STATE AND INDUSTRIAL TRANSFORMATION IN INDIA: 1966-1987

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It is certified that the dissertation entitled "State and Industrial Transformation in India: 1966-87" submitted by Siddhartha Mukerji is in partial fulfillment of the requirements of Master of Philosophy of this University. This dissertation has not been submitted for the award of any other degree in this university or any other university and is his own work.

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Dedicated to my parents and my sister Sanyukta

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Abbreviations

AICC	All India Congress Committee
ASSOCHAM	Associated Chambers of Commerce and Industry of India
BOP	Balance of Payment
COPU	Committee on Public Undertakings
CPI	Communist Party of India
DEC	Digital Equipment Corporation
DGTD	Directorate General of Technical Development
DOE	Department of Electronics
EC	Electronics Commission
ECIL	Electronics Corporation of India Limited
EXIM Policy	Export and Import Policy
FERA	Foreign Exchange Regulation Act
FICCI	Federation of Indian Chambers of Commerce and Industry
HCL	Hindustan Computer Limited
IBM	International Business Machines
ICL	International Computers and Tabulators
IMF	International Monetary Fund
LTFT	Long Term Fiscal Policy
MRTP	Monopoly Trade Restrictive Practices
OGL	Open General License
R&D	Research and Development
SEEPZ	Santa Cruz Electronics Export Processing Zone
SIA	Secretariat for Industrial Approvals

Content

Chapter: I

Introduction

The comparative literature that emerged in past few years has provided a comprehensive view of state's active intervention in promoting industrial transformation in the third world countries. The theoretical contributions of Robert Wade, Peter Evans, Alice Amsden, Stephen Haggard, Jagdish Bhagwati, Atul Kohli, Stephen Eraser, Anne Krueger and Vivek Chibber have been particularly noteworthy. The distinctive pattern of industrialization in the countries of Asia, Africa and Latin America has been accredited to the quality and nature of state intervention in the economy. This particular aspect has been understood in the larger context of state-societal linkages that involve a constant engagement between the political leadership and the chief economic actors such as the business group, labor, foreign firms and technocrats. The political dynamics of industrial policy making have been understood by determining the extent to which the state has engaged selectively with such societal actors. It also involves the study of various causal factors that have either accelerated or impeded the prospects of cooperation between the state and the economic actors at the societal level.

In the recent literature concerning the state involvement in industrialization, two theoretical stances have been particularly significant, namely, the governed-market approach and the state-in society approach. While both the approach adhere to the core assumption that state autonomy vis-à-vis the societal groups is an essential component of industrial policy making in the developing world, they move apart in their understanding on the extent to which the state should seek the cooperation of the societal groups in the process. The two approaches also strike a common chord in advocating greater integration with the international market by adopting an export-oriented strategy for industrialization.

The governed market approach prescribes a discursive space for the state actors in policy matters that involve least interference from societal forces. Consequently, it advocates state insulation from societal ties in devising effective strategies to accelerate industrial development. This preoccupation with the state's autonomous role in industrialization is fallacious as state autonomy does not operate in vacuum. It operates within a concrete set of societal ties that especially including those who have a direct stake in the process. The governed market approach fails to recognize the specificities of political and economic circumstances that tend to structure state-societal linkages in a certain manner and thereby advance particular set of policies that is mutually beneficial for the state actors and the societal stakeholders. There is sufficient evidence to suggest that policies in India have been formulated under tremendous political pressure arising out of divergent and antagonistic demands of various interest groups. The theorists advocating this approach often cite the case of East Asia to validate its claims made in favor of independent role of the state in the policy matters. It is highly inappropriate to apply the East Asian model in case of India's industrial planning, as in a democratic set up like India, even a minor alteration in the policy framework may create discontentment amongst various sections of the society.

The state-in-society approach provides deeper insights into the nature of state-societal linkages and its consequent impact on industrial policies. Theorists such as Peter Evans and Atul Kohli engage more proximately with the diverse patterns of a state's relation with the key economic actors and the transnational actors to draw conclusions about distinctive patterns of industrialization at various stages.[1] They strongly advocate the embededness of state in a concrete set of ties with those groups that have direct stake in the process. They refute the prescription offered by the governed market theorists for successful industrialization that the state must act in an independent policy arena without any pressure from the societal side and that the success of policies lies in the extent to which the state can act in such a fashion. The state-in-society approach underscores the vitality of proximate state-societal linkages that evolve in a certain fashion to produce distinctive policy outcomes. However, while advocating such a framework for understanding state involvement in industrialization the theory still losses sight of the interplay of all such factors that structure such relationships and provide a certain fabric to the industrial policies. These include internal and external; political and economic factors. They can be enumerated as follows: ideology; alliances; new class formations; power politics; crisis; transnational linkages including foreign firms and international

[1] Peter, Evans (1995). *Embedded Autonomy: State and Industrial Transformation*, New Jersey: Princeton University Press, page 12

institutions. The significance of these factors lie in the way they shape the attitudes of the policy makers from time to time and adjust the policies with changing needs of time and circumstances.

The pattern of industrialization in India needs to be understood in the context of political and economic conditions that molded policies in a certain fashion. The internal political dynamics have played a decisive role in determining the extent to which the state actors have been able to bring vital changes in the existing policy framework. In the process, there has been a dramatic transition from industrial regulation in the 70s to industrial liberalization since the early 1980s.

The government employed a host of regulatory measures such as industrial and import licensing, corporate taxation, strict conditions for foreign equity participation to set limits on the expansion and monopoly of the big business conglomerates and the foreign firms. On the contrary, it provided adequate incentives to small businesses that would have otherwise remained behind in the race of industrialization, and placed greater reliance on the public sector enterprises to build a potent industrial base. The operations of public sector were expanded through nationalization of various strategic industrial sectors and banks. The prevailing political and economic conditions of the given period compelled the government to follow such a course of action.

The policies underwent a dramatic transformation since the early 80s, the seeds of which were sown during the emergency period itself. The government in the early 80s followed a more conciliatory approach towards accommodating the interest of various classes and eschewed the employment of authoritative measures to impose discipline amongst the disruptive forces. This novel attitudinal change towards industrial liberalization was conditioned by various factors such as emergence of new classes; failure of past practices; search for new alliances exhibiting a certain degree of professionalism and business orientation; the establishment of transnational linkages and greater engagement with international monetary institutions. The pace of industrial liberalization gained further momentum since the mid-80s when there seemed to be wider consensus on the complicity of private and foreign firms for industrial modernization and technological development. The new penchant of the government is well reflected in its policies concerning industrial and import licensing, taxation, and technology policy and export-promotion measures.

The subsequent changes in the policies of the government at different junctures raise a number of questions that are enumerated as follows:

1. What are the political and economic factors which determine the contours of industrial policy making?
2. To what extent is the state autonomous from private entrepreneurs, labor groups and other stakeholders in taking initiatives for industrial development? In other words' how and to what extent do these societal forces influence the policies of the government?
3. How do economic ideas and political alliances determine the limits of policy shifts? How do these variables interlink to produce different policy outcomes?
4. How does political bargaining between state and transnational actors influence industrial policies?
5. What are the specific domestic constraints that inhibit the state to advances changes that disclaims past practices completely?
6. To what extent do impending electoral compulsions shape policies in a certain fashion?
7. What are the ways of dealing with economic crisis and how crisis itself leads to adoption of new ideas and strategies?
8. Last but not the least, how is it possible to maintain a balance between policies that are based on populist strategies and those that seek to concentrate on augmenting the industrial index, keeping in mind that the two are often at odds with each other?[2]

The research project attempts to answer these questions by studying the political economy of Indian industrialization beginning from the late 60s to the mid 80s. The purpose of selecting the given period is to delve into various causal factors that

[2] Atul, Kohli (2004). *Political Power and Industrialization in the Global Periphery*, New York: Cambridge University Press, page 14

influenced policy making during the two periods that witnessed diametrically opposite forms of industrial policies. The first period begins in the second half of 1960s with the advent of Indira Gandhi in the political scene and lasts till the mid 70s. This period is characterized by high levels of industrial regulation. The seeds of industrial liberalization are sown during the emergency period following it. The second phase begins with the comeback of Mrs. Gandhi in 1980. This period is characterized by stark changes in policy framework and abandonment of various past practices that imposed several restrictions on the activities of private firms.

An important reason for focusing attention on the change that occurred between the mid 1960s and the mid-1980s is the lack of scholarly attention to this period. Much of the literature deals exclusively with the 1980s that led to policy changes in the 1990s. It is interesting to note that many policy shifts during the mid-1980s were closely linked with the concatenate set of events following since the mid-1960s. The subsequent periods are marked by both continuity and change.

In order to provide a deeper understanding of this transition the case study of the computer industrial has been undertaken. This chapter pin-points the specificities of the policies that provides deeper insights into political bargaining between state and foreign firms on one hand and state and local firms on the other. It clearly cites the domination of public sector enterprises during the period of industrial regulation in contrast to the greater involvement of private sector in this sector since the early 80s.

