

Planning and the regime of capital in India

This paper is a study of capitalist consolidation and diversification strategies and its relationship with the structural nature of social relations from 1950 to 1966 in India during the first three 5-year plans after independence. This paper will address the process of growth through which the relation between the Indian state and the capitalist class emerged in the period of the first three plans that ended in a major crisis within two decades. This crisis manifested itself in the form of a severe balance of payment crisis accompanied by high inflation and shortages of wage goods by 1965-66. This crisis has been scrutinised thoroughly in the literature but it remains a critical turning point for understanding the nature of the relationships between the emerging Indian capitalist class and the state. In this paper, we follow a periodisation which is different from the usual fare in the literature. Mukherjee Reed (2001) analyses the period from 1947 to 1985 in terms of a historical ‘interventionist’ model. However, this broad classification does not suitably indicate the decisive changes in the process of intervention by the state and its changing relationship with capital. McCartney (2006) in his study of growth in the Indian economy from 1951 to 2004, analyses the first period from 1951/52 to 1964/65 to investigate the role of the state in finance, production and institution building. A similar periodisation is also followed by Nayar (2001). This periodisation by both Nayar (2001) and McCartney (2006) is based on one hand a stress on the observation of a sustained spell of economic growth, the structural break in this growth process at the end of the period and the role of the state in planning, protecting and directing the process of this growth. However, we argue that the relationship between state and capital from 1947 to 1967, the acknowledged period of ‘planning’ and ‘protection’ can be periodised into two distinct phases, the first of which is the decade from 1947 to 1956 and the second from 1956 to 1966. This distinction between the two periods is necessary as in the first decade, state policies were informed by liberalism while the institutions for state led development including the operationalisation of indicative planning were put into place only in the second decade.

There are two purposes of this paper. It presents a historicised account of the relationship between state and capital that emerged in the period from 1947 to 1966. The most important argument is the shift from a relatively ‘liberal’ role of the state to a more direct interventionist set of policies in this period. This transition took place with the active support of the capitalist class in spite of a small section of dissenters. Section I summarises the consensus that developed within the capitalist class about the necessity of a state led path of development based on protection. Section 2 is a study of the relationship between state and capital from 1947 to the end of the First Plan period in 1956. Section 3 provides a similar analysis for the period from 1956-1966, which marked the full implementation of detailed

indicative planning in the Second and Third Plans based on the blueprint of the Nehru Mahalanobis model. Section 4 is a study of foreign capital in India, ventures abroad by Indian capital and state assistance.

I The Consensus on State-Led Development

The weakening of colonial capital just before independence due to the ravages of World War II and the rise in mass resistance in the last phase of the national liberation struggle, created a new space for Indian capitalists. They used these opportunities to engage in a process of expansion and diversification from the capitalist enclaves that had already begun to emerge in the inter-war period. In 1947, private industrial capital in India emerged out of the war with huge profits, but was faced with a society scarred by war and partition and an economy in recession with very high rates of inflation (Mukherji 1988).

The consequences of partition did affect some of the emerging capitalists, but very differently from its effects on the general population who suffered from displacement, poverty, trauma and misery during the Partition (Menon and Bhasin 1993; Butalia 1993). For instance, the founder of Ranbaxy, Bhai Mohan Singh's history during this period is significant as an illustration of how emerging capitalists could deal with partition in a relatively painless way. His father, Bhai Gian Chand was a landlord and moneylender who accumulated a significant amount of wealth as a government contractor in Rawalpindi during World War II building Prisoner of War camps, airfields and a highway to Rangoon from Assam. At partition, the family chartered a plane from Rawalpindi to fly in to India, with most of their wealth intact by paying a ransom tax of Rs 5 crore (a very big amount those days) to the emergent Pakistan government. In Delhi, they checked in at the Imperial Hotel on Janpath. Within two decades Mohan Singh was an established moneylender in Delhi and also invested in several bungalows the first being on Prithviraj Road. To this day, much of this property remains intact (Bhandari, 2005). The family moved on to lead India's pharmaceutical development in later years.

At independence, it was clear to Indian business interests that they were financially not significant enough to take upon themselves the responsibility of participating in a big way in major sectors like heavy industry or infrastructure (Basu 2004). This is also supported by the position taken within the largest chamber of commerce representing Indian capital (FICCI 1956). There were limits to this process as the capitalist class was reluctant to take on the 'risk' and 'discipline' that could have led to a state guided neo-mercantilist transition that happened in South Korea (Chibber 2003). They were, however, in a political position to reap the advantage of an independent Indian state as a site of primary accumulation. Thus the expansion of capital could be furthered within an evolutionary framework of state-society relations that guaranteed the sanctity of individual property and social channels of capital accumulation (Bagchi 1972; Desai 1984).

According to Patnaik (1984), the historical reasons for the adoption of the Nehruvian vision of building a ‘modern society’ as state ideology and its ‘developmental’ agenda of fostering state-led capitalism lies rooted in the specific context of the formation of the Indian nation-state. Freedom for a large section of the political leadership meant freedom from the domination of metropolitan capital and metropolitan commodities in the economy (Patnaik 1994). The specific task of nation-building in independent India assigned a major role to the State in building up infrastructure, expanding and strengthening the productive base of the economy, setting up new financial institutions and regulating and co-ordinating economic activity. The capitalist class was content as long as profitability was guaranteed in its predominantly mercantile and secondarily industrial ventures. Capitalists on the whole were always cautious about any upsetting of the social order by communists and socialists who still formed the biggest chunk of the opposition to the Congress even after their political defeat in the Tripuri Congress.

The choice of the bourgeois democratic framework facilitated a radical rhetoric while the political economic parameters of social transformation remained pinned to the protection and furthering of capitalist interests as a way of developing the economy. Nehru identified ‘political democracy’ and ‘economic justice’ as the fundamental precepts of the new Republic (Nehru 1963). Congress’s one party dominance was initially a legacy from the emergence of Congress as the biggest platform for the movement for Indian independence. The underlying inclinations of the Congress under the Nehru-Mahalanobis paradigm had been primarily disposed to a notion of ‘welfare’ that did not emerge from neoclassical definitions of welfare economics. The Congress definition of welfare was predisposed towards the discouragement of class conflict using the state machinery of law and order, the protection of property, the encouragement of upward social mobility and state support for increasing agricultural and industrial production.

Direct intervention to alleviate poverty through anti-poverty programmes was not considered a priority as the ‘trickle down’ hypothesis reigned (Bhatia 1965). The three basic functions of the state: law and order (an euphemism for repressing challenges to property and propriety), economic stability (the protection and reproduction of the social structure) and ideological legitimacy (ensuring the acceptance of dominant values and normative assumptions) were conceived within this framework of state-led development (Desai 1984: 34). Just four months after independence, Nehru was assuring the representatives of big industrial houses that the ‘just redistribution of existing property would be kept in the realm of *idea*’ in his address to the First Industrial Conference in December 1947 (Nehru 1995: 64, emphasis added).

