions of shortage, perpetuated shortage. Also, licensing of capacity was meant to bring about organised growth and prevent monopolistic tendencies. However, in practice, it emerged as something unique in the whole world. While all over the world attempts were being made to increase capacity to create more employment, India was the only country in the world, which penalised increase in production.

(c) Reservation for the Small Sector: The government had generally worked on the assumption that small industries are in conflict with large ones, which always stifle the growth of the small and cottage sector. Accordingly, many methods were designed in order to help the small sector. One method was to provide excise exemption or, impose a lower rate of excise duties for goods produced in the small sector. Another method was to reserve certain products in the small sector and prevent the large sector from producing such goods. As a result of such measures, the complementarity of the two sectors was lost.

Thus, in the Pre Independence era, the private business houses solely shouldered the responsibility of manufacturing. India was considered to be an industrially developed country even without any government support or investment. Also, it was not that the big business houses present at that time concentrated only on consumer goods. They were also responsible for initiating infrastructural manufacturing in India. In the light of all this, it is very difficult to understand the rationale behind the initiation of government investment in Indian industry. The rationale presented at most times is that it was the need of the hour. Another argument presented is that, there was not enough capital in the hands of the private business houses. But, these excuses are all myths. Even at that time most private business houses boasted of a capital close to six to seven crores.

Another argument presented in favour of government investment in industry is that, India at a time was in need of an equitable growth of all areas i.e., it was absolutely necessary to develop all regions equally. But again, for this the government need not have invested but instead could have just formulated policies that gave incentives to the private businesses to operate in backward areas such as tax holidays, capital subsidies.
Thus, government investment was absolutely unnecessary and uncalled for even at the time of Independence. What was actually required was for the government to design industry-free policies that would have helped in their development rather than to pass acts and laws that aimed at regulating and curbing the industries. If the government felt that certain areas of production would be neglected by the private sector because they were not lucrative enough, it should have just invested in those areas instead of blocking them completely from the private hands. Hence, we feel no hesitation in concluding that the Indian government had failed completely to identify the potential of our vast economic resources and tap them fully to make India an economic super power. Today, after 58 years of Independence, the government talks of privatization as an innovative landmark in India’s economic development; what they have probably forgotten is that, the concept of private hands is as old as the Indian industry is.