The following policy instruments have been selected as dependent variables to study the phenomenon of state-societal linkages in the arena industrial policy making:

1. Industrial licensing
2. Import licensing
3. Technology policy
4. Export-promotion measures
5. Taxation
6. Incentives for Private and Public enterprises

The following political and economic factors have been enumerated as independent variables:

1. Ideology

2. Alliances
3. Power politics
4. New class formation and resulting state-class linkages
5. Transnational Linkages
6. Electoral Compulsions
7. Economic crisis

Hypothesis:

1. The interplay of political and economic factors produces varied patterns of state-societal linkages and thereby leads to the formulation of certain kind of policies.
2. In a democratic policy, the rationale of maintaining a proper balance between accommodating diverse demands of the interest groups and affecting shifts in policies that seek to promote rapid industrial growth necessitates the advancement of changes in a piecemeal fashion. For example, while investing a heavy amount on the public sector enterprises, the government mist also provide adequate incentives to the promotion of private sector, especially the ones that could contribute well to the building of national economy.
3. The nature and degree of state intervention in the field of technological development of the industry, especially while negotiating with the foreign firms in the arena of technology transfer and foreign collaboration, determines the contours of technology policy.
4. The policy shifts are often attempted as a result of intermittent fluctuations in the fiscal, tradable and structural conditions of the international market.

Methodology

The present study is mainly a comparative reflection of the changing industrial policies in India since the 1960s. it follows an analytical approach to examine the policy shifts while keeping in mind the broad political economy of each context. Conclusions have been drawn on the basis of historical surveys of various developments in the concerned area of enquiry.

The government documents, including the committee reports and the industrial policy statements released by the respective ministries have served as a vital provenance of primary data. The Economic surveys of subsequent years provided the statistical figures for industrial production, trade and finance. The books written by various scholars have provided deep insights into the theoretical as well as empirical aspects of the nature of state in promoting industrial transformation in India. The theoretical contributions of these scholars served as an important tool in drawing analytical perspectives on various issues linked with the study matter. Journals and newspaper reports provided the secondary material needed for the purpose of historical surveys and empirical analysis.

Chapter II

State and Industrial Transformation in the Third World Nations: A Theoretical Analysis

Without the states markets and other master institutions of the society do not function. A state, with its prescribed set of rules and an organization is much needed for the economy to function in a proper way. From the poorest to the most advanced welfare economies of the world today recognize the pervasive influence of the state as an institution and as a social actor. One of the arenas of state intervention has been industrialization. Primary concerns for all the states today has been that of promoting industrial growth and build up assets that would strengthen the national economy. But, the role of the state in the process of industrial transformation needs to be understood under the broader rubric of its relations and bargaining with the private entrepreneurs who are equally important players in the economy.

In classical literature, the role of state has remained confined to war and enforcing order. In modern times, the state has increasingly attracted the limelight for yet another significant role i.e. industrial development. As Peter Evans points out that, in modern [1]time's political survival and internal peace are more defined in economic terms and therefore the states have become responsible for industrial transformation. The legitimacy of the state is largely based on its economic role and its potential to adjust with the changing international conditions. In order for the state to cope with the changing international environment, it becomes an imperative for the state to adopt the most suitable industrial strategy. This further implies moving away from the traditional roles and strategy and bring about large-scale economic transformation.

In the most recant times, a great interest in the active role of state has led to the emergence of a new school of thought in the academic discourse which is commonly known by 'Neostatism'. The core assumption of the theory is that the state is a direct player in the economic transformation. In Peter Evans view economic transformation necessitates capital accumulation. In order to achieve this, an effective statecraft is required. Wealth creation and capital accumulation no longer gets confined to the market

[1]Peter, Evans (1995). *Embedded Autonomy: State and Industrial Transformation,* New Jersey: Princeton University Press, page 5

and the key players within it. This may lead to a serious price distortion and may bring about the entire economy in the brink of a crisis.

The nature of industrial policy-making depicts the quality of state intervention in the economy. Evans elaborates on this question and maintains that most of the literature that understands the role of state in industrialization focuses on the degree of state intervention rather than the nature of involvement in the process. He makes a neat categorization of the state on the basis of the above-mentioned criterion. They are predatory and developmental states. Predatory states lack the ability to prevent individual incumbents from pursuing particularistic goals. There exists a nexus between the state and the patrimonial elements of the society. The primary objective is the enhancement of individual maximization of profits and personal gains. The idea of collective good does not exist in these states.

A developmental state is one in which the notion of general welfare of the society is taken up by the state. Thus, the state gets directly involved in building a potent national economy along with the societal actors such as the capitalists and labor. A developmental state is characterized by a coherent internal organization that closely approximates to Weberian bureaucracy. There are no personal ties involved in the process of political bargaining and a sense of corporate coherence exists. The government enjoys a great deal of autonomy from the private entrepreneurs in decision-making. However according to Evans autonomy is combined with a certain degree of embededness in the societal ties. This kind of state-capital nexus has been termed by Evans as 'Embedded Autonomy'.[2]

Theda Skocpol further elaborates on the autonomous role of the state in formulating policies. She has defined state autonomy in three analytical categories, which are as follows:

1. Linkages of states into transnational structures, which gives certain amount of discursive space to the state officials to follow certain strategies without any kind of resistance from the societal actors.
2. The task of establishing order and fulfillment of basic needs of the people enhances the state autonomy.

[2] ibid., page 2

3. There is a formation of collectives of state officials who draw new strategies especially in times of crisis without any kind of interference from the societal forces. [3]

Atul Kohli holds a similar view and points out that, the state in peripheral societies of Asia, Africa and Latin America are important economic actors, engaged in varying pattern of state intervention. In some of the decolonized nations, state's economic role has been come to be associated with rapid industrial and enhanced equity.[4]But state intervention in facilitating industrialization is directly associated with state capacities to choose and implement economic decisions. This has further to do with framing appropriate industrial policies and on its relations with such key economic actors, as business and labor. Kohli's arguments fit well within the framework of embedded autonomy, which suggests that that state is embedded in a concrete set of societal ties. Most of the scholars of the neostatist paradigm reiterate the idea that the state autonomy exists within a rubric of a well-knit state capital alliance.

Theoretical debate on state involvement in industrialization

The comparative literature that emerged in past few years has provided a comprehensive view about the causal factors behind diverse industrial strategies adopted by the states in Asia, Latin America and Africa in the post-independent era. The theories differ in their ideas on state intervention in promoting industrial transformation. The theoretical explanation advanced by various scholars gives an explicit account of relative autonomy of state vi-a-vis the key economic players of the society in the arena of industrial policy-making. The influence of international forces in determining industrial strategies has also been discussed by some of the theories.

The theories that explain the political economy of industrialization in the Third world countries can be broadly categorized as follows:

1. Neoclassical theory: It can be further classified into 'Free-market approach' and 'Simulated-market approach'. The two approaches differ on the ground of their understanding on the degree of state intervention in the economy.

[3] Skocpol, Theda (1985). *Bringing the State Back In,* New York: Cambridge University Press

[4] Atul, Kohli (2004). *State-led Development: Political Power and Industrialization in Global Periphery,* New York: Cambridge University Press, page 1

2. Neostatism: It is classified into 'Governed Market theory' and 'State in Society Approach'. The difference lies in the understanding of state-autonomy in promoting industrialization.

Free-market approach

The scholars advocating the free-market model believe that for an economy to function efficiently, the private entrepreneurs should have sufficient amount of autonomy from the state. The government's task should remain confined to the creation of a suitable environment for the private entrepreneurs to perform their functions freely. The free-market advocates deny the vitality of centralized planning for successful industrialization. In their view, the politicians and the bureaucrats lack the requisite entrepreneurial capacity. The private business should shoulder the responsibility of building industrial assets of the nation.

Scholars like Milton and Rose Friedman attempting to make a comparative study of industrial-policy making in East-Asian and South Asian countries arrive at a conclusion that Malaysia, Singapore, South Korea, Taiwan and Japan which relied completely on private markets without state controls are thriving. In contrast, India, Indonesia and Communist China following centralized planning and protectionism experienced high levels of economic stagnation.[5] The relatively successful nations witnessed a free play of market forces. The business groups were left free to pursue their goals. The role of state remained confined to providing public goods and building an effective infrastructure.

The free market theorists commit the mistake of equating minimal state interference with outward-oriented, pro-business industrial strategy. These are two separate animals and cannot be placed on the same platform exclusively. The shortcoming would be elaborated later by the discussion of the governed market argument.

Simulated-market approach

The simulated market model lays emphasis on a more positive role of the state in bringing about industrial transformation by giving moderate incentives to the private

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[5] Rose, Friedman and Milton (1980). Free to Choose, page 57

firms for export-promotion. These incentives come very close to the relative prices of the products that exist in a situation of free trade.