Chibber (2003) in his work has argued that because of the nature of Import Substituting Industrialisation (ISI) as an investment model – in Indian conditions, there was ample opportunity for profits without state discipline. Bhagwati (1987, 1993, 1998) has explained India’s trade policy through

the conventional neo-liberal logic of extensive bureaucratic controls over production, investment, and trade. Huthseeing summed up the arguments of why the capitalist class saw ISI as desirable and its relation with desired growth of exports very precisely.

The backlog of unemployed of 9 million in the Second Plan will inflate to 12 million in the Third Plan. The level of underemployed has been estimated to be 15-18 million. In this perspective, we have to make a clear choice between greater employment and higher wages, based on its cumulative effect on income and employment in the long run. This choice (ISI) also has relevance to the cost structure which will influence our capacity to export and our ability to earn the necessary foreign exchange to finance the import content of investment and production. So the priorities are in the apportioning between the distribution of a given level of income and better distribution of an increasing income. The industrial history of other countries proves that greater production eliminates the more acute tensions associated with inequality, and that increasing aggregate output is an alternative to distribution and even to reduction of inequality.

One would think this was a statement on behalf of the state but it was Huthseeing's annual address as President to FICCI (1962: 9) in the period of the Third Plan.

Chibber (2003) has argued that the situation as it presented itself to Indian business at the end of the War in early 1945 was bursting with opportunities. The years immediately following Independence 1947-1951, according to Chibber, constituted a critical conjuncture, in which a strong developmental state was the result of an elite consensual political agenda (Chibber 2003: 8). He goes on to assert based on the report of the National Planning Committee that any future policy would have to centre around state support to industry; based on the decision to set up an elaborate system of tariff protections for local industry in the new economic policy – and indeed this was to be a centrepiece of future policy.

The bourgeoisie initially had mixed feelings about the aspects of the 'mixed economy'. This was reflected in the insecurity among certain sections such as the Associated Chambers of Commerce in Calcutta, which represented foreign capital in India and certain representatives in FICCI, the biggest forum of Indian capital. This drew reassurances from Nehru on 18th December 1947 at the first Industrial Conference after independence about the sanctity of private enterprise and no discrimination against foreign enterprise (Nehru 1995: 66).

The majority of FICCI members were in favour of regulated capitalist development. This had been agreed in the National Planning Committee report so long as the parameters of the planned economy were defined in consultation with capitalists (Chibber 2003). In a situation of low development of private finance capital (Rudolph and Rudolph 1998: 25), the commercial and industrial bourgeoisie in India at

Independence were dependent on state patronage and protection for its profits and capital accumulation. From the Annual Reports and Presidential addresses of the All India Organisation of Industrial Employers from 1954 to 1959, it is clear that every annual conference was an exercise to determine these parameters as well as to express the persistent concern of Indian capital with the problem of ‘disciplining’ labour.

While Congress was clearly committed to a strategy of development driven by the capitalist sector, its compromises with other sections of the population were resented by the very capitalists emerging under its patronage. By 1959, twelve years after independence, the Swatantra Party was formed to articulate the interests of a section of private capital in industry and commerce and landed property in agriculture. According to an interview with JagannathSarkar, Ex-Member, Bihar State Committee, Communist Party of India, this reflected the deeper cracks within the ruling class about the direction of India’s political economy since independence. This observation is corroborated by Rudolph and Rudolph (1998: 25). The effectiveness and legitimacy of the Swatantra Party was however limited. The lobbyists for organised capital and individual business houses found the strategy of directly influencing government departments, bureaus and commissions much more useful. Business interests in India had adopted pluralist forms and methods to influence state policy and public opinion through industry associations and apex bodies (Kochanek 1971). Thus business ‘interests’ in India, while not publicly represented directly in competitive party politics, were better represented than those of organised labour in bureaucratic, parliamentary and (informal) party processes (Rudolph and Rudolph, 1998).

While the modalities of political role of organised capital in this period has been addressed by Kochanek (1974), in the following sections, among other things, we establish the key political preoccupations of capitalists. Thus, unlike Kochanek who dwelt on ‘how’ capitalists organised as interest groups, we analyse the role of political mobilisation of capital in the context of the expansion of capital accumulation and the increased confrontation with labour, elaborating on ‘why’ capitalists organised politically as a class in this period.

II State and Capital: 1947-1956

The state sponsored and guided path to capitalism in the first ten years after independence was faithful to the idea of the state restricting itself to Smithian duties: ensuring order and providing infrastructure. The state was working to guarantee the continuation of the existing system of property rights and to make markets work better. In the period under consideration, all wartime controls were removed from foodgrains and the liberalisation of controls in the market for food was a significant policy move (Ghosh 1998). Some import controls were periodically enforced but on the whole there was no substantial policy push towards import substitution. The most important initiatives aimed at protecting the interests of the propertied classes were those incorporated in the legal and institutional framework of the political order in the preservation of personal laws defining the holding and transfer rights of property.

Strategic industries, such as defence and communication, remained under state control through the provisions of the Industrial Policy of 1948. Under the Industrial policy of 1948, only three industries were reserved for the state and another six were kept in the domain of the ‘public’ sector (Government of India 1948). The Industrial Policy resolution in 1948 gave assurances to the classes owning business and industry that no existing enterprises would be nationalised. The policy of 1948 categorically ruled out the take-over of existing private industry by the state for at least ten years (Chenoy 1985). The first five-year plan document also made it clear that new ventures were to be exempt from all possibility of public acquisition for a period of ten years (Government of India 1951). The government assured foreign firms that they could continue to operate under the same conditions as Indian-owned enterprises. No action was taken to break up the big business houses either domestic or foreign, that exercised managerial control over scores of firms through the managing agency system. On the contrary, negotiations were set in motion with the major British business groups to attract additional investment (Frankel 2005: 77).

In an assessment based on Reserve Bank of India (RBI) figures, Bose (1965: 526) found that 18.1% of foreign capital was invested in branches of foreign companies, 70.8% was invested in foreign controlled companies and 10% was invested in Indian companies controlled by Indians as on 31st December 1955. Total foreign investment, of which 95% was invested in branches and subsidiaries of foreign companies amounted to a total of Rs. 4112 millions. This amounted to 38.7% of gross capital formation in the economy based on the National Accounts Statistics (NAS) data for 1955. The profits from foreign investment were shared between foreign and Indian investors in a ratio of 15.9:1 (Bose 1965).

On 6th April 1949, in his statement on foreign investment in India, Nehru assured foreign investors that their investment would be treated at par with similar Indian enterprises (Chenoy 1985: 16). This met with severe protests from the Federation of Chambers of Commerce and Industry (FICCI) though they had not been particularly in favour of ‘swadeshi’ prior to Independence. These protests came in spite of support of the state policy of non-discrimination towards foreign investment from certain representatives of ‘big’ capital like G.D. Birla (Chenoy 1985). According to the assessments of Mukherji (1988), state policies in this period reflected an even more liberal attitude towards the private sector and ‘foreign interests’ than under British rule.

Until 1950, the government took a series of key decisions on constitutional arrangements that set very narrow limits on the Centre’s power to implement social and economic reforms as it could never violate the fundamental right to property (Frankel 2005: 77). Thus the possibility of a central programme of land reform beyond the ‘abolition of Zamindari’ retreated into oblivion in spite of the political impact of the Telengana peasant uprising in 1948 and the Tebhaga movement in Bengal in 1946, and despite the

passing of the Bargadar Act limiting the crop share of landlords in Bengal by the League Ministry in Bengal just prior to independence. In the first decade between 1947 and 1956, the state pursued a policy of non-interference in the realm of social relations fearing it might upset the delicate social balance of contesting and competing elements.

Existing economic structures were accepted almost in its entirety especially in agriculture. The unwillingness of the new rulers of India to do anything concrete about changing production relations in agriculture ensured, that in most parts of India, except in areas with militant peasant or left-wing political movements, even the much celebrated tenancy reform and land ceiling laws, enacted in however diluted a form, would never be implemented beyond the minimum abolition of intermediaries between the state and the cultivators through abolition of Zamindari and Jagirdari (Bandopadhyay 1988). These two systems had already become redundant as a systemic source of social power. Even this abolition came with forms of compensation to the Zamindars and the right to retain Khudkasht (owner-cultivated) land (Khusro 1965). This opened up the possibility of retaining huge areas of land that were shown on paper to be 'owner-cultivated' by a variety of coercive means (Kongar 1978).

Minimum land reforms constituting the abolition of intermediaries after Independence remained woefully inadequate. Nevertheless, it turned large sections of middle caste tenants in Zamindari areas into owners, bringing them on par with corresponding groups in the rest of the country, where they had historically been owners. Thus all that zamindari abolition did was to remove the nominal revenue collecting rights of zamindars. Their real control of land had long disappeared. The transformational significance of the abolition was therefore in most cases negligible and symbolic. Land became a commodity, crops were transferred to the market through powerful intermediaries and a strong class of owners with massive money-power emerged in significant parts of India (Desai 2004: 15).

This class of middle and upper caste big farmers and landlords combined patronage rooted in pre-capitalist structures of surplus extraction with the transformational structures of the independent Indian state. For example agrarian class relations in Bihar were embedded in caste. Whether a person owned or controlled land was conditioned by that person's caste status. Caste and class were thus very closely related and one reinforced the other (Mohanty 2002). After a point, according to Bandopadhyay (1988), policymakers comforted themselves into believing that further agrarian reforms were unnecessary. This ensured the domination of the agrarian structure and structures of the state by a class of landlords whose existence was rooted in pre-capitalist structures of surplus extraction (Das 1983). Collectively, they formed a significant center of political power in their ability to resist or circumvent any measure aimed at changing agrarian relations (Kongar 1978).

The First Plan was a string of budgets designed to finance projects in areas such as irrigation and power, which were already in the blueprint stage (Kurien 1969). Kurien (1969) has argued that it was a

plan without any overt strategy of growth. In his evaluation of the first five-year plan, Kurien argues quite convincingly that there was a theory of growth implicit in the assumptions of the plan document, which were based on historical correlations between capital formation, savings rates and growth in the USA (1870-1900), Japan (1900-1930) and the USSR. Thus the plan was based on a Harrod-Domar type of post-Keynesian growth models (Kurien 1969: 89-90). However, a plan based on a Harrod-Domar model reliant on calculations of necessary capital output ratios and savings ratios to achieve target growth rates is not necessarily a plan with a strategy elaborating the domains of intervention by the state to ensure the achievements of such targets.

R. K. S. Chetty, Minister of Finance, 1947-48, in his budget speech in 1947, spelt out the short-term financial priorities of the state. The state was dealing with the economic consequences of partition. Through the Partition council, state representatives had to deliberate and decide on the division and allocation of resources with Pakistan, including the national debt, the railways, the assets of Reserve Bank, the stores held by the Army, and to encourage the free movement of trade between the dominions and decide on taxes and duties.

The food position was grave. Prices were rising due to decreases in agricultural and industrial production as a consequence of the Partition (Lok Sabha 1947: 746-761). The state had very limited budgetary revenues of Rs 171.15 crores from customs and income tax while budgeted expenditure were Rs 197.39 crores in 1948. The largest allocation of Rs.92.74 crores went to defence, followed by the civil accounts of refugees, food and administration. This budget had a revenue deficit of Rs 26.24 crores. A survey of budgetary allocation in the period between 1947 and 1951 shows that the state's professed objective of leading the capitalist transformation was not reflected in its own financial allocation processes (Lok Sabha 1947, 1951).

This does not mean that the state did very little for a capitalist transformation during this period, as budgetary allocations are not the only ways in which the development of capitalism can be supported. For instance, support for the development of capitalist capacity can be provided through the repression of wages, through the support of different types of primitive accumulation or the creation of a variety of 'rents' that assists capitalist accumulation.

National income rose in the First Plan period from 1951 to 1956 by 18%, an average annual growth of 3.6% according to calculations based on the official NAS data. Average per capita income between 1946 and 1954 was estimated to be Rs 253 (Mukerji 1965: 702). The First Five Year Plan laid down that an abrupt increase in wages was detrimental to the economic stability of the country, as it would get reflected in the costs of production and consequently in a rise in the prices of products (Government of India 1951). Thus in the First Plan period, the state policy of encouraging depressed wages continued unhindered from

the late colonial period (Kuzcynski 1965). Capital operated without many strictures after the brief interlude of economic uncertainty for two or three years due to the partition and War.

From Table 2A below, it is clear that there was a simultaneous process of capital deepening and diversification of capital in industry during this period. There was intensive growth in the old sectors like cement, steel, paper and sugar whose expansion dated back to the period since World War I. This was the process of ‘deepening’. But this was far outweighed by the extensive growth reflected in the index of industrial production in the ‘new sectors’. This diversification process was pronounced in the rapid growth of ‘new’ industries like diesel engines, bicycles, sewing machines, soda ash, caustic soda and super-phosphates reflected in the indices of production. Thus both the deepening and diversification of capacity dominated the accumulation of industrial capital in this period.

Table 2A: Index of Industrial Production (Base: 1946 = 100)

‘Old Industries’	1951	1955
Cotton Textiles	101	127
Jute Textiles	80	94
Steel	116	132
Cement	207	286
Paper and Paper Boards	124	174
Matches	140	147
Sugar	121	173
‘New Industries’		
Machine Tools	52	82
Diesel Engines	1532	2124
Bicycles	266	1143
Sewing machines	726	1658
Electric Motors	311	549
Soda Ash	396	644
Caustic Soda	508	1181
Super-phosphates	1356	1598

Source: Shroff 1966:25,

In an assessment of the two decades of ‘change’ since independence undertaken by the Government of India, the Minister for Finance, K.C. Pant (1968) was not over-stating anything when he argued that the industrial structure of the economy has been greatly strengthened with the development of many key

consumer industries, which were non-existent only a decade ago. Yet he attributed it to the process of planning (Pant 1968), when it is clear that this process preceded any kind of planned model of diversification.

State policy also supported industrialisation through its licensing policy that implicitly created rents for Indian capitalists by limiting entry into Indian markets. Licensing as a policy existed from the colonial period, but before it became an instrument for directing investment into particular sectors in the Second Plan period, it first worked simply as a mechanism for enhancing the profitability of investment and the direction of credit. The records of licenses under IDRA in the period from 1952 to 1955 show that 1440 applications were made, and 1142 were granted. Out of these, 363 were for new schemes, 657 for expansion schemes and 122 for organisational changes without additional capacity (Hazari 1967). Not all of these licenses were used, as Hazari's (1967) study would reveal in a few years' time. This process of pre-empting capacity, undermining the effectiveness of licensing as a tool of allocation but establishing its importance as an instrument for creating rents, was thus a feature that preceded the detailed allocative role of planning in the economy.

The Industrial Finance Corporation of India Annual Reports show that under the stipulation of the first Industrial Policy Resolution of 1948, the total amount of loans sanctioned rose from Rs 9.5 crores in 1951 to Rs 43.20 crores in 1956 (Industrial Finance Corporation of India (IFCI) 1951, 1956). From the office of the Registrar of Joint Stock Companies, companies registered and in actual operation rose from 22,675 in 1947-48 to 29,779 in 1954-55 (Shroff 1966: 26). Thus even before the Second Industrial Policy and the 'Period of Planned Development' from 1956 was ushered in, the capital deepening and diversification process in the domestic economy had already started.

The findings presented above corroborate the argument that even before the state had worked out the detailed nature of support to capital formation through planning and tariff support, the capitalist class was being supported through the licensing policy and credit from national financial institutions in the first plan period.

Far from a strong 'developmental' paradigm, however, this period was more a 'free market' as far as the allocation of investment was concerned. The relation between state and capital was also defined by an ideology of liberalism as far as domestic and foreign capital was concerned. But most important, this period of 'liberalism' during the First plan period did not make any big difference to the capital formation in the economy as a percentage of GDP as shown in Table 2B below. Capital formation hovered between 12 and 17% of GDP. The change in the stock of capital was below 0.5% in three out of five years. Thus 'liberalism' ensured a political status quo in terms of property relations, but also meant a status quo in capital formation.

Table 2B: Gross Domestic Capital Formation (GDCF) as Percentage of GDP, 1950-55

Year	GDCF as % of GDP at Market Prices	Change in Stock as % of GDP at Market Prices
1950-51	14	1.7
1951-52	17	1.5
1952-53	13.8	0.3
1953-54	12	-0.7
1954-55	13.5	0.3

Source: Table 11, p78, EPWRF 2002b

The state's 'politics of accommodation' emerged during this first decade. (Jannuzi 1990: 25). The displacement of metropolitan capital's direct links with the Indian economy was a process that continued until the mid 1960s though it found many new ways of maintaining its existence. One immediate strategy was the formation of subsidiary entities. In any case, the displacement of metropolitan capital was only peripherally on the agenda of the state in this period and displacement only happened on a significant scale in the period between 1966 and 1980. It was not even a key feature of Nehruvian development during the Second Plan.

4.3 State and Capital 1956-1966

In 1956, with the adoption of the Second Industrial Policy and the implementation of the Second Five Year plan, the state moved into the implementation of the ambitious premises of the Feldman-Mahalanobis model (Chakravarty 1987). This was a significant departure from the previous decade and encompassed all the major policy issues that were associated with giving the state in independent India a major role in building up infrastructure, expanding and strengthening the productive base of the economy, setting up new financial institutions and regulating and coordinating economic activity.

In terms of the strategy elaborated at that time, the State would ensure a sharp increase in the rate of savings in the system, an enhanced allocation of those savings to the heavy industrial sector in general and machine tools in particular, so as to reduce the economy's dependence on international capital and commodity markets (Patnaik 1984). This was perceived as necessary for building capitalism itself. This was the essence of the Nehruvian strategy in its pristine form as an 'idea' (Khilnani. 2003). The state was also responsible for the expansion of the domestic market through increasing expenditures. This was one vital aspect of the stress on releasing the wage-goods constraint in the economy that existed since the colonial period. The terms of trade between agriculture and industry were another crucial instrument due to the existence of the wage goods constraint. Thus, a number of instruments were perceived as necessary for building capitalism by creating the conditions for primitive accumulation appropriate for a post-independence nation-state.

The state's role in guaranteeing social order and protecting existing property relations continued to be important. This is most suitably illustrated in the continuation of the state's non-efforts to implement land reforms in agriculture beyond the very minimal progress in the abolition of intermediaries in spite of land reform legislation in many states. This remained one of the primary zones of 'non-intervention' by the state.

However the state faced many more complexities in the terrain of industrial relations. The All India Organisation of Industrial Employers was visibly upset about the provisions of the Industrial Disputes Act and the Companies Bill proposed as an Act in 1956 (Annual Report, All India Organisation of Industrial Employers, 1956.) But they could not do much as the state needed to accommodate the organised section of workers due to the rising strength of the trade union movement (Ranadive 1990). Thus the state was a terrain of contest for the dominant classes and class factions with diverging interests and uneasy but symbiotic relationships.

There were two new interventions in the Second Plan. First, 'indicative planning' was used together with licensing to influence the allocation of critical resources, in particular, savings and foreign exchange (Bagchi 1988). Second, the sheltering of Indian capital from excessive foreign competition was accomplished through a detailed system of tariffs and non-tariff barriers. This was put in place without excessively antagonising powerful international capitalist interests through the stipulations of non-discrimination against holding and subsidiary companies of multi-national corporations under the Companies Act 1956. The interests of big capitalists articulated by the Chambers of Commerce dominated the import-substituting (ISI) model in the design of tariffs and import restrictions (Bagchi 1988). To facilitate the economic expansion of capital, public investment was directed towards the development of transport, communication, irrigation, education, research and development.

The Congress led state thus chose to pursue a capitalist path of development based on 'mixed economy' postulates and sought its implementation through indicative planning (Desai 1984: 25; Chakravarty 1987). The choice of this path implied three things. First, it meant that a lot depended on the state's success in achieving enhanced resource mobilisation and then succeeding in influencing the priorities of allocation of these resources in various fields and sectors. Second, the strategy determined the classes on whom reliance for economic growth was placed and the conditions needed for strengthening their economic, social, political, cultural and ideological power. Third, it shaped the policy of the government to provide special inducements and encouragement to classes who were viewed as 'agents' of development (Desai 1984: 24). Thus 'capitalists' as a class were the key agents of transformation of society in the implementation of developmental goals based on the mixed economy.

Domestic industrial interests remained secure within the import substituting industrialisation (ISI) policy and tariffs and import restrictions. The big trading houses, in the face of reduced profit margins

due to high import duties on final goods shifted to manufacture under the license-subsidy schemes. A significant number of big trading houses entered the realm of production in this period. The capitalists themselves argued that breaking into export markets was impossible (FICCI 1956). The nature and direction of world trade based on a principle of comparative advantage calculated on the basis of factor endowments hardly seemed a convincing argument to any section of the capitalist class in that period (Agarwal 1983). The fact that multinational companies had a level-playing field through holding companies added to the reluctance to build up competitiveness. We shall see later that there was a considered move by top sections of Indian capitalists to model themselves as trans-nationals through joint ventures abroad, but little evidence of any support for liberal trade to cut down trade barriers to allow production on the basis of conventional comparative advantage.

All of the state's resources were deployed to increase production in the new areas identified in the Plans (Kurien 1994). In the heterodox literature on rent and rent-seeking, this has been conceptualised as a process where the state was trying to accelerate productivity increase by creating 'learning rents' for new industries through protection but it failed in creating associated systems of compulsion to ensure that rents were not wasted (Khan 2000). In another view, this was attributed to the inability of the state to impose even a minimum measure of discipline because of the political power of capitalists that was exercised both formally and informally within the ruling party (Chibber 2003). No yardstick for such discipline was envisaged within the policy strictures. The profit motive combined with the state's role as 'risk-absorber' were judged to be sufficient incentives for the model to work, and not much attention was given to the importance of compulsions for capitalists.

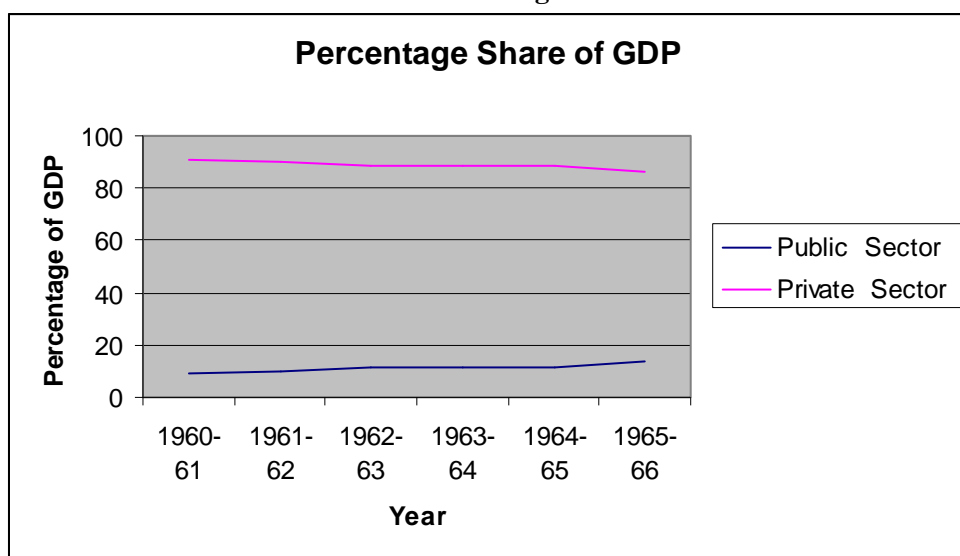
One important break from the earlier period was the weakening of British Managing agencies that had held sway over the industrial clusters that had been the preserve of foreign capital. Restrictions on managing agencies through the new Companies Act of 1956 came into being. This led to a further weakening of British managing agencies that had already started to decline during the Second World War (Malyarov 1983). This opened up new opportunities for Indian family businesses. Indian family businesses acquired holding companies, plantations and jute mills. The Associated Chamber of Commerce (ASSOCHAM), which was the preserve of what remained of British capital, was opposed to the abolition of managing agencies. So were some representatives of Indian business (FICCI 1955) as this would have involved a restructuring of their own businesses as a few managing agency houses had come to be owned by Indian businessmen at the end of the colonial period. Nehru once again assured ASSOCHAM of 'no discrimination' in the organisation of business in the run-up to the implementation of the Industrial Policy of 1956 (Chenoy 1985).

Nevertheless, the state through its planned strategies moved into the arena of public investment in the development of transport, communication, irrigation, education, research and development. Public sector

enterprises were started with the objective of providing a steady source of capital and intermediate goods to sectors that were capital constrained and had long gestation periods in terms of profitability (Frankel 2005: 128-134). Public funding of technological institutes to provide the necessary personnel was also a feature of this period.

The second and third plan period also witnessed an unprecedented fiscal expansion to stimulate demand, public investment in basic industries and creation of ‘loan’ capital through financial institutions to stimulate private investment. The stepping up of loan capital for industry through state initiatives was in response to industrial lobbying to widen the sources of credit. In real terms, the state directly granted protected markets through its complex network of tariffs and quotas. It also facilitated the supply of capital and intermediate goods to the private manufacturing sector and took up the difficult task of co-ordinating markets for industrial and agricultural goods through its pricing policy. External assistance and taxation were the two most important sources for plan financing. Due to the feeble direct tax effort, the burden of taxation fell on indirect taxes, which doubled from 1948-49 to 1963-64 (Government of India 1971). Thus part of the cost of financing this industrialisation effort was directly passed on to the general population. These policy measures gave a tremendous boost to those industrialists who already had an established hold over the ‘old’ and ‘new’ industries enumerated in Table 2A.

Fig 2.1



Source: NAS, Table 1B, p28, EPWRF

It is evident from Figure 2.1 that there was a very gradual shift in the share of GDP from the private sector in favour of the public sector. The share of the public sector increased marginally from 9% to 13% in six years between 1960/1 and 1965/6. The share of the private sector on an average was 88.1% of GDP. This has to be seen in the context of a non-existent ‘public sector’ until 1950. Bhagwati’s accusation of ‘a substantial public sector, going well beyond the conventional confines of public utilities and

infrastructure’ (Bhagwati 1993) is thus hardly a tenable criticism for this period. Beyond utilities and infrastructure, the state set up public sector units in fertilizers, chemicals, steel and oil and natural gas exploration, sectors in which the private sector was incapable of venturing into in spite of its diversification measures. FICCI welcomed these measures as vital for private enterprise in dyestuffs, paints, medicines, antiseptics and so on, and appreciated the need for ‘vertical integration’ through the creation of ‘linkage enterprises’ (FICCI 1956). G.D. Somani as President of the All India Organisation of Industrial Employers, a key body within FICCI argued in 1956

...would it not be better if the expansion of the public sector is viewed not as an end but as a means? (FICCI 1956: 6)

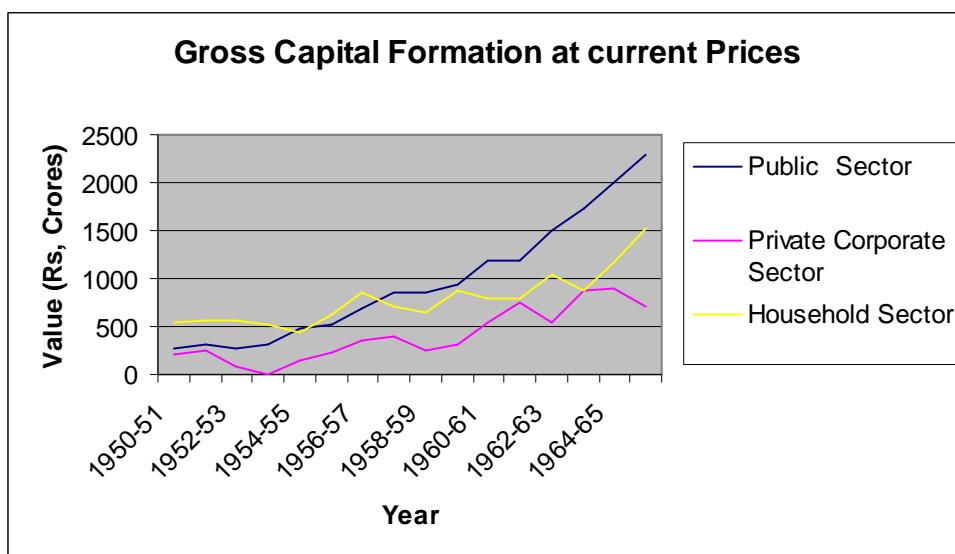
He went on to argue:

...the State has a purposive role to play in economic affairs, but this role should not be equated with or identified with the expansion of the public sector only. It should be much more pervasive in the sense that, within the framework of social objectives, constructive individual effort is helped and an atmosphere is created for the flow of new talent. (FICCI 1956: 7)

So the biggest representatives of capital did not envisage the role of the state in investing in the public sector as a problem at the beginning of the Second Plan period. This empirical evidence also refutes the generalisation by Nayar (2001) that the representatives of FICCI were opposed to the expansion of the public sector. The public and private sectors were not pitted as competing elements in the economy. Capitalists within FICCI asserted that production beyond the most primitive type was *capitalist* wherever it obtains in any part of the world with any political system within the postulates of a mixed economy (FICCI 1956).

The fact of the matter is that today every national economy is a mixed economy in varying proportions. (FICCI 1956: 7)

Fig 2.2



Capital formation in the public sector increased substantially from 1959/0. Fig 2.2 shows that between 1950/1 and 1959/0, the rise in capital formation in the corporate and household sector followed more or less the same cyclical pattern. From 1960/1, the cyclical patterns diverged and household sector capital formation reached a peak when the corporate sector reached a low and vice-versa.

According to an appraisal of this period carried out by researchers at the NCAER on behalf of the state in 1966, the performance of the industrial sector was described as ‘tardy’ compared to the explicit targets set in the five-year plans. Industrial production increased by 36% against the planned target of 70% in this period. The major causal factors that were cited were the non-availability of raw materials and more importantly, the persistently high import content of industry (NCAER, 1966). Shortage of foreign exchange was cited as a crucial constraint and the country’s export earnings were not sufficient to provide for the imports. Imports of industrial minerals increased hugely both in relative and absolute terms. The relative plan outlay in agriculture had not changed, although the absolute outlay grew in the Third Plan. The same was true for power, while the outlay on irrigation declined relatively (Negandhi 1966: Appendix I). The failure to allocate sufficient resources to agriculture, which employed more than two-third of the labour force and produced more than 50% of GDP, remained a shortcoming of the indicative planning of the Third Plan (Chakravarty 1987). This failure was even more remarkable as policy makers claimed that they had rectified the neglect of agriculture in the Second Plan (Government of India 1961).

The Congress government in 1966 benchmarked the economic growth in this period to the pre-independence decades, when growth rate was around 1% per annum and claimed that this had been an ‘era of rapid change’. Echoes of this view are found in K. C. Pant’s article as Union Minister for Finance in 1968 when he cited these figures to argue on behalf of the government that

The present economic difficulties of the country especially of the past two years, may sometimes tend to blur one’s view of the progress India has made during the twenty years since Independence... The country has made many-sided progress under the first three Five-Year plans...A strong wind of modernism is blowing over the agricultural sector, with increasing demand for fertilizers, pesticides, improved varieties of seeds, power for irrigation and other inputs that go to increase agricultural productivity...Education and medical facilities are reaching more people today than at any time in the past. (Pant 1968: 37)

The optimistic prose underwrites the idealism inherent in the idea of physical planning. It never really acknowledged that the process of capitalist diversification in an impoverished, capital constrained economy where agrarian relations saw little change was bound to face structural constraints sooner or later.

National Income increased by 21% during the Second Plan period between 1956 and 1961, an average annual growth of 4.2%. Moreover, the share of agriculture in GDP fell from 58% to 53% between 1950/1 and 1960/1, though GDP measured at 1993-94 prices from agriculture reached a level of Rs 109254 crores from Rs 81069 crores in the same period (EPWRF 2002:32 Table 3A). The Third Plan envisaged an investment programme of Rs 10,400 crores over the period 1961/2 to 1965/6. Out of this, the target of investment in the public sector was fixed at Rs 6100 crores. The targets for generating resources were also laid out at Rs 7500 crores for the public sector and Rs 4100 crores for the private sector (Hanson 1996). The resource mobilisation envisaged in the public sector was expected to cover the cost of its investment programmes and current expenditure and also transfer Rs 200 crores to the private sector to assist selected investments in agriculture, industry, housing etc (NCAER. 1966:7). In the Third Plan period between 1961 and 1966, National Income grew by 14%, an annual average of 2.8%. The slowdown in manufacturing was much higher. Table 2C shows that the annual percentage of gross domestic capital formation hovered between 15.7 and 21% in this period with a steady increase in the period of the Third Plan. The net addition to stocks was between 1% and 2% for most of the period except for 1955-56 and 1958-59 when it was below 1%. Thus capital formation in the economy showed a break in its pattern from the period of the First Plan if we compare the figures in Table 2B and 2C. This is also reflected in the patterns of capital formation in the public, private and household sector illustrated in Fig 2.2.

Table 2C: Gross Domestic Capital Formation (GDCF) as Percentage of GDP, 1955-65

Year	GDCF as % of GDP at Market Prices	Change in Stock as % of GDP at Market Prices
1955-56	16.3	0.6
1956-57	20	1.7
1957-58	21	2
1958-59	15.7	0.1
1959-60	17.5	1.2
1960-61	18.9	1.9
1961-62	18.6	1.3
1962-63	19.5	1.6
1963-64	20	1.2
1964-65	20.7	1.3

Source: Table 11, p78, EPWRF 2002b

However, the slowdown became perceptible by the mid 1960s. By 1964-65, growth rates in GDP had slowed down. This was combined with high levels of inflation and balance of payment problems that assumed crisis proportions by 1965-66 and accompanied the slow down of economic growth. Explanations in the literature emanating from state functionaries of the period had initially underplayed the structural nature of this slow-down and attributed it to bad weather conditions and stagnation in agriculture in three out of five years during the plan period along with the conflict with China in 1962 and the war against Pakistan in 1965 (Economic Survey 1968-69). These factors may have been important, but on their own, they failed to explain the long structural retrogression in the economy that started from 1965-66 (Shetty 1994). Neoclassical assessments have argued that the problematic for India was the lack of dynamic capitalist growth based on commensurate productivity increase (Bhagwati 1993).

One argument in this context relates to the fact that development planning began in India with no radical redistribution of assets. The vast mass of rural unemployed and underemployed remained as before. Even though output growth increased substantially in the post-independence period, the gap between the unemployed and the employed, the gap between those employed in the organised sector and those employed in the unorganised sector, the gap between blue and white collar workers within the organised sector, and above all the gap between workers of all descriptions and the propertied classes increased in the period between 1947 and 1967 (Patnaik 1984). The 'elite' designed and 'elite' benefiting nature of the development process could be seen in the consumption patterns of a majority of the fractile groups of the population who experienced reduced proportions of consumption of industrial goods in 1964-65 compared to the Second Plan Period (Patnaik 1994, Table 3 and Table 4: 41-42), reduced consumption of items of government current expenditure and in the continued feeble direct tax effort (Roy 1998).

The literature relating to this period cites many basic impediments like shortfalls in agricultural production (Vaidyanathan 1994), faulty planning to absorb large volumes of aid in the face of foreign exchange shortages and lack of trained technical personnel (Srinivasan and Narayana 1994), faulty premises of plan schemes (Bhagwati 1993) and inadequate employment growth (Chakravarty 1987; Shetty 1994). K N Raj (1994: 51) in his study of gross investment between 1951 and 1966 established that a strong correlation between the build up of unutilised capacities and the slowing down of growth between 1964 and 1966 was not tenable. He emphasised the narrow base of demand that led to a constraint on the demand for wage goods due to the inability of the state to release the demand constraint in the economy. This work hinted at the lack of agrarian redistribution by the state and its inability to tax the rich as the source of the demand constraint. According to Raj, the state needed to 'tackle the problem at the root even if it implies facing squarely the power groups that are in the way' (Raj 1994: 64).

According to Chakravarty (1987), for Nehru and his colleagues planning was a positive instrument for resolving conflict in a large and heterogeneous subcontinent. The principal aim of planning according to Chakravarty, was to overcome the shortage of capital in relation to availability of employable persons. Public sector earnings did not increase proportionately to private earnings; investments relied on borrowing from households. Chakravarty's assessment was that planning benefited Indian capital in the first two decades after independence as a structural break in the economy was achieved by the mid 1960s. This is reflected in the analysis put forward by Kirloskar (FICCI 1965: 5) that

Indian business was...a partner in the economic development of the country and for the first decades a beneficiary of the regulatory system that was put in place.

However, Chakravarty also pointed out that the process of planning was unable to generate sufficient employment opportunities and ensure adequate production of the basic necessities of life.

At the same time, the capitalist class was caught in a peculiar ambivalence towards the material needs of a state-led process of capitalist transition. In a context where many overseas markets were opening up as national liberation struggles in Africa led to formation of independent nation-states, the prospect of state regulation and control would only have appeared as a massive hindrance to the expansion of businesses into new and bountiful lines. Chibber (2003) argues that G.D. Birla himself was going over to the other side, railing against the consequences of controls and government regulation of industry, and demanding greater freedom for private enterprise. Yet in spite of their public speeches, voicing their defence of free enterprise, the big capitalists always recognised the necessity of the state-led process in this period. Their main preoccupation lay in the political opposition to a progressive taxation policy. Further, capitalists saw the licensing and regulatory process as an irritant even though they had seen the need for it in the late 1940s. This tension lay behind the growing capitalist pronouncements against 'control'.

Hazari's (1967) work makes it clear that capitalists like the Birlas, Tatas and the Thapars took full advantage of the licensing policies to build huge monopolistic empires throughout this period. These policy measures gave a tremendous boost to those industrialists who already had enormous resource power. While state policy professed to hold a balance between the big capitalists and the emerging smaller ones, R.K. Hazari's official study conducted in the late sixties showed that the big business houses had been able to circumvent certain provisions specifically meant to prevent further concentrations of economic power.

As the state got enmeshed in a growing fiscal crisis (Roy 1998), it resorted to fiscal management. The Second Parliament passed more than 300 acts of which 5 were in respect of amendments of the Constitution and more than 100 related to fiscal matters and finance. By 1965, the state faced either inflation or balance of payment problems or both (Raj 1994). To maintain the tempo of growth in the

economy it increased the squeeze on large sections of workers through greater indirect taxation, hikes in administered prices that were ‘passed on’ and inflationary deficit financing (Patnaik 1994). But by the mid 1960s, to keep this inflationary squeeze in check, it was cutting back on its own investment and thereby undermining the expansion of the economy. The BOP crisis came to a head in 1966 and India borrowed from the IMF for the first time.

The dynamism of Indian capitalist development depended crucially on a continuous expansion of public investment. The expansion of the state sector was an essential stimulant for the continued expansion of the capitalist sector (Patnaik 1994). The capitalist argument from FICCI was intent on confining the ‘role of the state’ to Keynesian aspects of demand management *except* for ‘progressive taxation’ and leaving supply related aspects to the ‘free market’. Singhanian (FICCI 1959) took this further to argue that

...there is a tendency to introduce rigidity e.g. in the field of revenues for the Railways or the General Exchequer. Additional levies are imposed based on plan assumptions or other reasons. If costs and prices are pushed up by regular increments in taxation, this is bound to have adverse consequences of a cumulative kind. Since the cost of living will rise, there will be a demand for increased wages and salaries; the demand for goods and services will not keep pace, and the main hope and spring of economic expansion which lies in stimulating demand will receive a setback. A forward looking tax policy like a forward looking price policy must aim to secure larger revenues and profits on a larger turn-over (FICCI 1959: 9).

To summarise, the Nehruvian model of state-led capitalist development was focussed on increasing production without the requisite structural transformation in social relations to make the process sustainable. A strong argument emerges in the heterodox literature that the state’s crisis from the mid 1960s was due to assumptions of fiscal omnipotence and failure to generate tax revenues (Patnaik 1984). This was directly linked to the state’s inability to exercise any control or discipline over the agricultural and industrial elite. The public sector was unable to expand beyond a certain capacity to generate adequate funds for state activities. So it was not a crisis of economy, but a crisis of the state’s sustainability as a site for primary accumulation of capital. This can be attributed to the state’s inability to discipline the capitalist class not only to raise taxation as has been argued by Patnaik (1994) and Patnaik and Chandrasekhar (1995) and Chandrasekhar and Ghosh (2002), but also more importantly to raise productivity growth as argued by Khan (2000).

Ideological opposition to Nehruvian ‘developmentalism’ once it ran into crisis came from the Communists and Socialists on the Left and the short-lived Swatantra party representing capitalist and landed interests including the deposed ‘princes’ on the Right. But the social premises of the two forms of

resistance were very different. The Communists subsequently weakened due to a historical split, but were a force to contend with due to their mass organisational activities and movements uniting workers, peasants and the petty-bourgeoisie in parts of India. The Socialists appeared as fragments, reappeared as reconstituted fragments, and finally disappeared in the 1970s. Opposition parties based on jati or caste and community were particular to a region. The base of Hindu nationalism widened as independence also saw a shift in the RashtriyaSwayamsevakSangh (RSS) strategy with the formation of a political front in the shape of the Bharatiya Jan Sangh ending its so-called confinement to the field of culture. Besides, there was the emergence of a mass front, the AkhilBharatiyaVidyarthiParishad, to organise students. It also set up in 1955 its trade union wing, the BharatiyaMazdoorSangh (BMS) to organise workers (Kanungo 2002).

However, the Congress patched together its pluralities and majorities from India's vast pool of heterogeneous interests. Held together in fragments and factions, its dominance was gradually undermined from within and by the push and pulls of external political turmoil throughout the 1950s and 1960s. Congress governments had commanded majorities of 70-80% of seats in the Lok Sabha on popular vote pluralities of 40-49 per cent. In 1967, a 4 percent loss in Congress's popular vote cost the ruling party more than 15 percent of its seats in the Lok Sabha (Frankel 2005). Thus a significant aspect at the end of the period was a crisis of legitimacy for the Congress as a ruling party.

While the overall strategy faced serious constraints, and did not in the end amount to a strategy of capitalist transformation that could be sustained, it did create pockets of very successful capitalist growth.

The ability of big business and corporations to benefit financially from the reservation policies, licensing and subsidies was an established fact by the mid 1960s. A public debate on the concentration of wealth came to light with the findings of the Hazari Report in 1967 and the Dutt Committee Report. The pre-empted unutilised capacities of the ten top business houses and the resulting asset concentration opened up a Pandora's box of capitalist 'evils' aided by the state. The Hazari Report, in particular, revealed the nature of pre-emptive capacities built up by the Birlas (Hazari 1967). The legislation on monopoly restriction was a result of political mobilisation that reflected debates in Parliament especially in the Rajya Sabha (Nayar 2001) about the implications of this concentration of wealth and licenses not just on economic growth but also on poverty.

The majority consensus in Parliament was to implement tighter controls on large firms (Rosen 1988: 62). The Monopolies and Restrictive Trade Practices Act (MRTP) of 1971 was introduced as a result of this debate. The MRTP was a complex piece of legislation that established a limit on expansion of large private undertakings where the undertaking was defined as itself and products, supplies and distributions that it controlled. An additional definition classified all undertakings that rendered one-

fourth of any services rendered in India. All such undertakings came under the purview of the act. Large businesses were thus defined on the basis of asset size and extent of market control. The Act imposed restrictions on licenses for diversification by ‘monopoly houses’. It also placed restrictions on mergers, amalgamations and take-over. It also created mandatory systems of inspection and disclosure of information. This opened up the possibility of ‘late entry’ to medium scale family run trading houses, for example the Ambani, Jindal and Bajaj groups, into industry. The representative association of big business houses, like FICCI, did not welcome these moves and openly called for the ‘relaxation’ of regulations on quantities of production and how production is organised and ‘scrapping’ of the Industries Development and Regulation Act and the Monopolies and Restrictive Trades Practices Act (FICCI 1972).

Table 2D: Concentration of Assets and Capital Formation by Major Business Houses

(RsCrores)

Business House	Assets 1951	Assets 1965	Assets 1975	Assets 1980	Assets 1989-90
Tata	151.60	417.72	924.41	1538.97	8530.93
Birla	65.25	292.72	905.03	1431.99	8473.35
Reliance	-	-	-	166.33	3600.27
Thapar	8.63	71.90	197.90	348.06	2177.15
Singhania	10.14	59.20	209.56	412.72	2139.00
Larsen & Toubro	-	-	137.69	216.03	1681.52
Modi	-	11.28	114.50	198.82	1399.37
Bajaj	-	21.14	103.63	179.26	1391.06
Mafatlal	-	45.91	244.23	427.54	1343.55
Chidambaram	16.77		28.05	43.81	1273.35
Total for Top 22 houses	312.63	1326.15	4234.61	7155.90	34538.14
Total assets in the hand of top twenty business houses as a % of Gross	29.9%	32.5%	29.8%	26.6%	30%

Capital Formation in the Economy					
--	--	--	--	--	--

Source: Yechury Table 1, 1992: 43; EPWRF: Table 8B, 2002a: 72

From Table 2D, we note that the total asset concentration as a percentage of gross capital formation in the economy hovered between 26.6% and 32.5% from 1951 to 1989-90 for the top twenty business houses. The change came with the rise of Bajaj in the late 1960s, and Reliance and Chidambaram groups in the 1980s. Out of these assets, less than 0.2% was accounted for by the actual investment of the family group in the assets of the group in the case of the five top houses of business – Tata, Birla, Mafatlal, J.K. Singhania and Sriram (Yechury Table 3: 1992: 44). Thus assets remained highly concentrated even after two decades of restrictions under MRTP.

Big and medium trading cum industrial houses in India were not interested in an export led growth model. For a class whose initial source of income came from commodities trade, there was a growing problem. Importing manufactured goods like textiles and exporting primary commodities like, tea, spices and rubber proved unsustainable in terms of costs due to higher import duties as part of the import substitution policy regime. This was the economic basis for the phenomenon of ‘traders turning into manufacturers’ and thus high import duties could be argued to be the ‘compulsion’ imposed by the state to turn traders into manufacturers. Import substituting production, if subsidies and incentives from the state were available, was a logical resolution of this problem as late as the 1970s even when the licence-control process had run into major contradictions in terms of pre-empted unutilised capacities.

The literature on intervention has been confined to a critique of the pre-emptive capacity of groups like the Birlas and Tatas, especially after the publication of the Hazari report. The Tatas and Birlas remained at the top of the ranking of business houses since 1951 to 1976 and asset concentration remained a key feature of capitalist accumulation. But what went unnoticed, was a phenomenon of existing medium scale trading businesses in durable consumer goods expanding and diversifying into production through the policy of import substitution and the central licensing and subsidy scheme to cater to new markets based on the gradual increase in middle class purchasing power.

The MRTP Act provided an incentive for the transformation of asset structures for business houses, which were large, but not large enough in terms of declared assets to come under the restrictions imposed by the Act. The process of import substitution to deepen and diversify the productive capacity of the private sector in the Indian economy continued throughout the 1970s. Thus the MRTP Act actually made import substituting capitalist ventures a viable strategy for ‘new’ entrants to industry, thus resolving one of the contradictions of the Nehru-Mahalanobis model.

It must be noted at this point that the emergence of ‘new’ business groups was not a smooth and seamless transition. Three kinds of barriers to transition from trade to manufacturing have been discussed in the literature. The first was the barriers created due to the propensity of the licensing system to erect barriers of entry for new aspirants. The second was the definition of scale by the state which decided the nature of incentives available to aspiring businesses. The third was the question of access to technology and finance. Only, those groups, which could find ways to cross these barriers, emerged as leading players in the field. The question of licensing, scale and finance was slowly resolved by changes in state policy in the 1970s as a response to the rising power of ‘new’ capitalists. The question of technology access however remained unresolved and determined Indian capital’s relationship with international capital in the decades of neoliberal globalisation which was to follow.

To conclude, the regime of capital in India achieved the following through the Feldman-Mahalanobis exercise broke the barrier of the capital formation constraint in the economy but ended in crisis in ten years. It ensured asset concentration in the hands of the big bourgeoisie. We argue that this was not despite planning but because of the particular nature of planning in India. However, this particular planning exercise in its class consensus on irresolution of the agrarian constraint and taxation had rendered itself unsustainable and met its demise in the deep crisis of 1965-66. However, the stop-go cycles in capital formation, asset concentration in the hands of the big bourgeoisie, and the class consensus on the perpetuation of the agrarian and taxation constraints constitute three distinctive characteristic features of every policy regime since then including the present neoliberal regime in India.