The main proponent of this theory is Jagdish Bhagwati. Bhagwati cites the cases of India and South Korea to justify the superiority of liberal regimes and the dangers associated with protectionism. A comparative study of the growth figures in the two countries suggested that South Korea after adopting export-oriented policies since 1960s developed rapidly, while the Indian economy remained stagnant during the same period due to its protectionist policies. South Korean manufactured products, negligible in 1962, amounted by 1980 to nearly four times that of India[6]. In Bhagwati's view, the contrast in success with industrialization have been so enormous between the industry –liberalizing and the protectionist nation countries that the old-fashioned view that protection favors manufacturing in developing nations has lost its appeal. [7]

The glaring contrast between the free market and simulated market approaches lies in views regarding state intervention. The Simulated market theory pointing towards an active role played by the government in export promotion and providing moderate incentives to the private entrepreneurs refute the claim made by the free market proponents that minimal government interference in the market is necessary for industrial success. The financial incentives must be allotted selectively to those industrial sectors that have a comparative advantage in the international market. The free market advocates ignores the vitality of such a selective process. [8]

The government's credibility lies in its commitment towards maintaining a policy framework that enhances the export-promotion strategy. The government would loose its legitimacy if it drifts away from this strategy. According to Bhagwati, the Far-East Asian governments issued prescriptions to private entrepreneurs, while countries such as India did just the opposite. [9]He further goes on to say that the government of 'dos' generally produce economic performance superior to that produced by the

[6] Jagdish, Bhagwati (1988). *Protectionism*, Massachusetts: MIT Press, 1988, page 93
[7]Ibid., page 93
[8] Robert, Wade (1990). *Governing the Market: Economic Theory and the role of Government in East-Asian Industrialization*. New Jersey: Princeton University Press, page 29
[9] Jagdish, Bhagwati (1988). *Protectionism*, Massachusetts: MIT Press, page 98

government of 'don'ts'.[10] Even if it is taken for granted that the prescriptive government may prescribe as badly as proscriptive governments, the latter will have no scope for initiatives, while the former would still keep open areas where initiatives can be taken. The prescriptive governments keep areas open for entrepreneurial activities and technical change, while proscriptive government stifles all such initiatives resulting in stagnation of the economy. Proscriptive governments exhibit an adverse relationship with private capital. India has been cited as glaring example of a proscriptive government. The lack of autonomy to the private entrepreneurs in India created disenchantment with state capacities to promote industrial transformation.

The Neoclassical theories seem to ignore the constraining factors on the capacities of state to follow an independent industrial strategy. The theories are societal-reductionist in nature. There is greater emphasis on the autonomy of private entrepreneurs vis-à-vis the state officials in promoting industrial transformation. The institutional constraints on the capacity expansion of private business have also been neglected. The role of ideology and political institutions has been highly significant in driving the pace of industrialization in India. These theories fail to provide a framework that explains the contradiction between policies that are in the interest of the larger interests of the society and those that seek to promote rapid growth through state-capital alliance in a democratic nation like India.

Neostatism

The Neostatist school of thought, as mentioned earlier, assigns a center stage to the state in promoting industrial growth. It delves into the capacities of state in making policies independent of the influence from any particularistic group of the society. The scholars study the internal political dynamics of policy making in the arena of industrialization. The scholars advocating these ideas attempt to compare the role of Third World states in devising diverse strategies to bring about rapid industrialization

[10] Here the government of dos refers to the liberal regimes and the government of 'don'ts' refer to regimes following protectionist policies.

and modernization of their infrastructures. By analyzing the capacities of state one can determine the reasons behind the differences in levels of development.

The Neostatist school of thought can be classified into two types, namely the 'Governed –market approach 'and 'state in society approach'. The distinction is made on the ground of their understanding regarding the nature and quality of state intervention and the relative autonomy of state vis-à-vis private entrepreneurs transnational actors and labor.

The Governed-Market theory

The main proponent of the governed market approach is Robert Wades and Alice Amsden. The core assumption of the theory is that a corporatist relationship between the state and the private capital is a precondition for building a potent industrial structure. Wades emphasizes the developmental virtues of a 'soft authoritarian states' in East Asia. In an attempt to compare the role of states in East Asia and other developing nations of Asia and Latin America he reaches a conclusion that the presence of a centralized bureaucratic state in countries like India and Indonesia had sufficient capacity to influence the allocation of resources in proper channels. However, due to mutual hostility between the state and private capital the developmental objectives could not be achieved.

The governed market theory prescribes a greater reliance on export-oriented strategies to accrue the benefits of international market. The theory does not completely abandon protectionism, especially in situations where the prevailing conditions of the international market is not conducive to the promotion of certain industrial sectors.

The theory clearly states that the strategy of export-orientation and protectionism through import-substitution are not mutually exclusive. At the individual level both the strategies can be complimentary. Development of the supply side of production through import-substitution may be a prerequisite for demand-side growth of exports. For instance, during the initial start-up of the automobile industry in Japan, the state followed an import-substitution strategy. The economic rationale for the adoption such a strategy lay in the monopolization of the sector by American firms in the international market. Subsequently, the local automobile firms became well equipped to produce high quality cars for the domestic market. After reaching a certain level of efficiency an excess capacity was created with the increase in supply of the cars for the domestic market. This excess capacity was utilized in catering the international market through exports. Thus the most effective strategy would be to provide adequate protection to the industries at their initial start-up and gradually open them up to international competition after attaining a certain level of competence.

The larger question that has been addressed by the theory is that the significance of promoting rapid industrialization lies in the administrative and political capacities of states to govern the market. To achieve this, a coherent set of institutions to coordinate the efforts of private firms, public sector units and the foreign firms is essentially required. Robert Wades goes to the extent of suggesting that an effective strategy would be to develop corporatist institutions before the system is democratized. In one of his prescriptions for qualitative industrial performance, Wade observes that,

"State effectiveness depends on the coherence of state policies, which is difficult to maintain when important parts of the state are beholden to sectarian, regional and ethnic interests. Effectiveness is therefore a function of the degree of autonomy from the surrounding social structure." [11]

Alice Amsden regarding takes a more radical stand regarding state control over the market. According to Amsden the state in relatively successful economies like South Korea played the role of a guardian by directly assisting the firms in promoting their exports in the international market. In such states there existed a system of performance appraisal on a regular basis. The incentives were provided on the annual performance of respective firms in the export arena. The state lacked the capacity of providing such assistance to private capital in the less developing economies like India.

The preoccupation with state's active intervention in the economy and the advocacy of insulation of state structures from the social structures poses difficulties in understanding the domestic and external constraints on the state in formulating

[11] Robert, Wade (1990). *Governing the Market: The Economic Theory and the Role of Government in East Asian Industrialization. New Jersey: Princeton University Press,* page 375

policies independently. The theory falls short of explaining the impact of social dislocations within the society that inhibits state's active intervention in the economy. There lies a contradiction between the advocacy of insulation of state from societal ties i.e. disassociation from the interest groups and the suggestion to follow the politics of gradualism in devising new industrial strategies. [12]

State in Society Approach

The state in society approach recognizes that the autonomy of state in policy making operates within a framework of varied patterns of association with the societal actors. The main proponents of this approach are Joel Midgal, Peter Evans, Atul Kohli, Vivek Chibber, Theda Skocpol and Stephan Haggard. This approach delves into the varying patterns of state capacities in the Third World countries in promoting general welfare of the society.

Joel Midgal locates state's autonomy in framing rules, regulations and policies within a larger framework of state-society relations. State has been portrayed as a purposeful organization with autonomous goals, using legitimacy as a successful tool in maintaining social control and implementing appropriate policies. The depiction of the 'nature of state' has been termed as 'image'. The image of the state can be located in boundaries maintained at two levels, which are as follows:

1. Territorial boundary i.e. demarcation between state and the other states.
2. Social boundary, which refers to the demarcation between state, public actors and its agencies and those which are subjects of its rule. It is this distinction that has significance for domestic policy making.

The other aspect that defines the role and performance of states has been called as 'practices'. Practices refer to the policy outcomes that arise out of a continuous process of interaction between the state and the societal actors. The practices are significant in either preserving the image of the state or weakening it by neutralizing the public-private boundaries. The legitimacy of the state is sustained as long as the

[12] Political gradualism states that liberalization should be attempted in a piecemeal fashion to avoid opposition from many interest groups especially those whose support is important for regime's survival. See page 369, Robert Wades, *Governing the Market*

rules, regulations and policies are widely accepted. On the contrary, the rejection of the same leads to disruption of the image of state. The practices reflect the ground reality in multifaceted forms and reflect the success or failure of public policies.

Practices are often at odd with the image of the state. In such cases various elements or fragments of the state ally with one another as well as groups outside to further their goals. Midgal points out that such alliances set the rules of game which are predominantly contradictory to state's own official laws, rules and regulations.[13] In case of India in the late 60s, it is observed that the existence of a highly regulatory policy framework is consequent upon Congress's alliance with the Left parties and its support base in the trade unions and small business associations. The policies sidetracked the private entrepreneurs in the name of people-friendly, populist policies. It ultimately led to high levels of industrial stagnation by the mid-70s.

At the other level, the state's image is sustained by a continuous process of negotiation between the state and the transnational actors such as foreign firms or multinational companies. The political bargaining that takes place between the state and foreign firms determines the relative autonomy of the state vis-à-vis such international forces. In some cases, a direct linkage is observed between the local firms and the foreign counterparts such as foreign collaboration, foreign equity participation etc.. In such collaborative ventures the state has a greater role to play in setting the conditions of association and interactions. For instance, after the computer industry in India attained a certain level of competence the state acquired a greater bargaining power in setting stringent conditions for foreign-equity participation in this sector.

Although, Midgal's project addresses the question of state's role in preventing social dislocations without delving into the aspect of economic transformation, it nevertheless provides a useful analytical framework for understanding the interactions between the state and societal actors in the arena of industrial-policy making. As he points out the following:

[13]Joel, Midgal (2001). *State in Society: Studying How States and Societies Transform and Constitute One Another*, Cambridge: Cambridge University Press, page 20

"The state is hemmed in –indeed transformed by the internal forces, as it is by he international forces. But society is also transformed in the process. Social organizations and the structure of the society as a whole are molded by the opportunities and impediments the state presents."[14]

Peter Evans advances the concept of 'Embedded Autonomy' to understand the role of state in promoting industrial transformation in the peripheral nations. The state assumes an autonomous role in framing industrial policies. However, the state is embedded in a concrete set of societal ties. The decisions are made within a broader framework of state-capital alliance. The states that approximate closely to embedded autonomy thesis are truly developmental in nature. The empirical study of the states in South Korea, India and Brazil conducted by Evans leads him to the conclusion that South Korea comes closest to embedded autonomy, while India and Brazil provide intermediate cases exhibiting partial or imperfect approximation of embedded autonomy.

Although the embedded autonomy thesis provides a deep insight into the interaction between the state and capital and the policy outcome of such interactions, it falls short of understanding the internal political dynamics of industrial policy making in a democratic nation. The policies directly concern the interest of other groups as well. It would be a fallacy to understand industrial policy making as a one-sided interaction between the state and industrialists. There are other social groups like, labor, middle classes and small business associations, which have higher stakes in the process. Any radical shift in policy framework is bound to create resentment in one group or the other. Therefore, emulation of an authoritarian model by a democratic state in promoting industrial transformation is difficult to accomplish. While in authoritarian states any sort of agitation by the societal groups can be easily suppressed; in a democratic nation adoption of such repressive measures is detrimental for the survival of political regimes.

The argument advanced by Peter Evans approximates closely to Atul Kohli's understanding of state-led development. Kohli also tries to give an explanation of 'what kind' rather than 'how much' intervention by the state in the market by evaluating the capacities of the governments in India, Brazil, Nigeria and South Korea. In Kohli's view there is a range of variation in the state capacities to pursue industrial transformation,

[14] ibid., page 57

from fairly effective, growth promoting state in South Korea to rather ineffective and corrupt state in Nigeria, with India and Brazil providing mixed cases. [15]Kohli delves into the patterns of state authority, including how the politics of the state is organized and how state power is used. In his view, the pattern of politics, bureaucratic organization has a decisive influence on the economic context within which private decisions are made.[16]

Kohli provides a classification of states of the Third world countries to present deeper insights into the political factors that determine state's ability to pursue economic growth. While South Korea could be classified as a cohesive-capitalist state; India and Brazil till the mid 70s would fit well into the 'multiclass fragmented state' category'. In a cohesive-capitalist state commitment to higher growth coincides with the profit-maximizing needs of the private business. The state is able to facilitate industrial growth by reducing the demand and supply constraints on the private business. In a multiclass fragmented society like India policy intervention is aimed at not only promoting growth but also enhancing legitimacy and short-term welfare provisions. The two aims are often at odd with each other.[17] Policies, which are undertaken to expand the political base at the cost of pursuing high industrial growth often, create hostility between the state and private capital. Most of such policies are regulatory in nature accompanied by a host of physical controls on the activities of private entrepreneurs. The resultant effect is lack of interest on the part of promising industrialists to invest in productive ventures and to mobilize a cheap and docile labor force. The latter is difficult to accomplish because the adoption of repressive measures by the state to control labor may result in popular backslash.

Vivek Chibber also locates the central role of the state in the late developers in Asia, Latin America and Africa in the enormous programmes of developmental planning. The differences in the level of industrialization in these countries have been on the ground of the institutional capacities of the state. The political institutions are seen as necessary instruments in coordinating the efforts of the local firms. According to Chibber the difference in quality of state intervention is explained by state's ability to formulate and implement policies in a coherent fashion and to impose discipline on private firms.

[15] Atul, Kohli (2004). *State Directed Development: Political Power and Industrialization in the Global Periphery*, New York: Cambridge University Press, page 2

[16] ibid., page 2

[17] ibid., page 14

Where South Korea and Taiwan succeeded in this task, the states in South Asia and Latin America did not.[18]

In Chibber's view, the state's institutional capacities can be evaluated on three grounds, namely, the existence of a coherent bureaucratic framework; functioning of nodal agencies such as banks, ministries, departments etc; and the degree of state's embededness in the industrial sectors.[19] A Rational bureaucratic framework is essentially required for the implementation of policies. This is followed by the establishment of a host of nodal agencies that must function in a coordinated manner. The conflicts between such agencies disrupt the cohesiveness of a developmental state. Lastly, state's embededness in the industry is essentially required for a continuous flow of information to provide basic inputs for policy formulation and set performance standards for the local and foreign firms.

The primary focus of Chibber's argument is on the political factors that inhibit state-building and the resultant failure to promote industrial transformation in India. He clearly points out that the internal squabbles within the Congress party which finely resulted in Congress split in 1969 and dogmatic commitment to socialist ideology served to stifle local entrepreneurial initiative.[20]

The Globalization Argument

The globalization argument advanced by Baldev Raj Nayar, Robert Wades and Pallan and Abbott holds the assumption that, it was the impact of the ever-increasing influence of economic globalization i.e. a tendency of the market towards relentless expansion to bring the entire globe under its reign that led some of the countries in the third world to rethink their industrial and trade strategy. The movement on the path of globalization involved reduction in financial costs and large increment in benefits flowing from international economic transactions. The benefits of globalization propelled the East Asian states to integrate their economy with the international market. On the other hand

[18] Vivek, Chibber (2003). *Locked in Place: State Building and Late Industrialization in India*, New Jersey: Princeton University Press, page 7

[19] ibid., page 19

[20] ibid., page 25

countries like India and Brazil, following protectionist policies in the 60s and 70s remained unsuccessful in harnessing the benefits.

Robert Wades also observes that the East Asian states like Taiwan, South Korea and Japan made inroads into western markets when the growth in world output was high. The international market in the late 60s and the early 70s was in an expansionary phase.[21]While the East Asian states made full utilization of the incentives provided by the international market by adopting export-oriented industrial strategies, countries like India and Brazil failed to do so by following protectionism and high levels of regulation on the private sector.

The growth in world output plummeted from 41% in 1970-79 to 2.6% in 1980-87. Protection in the markets of the developed nation accelerated in the early 80s. [22] India began opening up its economy to the outside world in the early 80s when the conditions were not ripe to harness the benefits of globalization. However, even in the 80s external liberalization was not in the immediate agenda. The first step was to increase pace of domestic liberalization followed by opening the market to external competition. [23]

Pallan and Abbott examines suggests seven competitive strategies adopted by the states in both the developed and developing world to reap the benefits of globalization.[24] The important fact that these scholars observe is that the state acquires a center stage in devising strategies for global integration. According to Pallan, this new incarnation of state in the global world represents an 'institutionalization of globalization in the state system'.[25]Pallan and Abbott states that, the system of states has accommodated itself to the process of globalization and provided the institutional infrastructure upon which globalization and markets function. The state and the global world are mutually reinforcing. The states initiated industrial transformation by harnessing the opportunities provided by the global market and that globalization itself induced a transformation in the

[21]Robert, Wade (1990). *Governing the Market: The Economic Theory and the Role of Government in East Asian Industrialization*, New Jersey: Princeton University Press,, page 346

[22] ibid., page 347

[23]Atul, Kohli (April 1, 2006), " Politics of Economic Growth in India: 1980-2005", *Economic and Political Weekly*, page 1257-1258

[24] Competitive strategy has been defined as a set of policies that are explicitly aimed at improving the climate of business, national or multinational companies, and hence at enhancing competitive advantage of such countries in the global economy.

[25] Palan, Ronen and Jason Abbott (1999). *State Strategies in Global Political Economy*, New York and London: Pinter Publications, page 6

nature of state in the process. On the other side, the global market has restructured itself by the inclusion of the new developmental nations in the third world within its rubric. National distinctiveness and uniqueness has been emphasized as a consequence of socio-economic settlements between social agencies and institutions within the national boundaries. In other words, the relation between capital and labor, state and firms, capital and capital etc. is said to have influenced the contours of industrial policy making significantly. However, policy making in the states have also been affected by changes in the global environment. Some nations have had a positive response to such changes while others have been left behind in the global race. This fact is clearly reflected in the export-oriented policies of the East Asian states in the early 60s and the regulatory, inward-looking strategies of India and Brazil during the same period. In the latter states, especially in India the realization came as late as the early 80s when the political dynamics of global integration found its initial start-up. This transnational dimension of industrial policy making acquired further momentum under the leadership of Rajiv Gandhi. Business in India since the mid-80s attained a novel dimension with greater engagement between state, local firms and foreign enterprises.

Indian Case Study

Since independence the Indian state has acquired a center stage in determining the pattern of industrialization. The task of bringing about rapid industrialization has been in the topmost agenda of the political leadership. The underlying objective in promoting industrialization was to generate employment; build up the infrastructural base; make the Indian society self-sufficient in resources; equitable distribution of wealth and technological advancement.

A high level of politicization of industrial policy making has characterized the period between the end of 60s and the mid-70s. The new political alliances of the ruling part determined the direction of industrial policies. The ever-increasing dissensions within the Congress ultimately resulted in its split in 1969. The advancement of a policy framework featuring high levels of regulation, protectionism and restrictions on the capacity expansion of large business bodies is consequent upon the vested interests of the ruling party and its alliances to expand their political base amongst the labor and the small business associations that emerged as politically significant groups during this period. The appeasement of such interest groups through populist strategies was thoroughly a political agenda of the political leadership. In Atul Kohli's view, the new model of development adopted in the 70s was accentuated in a populist direction. [26]The quality of state intervention in the economy in the 70s has been characterized by a hostile relationship between state and big business groups. The Indian state clearly deviated from the framework of embedded autonomy, as the autonomy of state in determining the goals of industrialization could not be complimented by an equal intent of state-capital alliance. The ideology of socialism has been a distinctive driving force behind the industrial policies adopted by the Congress government in the early 70s. The new alliances of the Congress party strengthened its adherence to a socialist pattern of industrialization. There is a strong complimentarity between the adoption of socialism as a guideline to the new developmental strategy and a populist direction of policy making. There was greater emphasis on devising strategies for enhancing redistribution than providing investment opportunities to the industrialists to promote rapid industrial growth. In the process, technological advancement got sidetracked and industrial stagnation followed.

The early 80s is marked by a decisive shift in India's political economy of industrialization. The political leadership in the 80s sought an alliance with the big business groups in promoting industrial growth. The transformation in the attitude of the government is clearly reflected in the industrial policy statements of the government and the recommendations of various committees installed by the government to review the financial, trade and industrial policies.

The pace of liberalization attained greater momentum under the leadership of Rajiv Gandhi. The nature of the quality of state intervention undergoes a transition with greater efforts at forging links with the big business bodies and the emerging new middle class. The government comes up with policies that are conducive to the expansion of big businesses and caters to the interest of the new middle class. The new technological drive of the government also provides a unique dimension to industrial policy making during this period.

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[26] Kohli, Atul, Kohli (April 1, 2006), "Politics of Economic Growth in India: 1980-2005", *Economic and Political Weekly,*August1, 2006, page 1257-1258

The Indian case exemplifies an exceptional depiction of how a balance is struck between the adoption of populist policies like adopting redistributive measures, nationalization of industries and banks etc. and business-friendly policies that facilitate industrial growth in a democratic set-up. Any kind of disturbance in the equilibrium may threaten the position of ruling elites resulting in political instability. The nature of state undergoes a transformation with changing ideas, new class formations, new alliances, changing global scenario and intermittent economic and political crisis.

Chapter III

Industrial Policy between 1966 and 1977: An Era of High Regulation

India's industrial and economic policy has been a subject of considerable debate among economists, political scientists and policy experts. There has been a widely held view, both in official circles and academia that poor performance of Indian industry for more than a decade following the mid-60s stemmed from the developmental strategy and policies pursued by the government; which has emphasized capital goods production and import substitution under the aegis of stringent physical controls and regulations.

The most striking feature of most discussion concerning Indian industry relative for instance to the analysis of industrial performance in the developed countries of developed countries is an overwhelming focus on the role of played by the government in leading a heavy industry based industrialization pattern. The policy framework adopted by the government was strongly driven by the socialist philosophy. Over a period of time, since the inception of Congress rule in 1947, the nature and scope of intervention by the state in the industry has widened.[1] The task of charting out relevant policies for industrialization was entrusted to the Planning Commission established on March 15, 1950. It was allocated an advisory role and was meant to be an adjunct to the cabinet. The industrial policies in India have been formulated and altered subsequently in various Industrial policy resolutions, five year plans and various Acts like MRTP and FERA. These policies reflect the nature of government intervention in the industry, bureaucratic stranglehold, state-business relationship and the attitude of government towards the foreign companies operating in India.

The focus of this chapter is on the nature of power politics that existed and evolved in multifaceted forms engendering economic malaise at different junctures. Interestingly, this process coincided with the political ascendancy of Indira Gandhi in

[1] S.S, Marathe (1989). *Regulation and Development: India's Policy Experience of Controls over Industry,* New Delhi: Sage Publications, page 13

the country. The new ideas of the political leadership based on high levels of regulation on private sector; expansion of public sector units; greater incentive for small businessmen vis-à-vis their large counterparts; equitable distribution of wealth through redistribution; strict regulation on foreign firms and an inward-looking technology policy is well reflected in various Acts of the parliament such as Monopoly Restrictive Trade Practices, Foreign Exchange Regulation Act, Industrial Licensing policy, technology policy and recommendations given by various committees installed for the purpose.

The industrial policies advanced by the government between 1967 and 1973 were conditioned by the political alliances of the ruling party and the pressing need to build popular support for such policies. The new power configuration with the conservative faction on one side and Mrs. Gandhi supported by the social radicals and the ex-communists in the party on the other significantly defined the contours of industrial policies. The various policies advanced at this stage brought a whole lot of restrictions on the big business houses.

The ideology of socialism provided a strong impetus for greater state regulation on the private sector. The policies advanced by the government clearly reflect its socialist agenda of building a powerful public sector to meet the demands of the economy. The state emerged as an autonomous actor in defining the limits of private sector participation in industrialization of the country. A greater reliance was placed on the public sector units for building industrial assets of the country.

The industrial policies of the government encumbered the private sector, especially the large business houses with a spate of restrictions on capacity expansion and investment in new industrial projects. The suppression of the efforts of large businesses to create space for the small ones occluded all the doors for industrial growth. Jagdish Bhagwati has elaborated the contribution of the large industrial bodies like Tatas in industrial development during colonial rule. He says that, "Indeed, it is true that by 1914, British steel exports were already over a million tons year, but it was also difficult to imagine that it could build a modern steel plant and compete with the British steel, especially when techniques and skills required were complex, and prospect of tariff protection by the British imperial government, if required when operation began were dim. But, Jamshedji Tata had the tenacity which was to be eventually crowned with success."[2] The most spectacular and far-sighted initiative and enterprise were shown by the Indian entrepreneurship by the early 1900s, when, against tremendous odds and with great tenacity of purpose Jamshedji Tata was to realize his grandiose dream of India's first steel plant in 1911. The negligence on the part of government in the late 60s and early 70s towards the promotion of these large industrial bodies resulted in industrial backwardness and economic stagnation. As Jagdish Bhagwati points out that, "as the world had turned more universally into democracy it is hard to recollect that India stood almost alone in Asia, Africa and Latin America, in her strong commitment to democratic institutions of free elections, an independent judiciary and a free press. However, India's political virtue must be applauded for itself; it cannot be invoked to justify her relative economic feelings".[3]

The interests of the party in securing its vote bank within the intermediate classes largely drove the preferential treatment extended to the small businesses.[4]The small businesses formed an integral part of the intermediate class. In these the ownership and management rested in the same hand. The classes prospered and flourished under the aegis of inflationary conditions created by the monetary and fiscal policies of the government. Exploiting the political situation to their greatest advantage, theses classes resorted to evasion of taxes channeling a large part of government revenue into the black market.

This chapter attempts to understand the changing ideological grounds and alliances of the ruling party in the 70s and the consequent impact on the industrial policies. There seems to be greater likelihood of finding a causal relation between the policies of the government exhibiting predilection towards certain classes and industrial stagnation and economic backwardness. The policies of the government and its impact on industrialization as a whole can be looked through a prism of various physical

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[2] Jagdish Bhagwati and Padma Desai (1970). *Indian Planning for Industrialization: Planning for Industrialization and Trade Policies since 1951*, New Delhi: Oxford University Press, page 28

[3] Jagdish Bhagwati (1993). *India in Transition,* New Delhi: Oxford University Press, page 20

[4] Prem Shankar Jha (1980). *India: A Political Economy of Stagnation,* New Delhi: Oxford University Press, page 95. The intermediate class or the self-employed class existed between the large-scale professionally managed capital enterprises I the private sector and the organized labor. The self-employed classes included small and medium scale industrialists.

controls and regulations such as industrial and import policing, nationalization measures, technology policy, foreign collaboration approvals and price controls. The study of industrial policy during the Indira Gandhi regime necessities a sub-division of the period into pre-emergence phase, starting from the late 60s till 1973 and the emergency period following it.

Phase-I

Political scenario

The end of 60s suffered with exuberant political turmoil as a result of unrestrained political bickering between Indira Gandhi supported by the left and the old leadership within the Congress party representing the 'Syndicate'. [5]The Syndicate group had secured the appointment of Indira Gandhi as Shastri's successor. It was a widely held belief that a young amateur leader would easily comply by collective leadership of the group, and the decision-making would be strictly based on consensus. The preconceived notion about the new leader's docility was soon impugned by her decision to devalue the currency in 1967 as a result of the impending political crisis. Both, the left and the right factions condemned devaluation overtly. For the Left, it was seen as a step towards the rebuttal of socialist ideology. In Francine Frankel's view the attack on devaluation cut across ideological lines. Jan Sangha and Swatantra party raised serious objections to this measure finding it debilitating for the economy and honorable politics. The Communist Party of India saw it as a move in the direction of succumbing to U.S pressure and a big mockery of Nehruvian strategy.[6]

The internal dissensions created much havoc in that it had a direct impact on the industrial policies of the government. As Corbridge and Harris point out that, "the Congress party, Nehru's instrument for the modernization of India, and the unity of which he had seen as more or less synonymous with the unity of the country was shattered in 1969 as a result of struggles for power between his daughter and the old

[5] The syndicate group of state leaders, headed by Kamraj from Madras, Atulya Ghosh from West Bengal, S.Niglingappa from Karnataka, Sanjeev Reddy from Andhra and S.R.Patil from Bombay.

[6]Francine, Frankel (1978). *India's Political Economy: 1947-77*, New Delhi: Oxford University Press, see page 299

leadership of the party."[7]The ambitious design of modernization that Nehru had envisaged in his mind was completed obliterated by factionalism within the Congress party on the ground of ideas and policies. The ongoing struggle ultimately culminated in a split within the Congress party in1969. The Congress was reduced to a minority government but remained in power with the support of the Communist Party of India and the DMK. In order to continue in power, Indira Gandhi had to make certain comprises with the ideology of the Congress that showed a strong commitment towards a mixed economic system. The political situation demanded an accord with the Left ideology. Any liberal move on her part like devaluation of Indian currency could have endangered her position.

The 1971 elections brought massive victory to the Congress party under Indira Gandhi. The Congress won 352 seats, capturing two-third majority in Lok Sabha. Swatantra party's seats plummeted from 44 in the previous elections to eight in the 1971 elections. Jan Sangha could retain only 22 seats compared to 35 in the previous elections. As Nayyar observes that, Mrs. Gandhi's victory in 1971 was built on a strategy of broad aggregation of support from the poor and the marginalized sections of the society on her promise to eliminate poverty; and the Scheduled Castes and minorities on her strict adherence to the norm of secularism and egalitarianism.[8]Within the Congress, the Left gained a critical strength with some 60 to 80 members of the party's new contingent constituting a determined hardcore of the Left. Moreover, within the Congress Left ex-communists had a strong and strategic position.[9] For instance, their leader S. Kumaramangalam, who became the Minister of Steel and Mines, was the instrumental person behind the nationalization of the industries in the early 70s.

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[7] Stuart, Corbridge and John Harris (2001). *Reinventing India: Liberalization, Hindu Nationalism and Popular Democracy*, New Delhi: Oxford University Press, page 67

[8] Baldev, Raj Nayar *India's Mixed Economy: The Role of Ideology and Interest in Development*, (Bombay: Popular Prakashan, 1989), page 293

[9]Francine Frankel, *India's Political Economy: 1947-77*, see page 407-408. Some individual members of the Communist Party of India, including S. Kumaramangalam disillusioned with CPI's anti-Congress electoral strategy in 1962, and again, in 1968, allowed their membership to lapse. They then joined the Congress party. The ex-communists represented a more radical rank-and-file inside the Congress and put pressure to dislodge the conservative elements of the Congress from key positions and force the implementation of socialist programmes. The ex-communists continued to have strong links with Soviet Union for political support.

In this political background, Mrs. Gandhi emerged as an unchallengeable leader and India entered a new era of 'personalization of power'. This period has been characterized as one, which is that of a strong disinclination towards the promotion of large businesses, and expansion of public sector enterprises in areas that existed under private control, through nationalization of banks and industries.

The episode of nationalization

The foremost step advanced by the government in pursuing its radical goals was nationalization of fourteen banks in 1969. Mrs. Gandhi justified her position in purely economic terms as well as in terms of broad objectives that had to be pursued to ensure that hopes and aspirations of millions of people are not sacrificed. It was seen as an unprecedented step towards restructuring the financial institutions within the country. While the nationalization of banks was widely welcomed in the government quarters, it sent shock waves to the large industrial houses. As John Lewis observes that, "the action was welcomed enthusiastically by a variety of interest groups throughout the country representing the marginalized sections of the society, more prominently by the organized bank employees. [10]

Small industrialists or small business houses where ownership and management was combined in the same hand welcomed the new initiative. It represented a decisive, though a detrimental shift of the class basis of political power from the big bourgeoisie to petty bourgeois in the urban sector. In the parliament, the bank nationalization was bitterly attacked by the Swantra party, which had a strong inclination towards free enterprise and laissez faire economy.

Nationalization of banks brought a debilitating effect on the initiatives of large business houses. The FICCI as a representative body of large industrial houses reacted sharply to the issue. The president of FICCI declared it to be 'a hasty step, especially when banks under private control were working successfully'. He further

[10] John P. Lewis (1995). *India's Political Economy: Governance and Reform.* , New Delhi: Oxford University Press, page 169

said that it was not a well-considered decision and would adversely affect the economy.[11]The logic of coming up with such a drastic step was completely uncalled for especially when private banks were performing efficiently. The private commercial banks had provided a boost to industrialization in India. Its advances to industry had increased from 34% in 1951 to 63% in 1965. Moreover, there was no negligence on the part of private banks in serving the small-scale industry. An amount of Rs. 908 million was allocated as credit to small-scale industries by the private banks.[12]

The bank nationalization episode was more a consequence of the ongoing political conflict between Mrs. Gandhi and the Syndicate. It did not arise out of any grand deign of promoting self-reliance in the industry by the extension of government controls over banks. It centered on the most arduous issue of nominee for the post of party president between Indira Gandhi and Morarji Desai. As Lewis points out that, when Syndicate undertook early in July to challenge the Prime Minister on the issue of party nominee for the post of president, Indira Gandhi an enigmatic leader but a skillful tactician countered on another front. She advanced a series of economic reforms in the party's session that had already been kicking around for sometime. The bank nationalization struck a responsive accord with the party rank-and-file and consequently Indira Gandhi went ahead with the programme.[13]

Francine Frankel elaborates on the nature of power struggle that existed within the congress on ideological grounds. She provides a detailed historical analysis of the struggle that took place between the right wing conservative faction represented by the Syndicate and Mrs. Gandhi supported by the ex-communists and the social radicals within the Congress. Frankel observes that,

"The struggle inside the top leadership found expression in Congress's open challenge to the Prime Minister's authority in the key areas of government's economic policies. The substance of policy disagreement paralleled the ongoing ideological debate between the senior conservative leadership and the young radicals

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[11] Baldev, Raj Nayar (1989). *India's Mixed Economy: The Role of Ideology and Interest in Development*, Bombay: Popular Prakashan, See page 288

[12] Ibid., pg 285

[13] John, P. Lewis (1995). *India's Political Economy: Governance and Reform,* New Delhi: Oxford University Press, page 170

among the rank-and-file, and paved the way for an alliance between Mrs. Gandhi and the radicals."[14]

Mrs. Gandhi dismissed Finance Minster Morarji Desai, overruling the opposition of the senior bureaucrats and issued an ordinance in July 1969 nationalization of the country's fourteen largest commercial banks with deposits over Rs. 500 million thus bringing under public ownership commercial banking covering 85% of the country's deposits. The step was undertaken by Mrs. Gandhi in order to appease the Left within the Congress that acted as a countervailing force against the Syndicate. The Left most enthusiastically received the new arrangement as it accorded well with its ideological underpinnings. It also served as a device to preserve party's vote bank amongst the plebian masses, especially the rural poor and the organized urban labor force. After the setback suffered in the 1967 elections, Indira Gandhi was soon able to represent the image for change by her defiance of the Syndicate in the party and introduction of certain radical measures like bank nationalization and abolition of privy purses.[15]

The small-scale industrialists had built up the pressure for nationalization over the years. These industrialists, as mentioned earlier formed an integral part of the intermediate classes. Though, it would be a grave mistake to assume that the party was captured by this particular group as its prescriptions were much wider, there is no doubt in the fact that the policies wittingly or unwittingly favored the class through its policies. The small businesses also enjoyed a brawny support structure in the CPI and Congress Left. Instead of balancing the interests of the large and small businesses, the government favored the latter by putting a whole lot of restrictions on the former through its policies. The intent of the new government was well evident. There seemed to be greater dependence on the small businesses for industrial growth in the private sector. The large businesses sharply reacted to the predilection of the government towards small industrialists and predicted that the most evident consequence of this would be industrial stagnation.

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[14]Francine, Frankel (1978). *India's Political Economy: 1947-77*, New Delhi: Oxford University Press, page 401

[15] Balraj, Puri (January 26, 1985), "Era of Indira Gandhi", Economic and Political Weekly, vol. XX, no. 4, page 148

Bank nationalization was followed by a spate of industrial nationalizations leaving absolutely no scope for the growth of large industrial houses in these industries. While bank nationalization was an upshot of a conflict between Mrs. Gandhi and the Syndicate, nationalization of industries was pursued more smoothly as Congress had made a comeback in 1971 elections with a full majority. The victory of the country in the Indo-Pak war in 1971had strengthened the position of Mrs. Gandhi and had paved the way for following an independent policy. It was also during this time that the Indo-Soviet friendship was at its pinnacle with the signing of the Indo-Soviet treaty. An acumen towards the Soviet model of industrialization synchronized well with increasing engagement with the Soviet Union. Soviet Union became India's most important source of defense equipments. The Russians also increased aid and commitment for India's developmental plans, providing finance for heavy industrial projects in the public sector. Indo-Soviet trade agreement signed in 1966 expanded trade between the two countries based on commodity payments where Russians would take an increasing share of imports from India in manufactured goods.

The socialist and the populist drive of the Congress party and its alliances provided the necessary rationale for bringing certain strategic industries under governmental control. The nationalization of coal was one of the most radical steps undertaken by the government in the early 70s. It was a result of the initiative, enterprise and determination of the then Minister of Steel and Mines, namely, S.Kumaramangalam. He was an active CPI member who had joined Congress in the mid 60s. As Frankel points out that Congress party's decision to press for constitutional changes were written by Kumaramangalam. The rationale behind the nationalization of industries was grounded on subordinating certain individual rights expressed in articles 14, 19 and 31 to fulfill the urgent needs of the society as expressed in Directive Principles of State Policy. [16]

The nationalization of coal took place in two phases:

1. An ordinance on October 16, 1971 led to a take-over of the management of 214 cooking coal mines.

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[16] Francine, Frankel (1978). *India's Political Economy-1947-77*, New Delhi: Oxford University Press, page 468

2. These set of mines were nationalized in 1972[17]

The same method was followed for the next set of 464 non-cooking mines in 1973. Countering the justifications given by the government on this issue, the business exclaimed that collieries were functioning efficiently under private control. Over the years they were able to meet the overall requirements of the country in coal. They alleged the government of taking such a drastic step and warned that it would only result in poor quality and shortages in production.

Nationalization of coal was followed by nationalization of the steel company, namely, 'Indian Iron and Steel Corporation' on July 14, 1974. By advancing a presidential ordinance on July 14, 1972, the government took over the possession of this company from the 'Martin Burn Company' which managed the firm. Poor management and maintenance provided the rationale for public ownership of the company. Same reasons were advanced for the take-over of textile industries. The owners of these industries were held culpable for mismanagement and failure to mobilize capital for fresh investment. The group that benefited the most was the organized labor that felt that their interests could only be met if the industries were nationalized and run by the government. The nationalization of industries also catered to the aspirations of the small businesses by eliminating competition from the large industrial houses. In the wake of establishing its political hegemony and dogmatic adherence to the doctrinaire of socialism the Congress party failed to detect the imminent economic crisis resulting from industrial stagnation and its monetary and fiscal policies.

Taking the period since 1960 as a whole, it could be inferred that 1966 was a watershed in so far as industrial production in India was concerned. In contrast to the period of 1960-65 when industrial production increased at a steady rate of 8-10%, the industrial performance during the period 1967-73 has been highly uneven. There was a certain degree of recovery in 1968 and 1969 followed by two years of stagnation[18]

Table 1 shows the index of industrial production taking all the industries as an aggregate.

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[17] Nayyar, Baldev. Raj, *India's Mixed Economy: The Role of Ideology and Interest in Development*, Bombay: Popular Prakashan, See page 301-302

[18] *Economic Survey*, Government of India, 1973-1974, page 10

TABLE 1

MONTHS	1970	1971	1972	1973	1974
JANUARY	186.6	188.4	199.6	207.4	206.0
FEBRUARY	175.2	178.7	196.7	191.8	196.2
MARCH	188.5	192.4	208.0	211.3	210.3
APRIL	181.7	183.4	190.4	188.6	191.3
MAY	176.8	179.0	194.6	190.7	202.6
JUNE	179.0	182.7	196.8	192.2	202.4
JULY	180.0	187.3	196.8	199.1	203.5
AUGUST	175.1	183.5	198.7	204.9	
SEPTEMBER	178.6	185.0	197.9	199.3	
OCTOBER	173.0	182.0	203.3	194.2	
NOVEMBER	182.5	189.7	211.7	207.6	
DECEMBER	192.6	201.6	199.4	222.6	
JAN-DEC	180.8	186.1	197.7	200.8	
RATE OF GROWTH		(+2.9)	(+7.1)	(+0.7)	

Figures in the brackets indicate percentage change over the previous period[19]

Inference: It is clear from the data the index increased only slightly by 2.9% in 1971 from the previous year. In 1972, a sudden rise in the index of the order 7.1% is observed. In sharp contrast to 1972, 1973 witnesses only an infestiminal rise of 0.7% over the previous year. The ineffective industrial policy of the government was clearly reflected in the uneven pattern of industrial production.

[19] Source: *Economic Survey* 1973-74, page 10 and *Economic Survey* 1974-75, page 10

Industrial licensing

To achieve the objective of self-reliance in industrialization the government advanced a series of controls and regulations on the private sector. The overarching idea was to provide a protected market for the small-scale industry by putting a certain amount of restriction on the large industrial bodies through licensing. Industrial licensing is one of such instruments to prevent the creation and expansion of capacity beyond a stipulated limit. A license was required for establishing a new undertaking for substantial expansion of capacity on the existing line of manufacturing and manufacturing new item. [20]Small-scale industries and firms with original value of industries and firms falling below Rs.5 crores were exempted from procuring a license. The method of procurement was highly cumbersome.[21]

The Industries Act, 1951 provided the requisite framework for the licensing and regulation of industrial investment. The underlying objective for the introduction of industrial licensing was to thwart the concentration and monopolization of industries and create adequate space for the expansion of small-scale industry. The licensing system was meant to operate within a framework of targets, which was thoroughly worked out by the Planning Commission. Its function was therefore to ensure that, within this framework, the actual choice of plants, technologies etc were carried out in a manner which would guarantee social profitability than private profitability. The operation of licensing system was extended only to certain units over a certain size. But there doesn't seem to be any economic rationale in operations with such exemptions. Exemptions were designed basically to reduce the administrative load but it was not thought that such exemptions would interfere with the efficiency of planning.

The licensing system was an additional onus imposed on the large industrial houses. The licensing Raj, as various scholars often refer it, created a disincentive structure

[20] S.S, Marathe, (1989). *Regulation and Development: India's Policy Experience of Controls over Industry*, New Delhi: Sage Publications, See page 48

[21] For the procurement of a license a letter of intent for a fixed period was issued in the first instance. It is converted into an industrial license only when effective steps are taken in implementing the capacity. In some cases a letter of intent is followed by requirement of additional clearance for capital goods imports and foreign collaboration. As a follow-up of these steps the unit is permitted to apply for a loan from the financial institutions.

for the private entrepreneurs. It was subsequently employed as an instrument of aggrandizement of the power of bureaucrats, the political leadership and the technocrats recruited in the government departments. The industrial and import license served as an effectual tool in the hands of the government to institute the political hegemony of the ruling party. The licensing system had created a nexus between the political leadership, bureaucrats and the official technocrats, each of which had a vested interest in maintaining the system. As Bhagwati points out that, there was mounting evidence of the system's corrosive influence on moral ethics and the integrity of political and public life, as corruption was inevitably spawned by politicians and local level bureaucrats attempted to exploit the control system to their greatest advantage.[22]

The licensing system was laden with a myriad of institutional loopholes. To begin with the operation of the Licensing Committee was full of defects. There wasn't any explicit publication of a criterion for the procurement of an industrial license. The techno-economic examination of the proposed industrial investment was poorly conducted by the DGTD.[23] The quality of data received by the DGTD was neither consistent nor audited and therefore there was inadequate communication of the desired statistical or reference data to the respective industries. The DGTD's information processing system was not fully compatible with the needs of industries and government agencies. The incapacities of DGTD were not recognized until the Hazari Committee came up with a series of suggestions to reorient the functioning of the licensing system. The Hazari Committee called for a better and more effective use of technical servicing capacity of DGTD. It clearly stated that the organization was used several times over for scrutinizing a large number of amorphous proposals thorough various stages of their progress. It recommended the publication of a regular Bulletin by DGTD giving proper information on indigenous availability, present and future, of engineering and chemical products, especially on intermediaries and compare with landed costs or international prices of comparable products, together

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[22] Jagdish, Bhagwati (1993). *India in Transition,* New Delhi: Oxford University Press, page 56

[23] Directorate General of Technical Development was laden with the task of technical examination of the proposed industrial investment.

with import duties levied on them. [24] The principal ambiguity in the functioning of the institutions was unwanted delays resulting from inefficient administrative procedures. Bhagwati cites an example to illustrate it. He observes that six months was the average time taken for the disposal of cases as against five weeks suggested by the 'Swaminathan Committee'.[25]The Hazari Committee was installed in 1967 to look into the discrepancies in the functioning of the licensing system and suggest measures to eliminate them. It recognized various problems in the system. The process of consideration and reconsideration of industrial licenses were found to be cumbersome causing delays and high costs instead of improving the feasibility of the industrial projects concerned. It recommended that priorities and targets of industrial production should be clearly laid out. It further suggested that criteria for determining priority should not just be one which is consumer v/s producer but one that yields maximum benefit of incomes and net foreign exchange saving per rupee of investment.[26]

Though the Hazari Committee suggested some valuable measures to improve the licensing system, it showed a sharp proclivity towards the promotion of small scale industries by recommending ways to expand their capacities. In páragraph 29.1 the committee recommends that,

"As a matter of policy the government should declare that certain traditional industries shall be closed in future to the specified ten or fifteen large industrial houses and their associates. This would imply that the large industrial houses established in these activities shall not be permitted to expand in these areas, which would henceforth be reserved for small houses and independent businessmen."[27]

The report further suggests that in the event of a change in the coverage of industrial licensing or its practical abolition, the large houses should not receive any capital good import clearance or assistance from financial institutions for expansion of investment within the traditional industry. A clear-cut proclivity towards the small

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[24] "Hazari Committee Report on Industrial Planning and Licensing Policy", *Planning Commission,* Government of India, September 14, 1967,See page 24,

[25] Bhagwati and Desai (1970). *Indian Planning for Industrialization: Industrialization and Trade Policies since 1951,* Oxford: Oxford University Press, See page 261

[26] "Hazari Committee Report on Industrial Planning and Licensing Policy", *Planning Commission*, See page 2, Para III

[27] ibid., page 25, para 29.1

businesses is reflected in the suggestions made by the committee. The report concluded that large industrial houses, particularly Birla group, had preempted licensable capacities in many industries even as the system deterred new entrants.

The committee failed to recognize the contribution of large industrial bodies in industrial growth and economic development. It also did not address the problem of time delays in great details. The problem of red tapeism and corrupt practices embedded in the system were left untouched. The committee report ended up being an extension of the regulatory policies of the government supplemented with minor changes in the institutional framework. The parliamentary debates on the Hazari Committee report in Rajya Sabha and the events following it brought the CPI members and the social radicals of the Congress party together. The convergence of the two forces on the issue of imposing greater regulation through licensing provided political support for the new industrial licensing policy.

After intermittent altercations on the issue of industrial licensing, the parliament constituted the 'Industrial Licensing Policy Enquiry Committee', which came to be called as the 'Dutt Committee'. Since the committee comprised of some prominent Left members, it explicitly spoke in favour of expansion of public sector by putting more restrictions on the private sector through licensing. It recommended the reservation of certain industries exclusively for small-scale enterprise.

The Industrial Licensing Policy of 1970 incorporated all these recommendations by restricting twenty large industrial houses together with their individual firms from entering the core industries, the ones which were basic, critical and strategic for national economy, and also the heavy investment sector. [28]The list of industries for the small-scale sector was enlarged considerably; the policy envisaged a wide scale expansion of the public sector beyond the limits stated in the Industrial Act of 1951. The new policy also raised the threat of backdoor nationalization of private industries through governmental financial institutions converting their loans into equity in future. Under the new scheme the new undertakings or expansion of the existing units with investment of Rs.1 crore and less were exempted from taking a license.

[28] Baldev, Raj Nayar (1989). *India's Mixed Economy: The Role of Ideology and Interest in Development*, Bombay: Popular Prakashan, page 291

However, this exemption was not applicable to large industrial houses and the dominant undertakings as defined by the MRTP Act. In the middle sector, involving investment ranging from Rs 1 crore to Rs 5 crore, the application from large industrial houses were to be considered only in special circumstances. It was decided that in this sector special preference would be accorded to parties other than industrial undertakings belonging to large industrial houses.[29]

In 1973, the Ministry of Industrial Development conducted a study of pre-investment approval through industrial licensing and import licensing. The study delved into the institutional loopholes and recommended the establishment of the' Secretariat for Industrial Approvals'. The committee estimated that the backlog of applications for the letter of intent as on April 1, 1973 was more than 3,200. This was roughly equal to the annual inflow of applications. Around 280 foreign collaboration applications were awaiting their approval on the same date. The number of cases pending with the DGTD was not more than 10% of the total applications, which clearly indicated that the DGTD's comments were available in large number of cases still pending with the administrative ministries. [30]Also, the time lag for the capital goods clearance was calculated to be over one year. Major areas of delays were located in the administrative ministries and at the committee clearance stage, including the secretariats. The sequential process for procuring a license was cumbersome and time consuming.[31]Secondly, a multiplicity of agencies was involved in the process.[32]The institutional framework suffered with lack of accountability, lack of linkages between various agencies, lack of contact with the applicant, absence of a proper monetary system to keep track of time in the application process through various stages and unrealistic validity periods. The period of validity prescribed for the letter of intent and other approvals was unrealistic leading to considerable work in processing

[29] Fourth Five-Year Plan: 1969-74, *Planning Commission*, Government of India, page 308

[30] *Industrial Licensing: A Study of Pre-Investment approval Procedures, 1973*, The Ministry of Industrial Development, 1973

[31] ibid. Page 29. The process for procuring an industrial license begins with an application for letter of intent, followed by foreign collaboration clearance, capital goods clearance and finely the conversion of the letter of intent into an industrial license.

[32] There were almost nine agencies involved in the process of clearing an industrial license. These were: Administrative Ministry, DGTD, Developmental Commission, Small Scale Sector Division, CSIR, and State government, Planning Commission, Ministry of Finance, Department of Company Affairs and Ministry of Commerce.

requests for extension. Absence of clear cut norms or coefficients to determine the excess of capacity to be licensed in respect of different industries over and above planned targets; lack of proper feedback and information gap and repetitive consideration with multiple stages of imposing conditions were also recognized as major loopholes in the institutional framework[33]

In view of the various discrepancies embedded in the institutional framework, the committee recommended the establishment of the Secretariat for Industrial Approvals to enable the government to expedite the pre-investment approvals and function in a manner that yields maximum satisfaction to approval committees, administrative ministries and above all the private entrepreneurs.

The institutional innovation recommended by the committee was an improvement over the recommendations of the Hazari and Dutt committees. The suggestion for setting up of the SIA did provide a sigh of relief to the entrepreneurs from unwanted time delays and cumbersome procedures involved in procuring a license. However, the committee did not provide any suggestion for liberalization of licensing procedures for the benefit of large industrial houses. The committee report displayed only a half-hearted approach towards reorienting the licensing system. The common string that attached all the committees was empathy towards liberalization of the licensing system to the advantage of large industrial houses. At the end of the day, all these committees did nothing more than serving the interest of the party in power at the centre. The modifications made in the reports were only meant to deceive the private entrepreneurs and to demonstrate that the government was genuinely concerned about their interests. The institution of licensing grew like 'Frankenstein monster' under the cloak of political leadership and the bureaucracy. It served as a source of power for the ruling party at the centre.

The advancement of the' Monopoly Restrictive Trade Practices Act' in 1969 is one of the most significant moves on the part of the government from the point of view of state regulation of the private sector. It redefined the relation between state and capital. The objective of preventing excessive concentration of economic power was sought to be achieved, both by modification in the licensing policy with regard to

[33] Ibid., page 39

large industrial houses and through the enactment of the MRTP Act. The MRTP Act came into full operation in June 1, 1970. Clearance under the MRTP Act was necessary before industrial licenses could be granted to such firms that were already within the ambit of the Act, or were likely to be subject to its provisions after the inclusions of the schemes for which the licenses were sought.

The new industrial policy, as a whole, was oriented towards providing greater opportunities to the new entrants in the industrial field and to the small entrepreneurs. New undertakings, as well as expansion of the existing units, requiring an investment up to Rs.1 crore, were exempted from the licensing requirements under MRTP, subject to certain conditions relating to requirements of foreign exchange. In the category of industries requiring an investment from 1-5 crores, license was to be issued liberally to parties other than the large industrial houses and foreign concerns. The large industrial houses and foreign concerns were encouraged to start new units, or to expand older units, only where and when certain minimum export commitments were to be undertaken. Generally, the large industrial bodies, with assets more than Rs. 200 million or controlling one-third of the production were completely debarred from expansion or diversification but with a prior approval of the government.

The initiation of the MRTP Act was a direct upshot of the ideological battle between the Syndicate and the social radicals comprising the 'Congress Forum for Social Action' supported by Mrs. Gandhi. The advancement of the MRTP to check the monopoly of big business houses was actually initiated by the Congress Forum for Social Action that was inspired by the report of the Industrial Licensing Policy Enquiry Committee. The report endorsed the idea of curbing the excessive concentration of economic power by the installation of 'Monopoly Commission'. The commission was assigned to check all the new applications by large business houses and limit the entry of these entrepreneurs into new industrial projects involving an outlay of more than Rs. 1 crore. According to Frankel, the ideological drift created a political opportunity for Mrs. Gandhi to endorse the programme of the social radicals to project populist image for public support.[34]The note on key economic policies that she circulated endorsed most of the regulatory measures advanced by the Forum.

The Act armed the government with additional authority to diminish the concentration of private economic power and restrict business practices contrary to public interest. The additional burden proved to be extremely devastating for the future growth of large businesses. The imposition of various restrictions on the capacity expansion of large industrial houses resulted in lack of interest amongst them to invest in new industrial projects. It was assumed that the objective of self-reliance could be attained solely by the expansion of public sector. The objective of self-reliance had a much broader connotation that could be understood within a framework of public-private cooperation and state-capital alliance.

Technology policy, Foreign Collaboration and Research and Development

The area of technology transfer and foreign collaboration was yet another area where rigid steps were taken by the government to prevent unrestrained engagement with foreign companies. The main objective was to provide adequate protection to the industry from foreign competition and prevent the outflow of foreign exchange. There are mainly three sources of acquisition of technology required for the industrial development. These are as follows:

1. By developing an indigenous base for technology through research and development
2. Through collaboration with foreign companies for the inducement of sophisticated and advanced technology in the home country.
3. By directly purchasing or importing technology from abroad.

In the newly- industrializing nation some degree of engagement was required with the foreign companies to lay groundwork for research and development. Acquisition of technology is generally based on two principles which are 'essentiality' and 'indigenous non –availability'. Import of technology was to be permitted under each

[34] Francine, Frankel (1978). *India's Political Economy: 1947-77*, New Delhi: Oxford University Press, page 417

category only if some designated agency of the government certified that they were 'essential'. At the same time, some agency had to clear the imports from the viewpoint of indigenous availability: if it could be shown that there was domestic production of the import so demanded, imports were not permitted.[35]

The increasing influence of the Left and the small business lobby since the end of 60s had an unswerving impact on technology policy thinking. From a Leftist point of view, an uninhibited liberal import of technology and foreign investment was injurious to the balance of payment, indigenous technology development and sovereignty. It was also considered an easy way of dumping obsolete and inappropriate technology. The argument is quite valid to the extent that it advocates greater autonomy of the state vis-à-vis foreign companies and multinationals. Developing an indigenous base for technology with less dependence on import and foreign collaboration, is no doubt the most viable strategy in promoting technological innovation in the industry, however an initial start-up requires some degree of engagement with foreign companies in science and technology. As Arun Ghosh points out that, for better industrial production of capital goods and key intermediaries, what is required is upgradation of technology through the development of domestic R&D and design engineering and reduce dependence on imported technology.[36]Siddharthan's study of an international cross-section of ninety countries shows that that expenditure on R&D and skill formation is one of the important determinants in the levels of industrial development.[37]He goes on to suggest that in a developing country like India; imported technology is the main source of modernization and industrialization. Imported technology was mainly in the form of imported machinery and equipments. Therefore, R&D in such countries is more of an adaptive type concerned with adaptation of imported technology.[38]

[35] S.S, Marathe (1989). *Regulation and Development: India's Policy Experience of Controls Over Industry*, New Delhi: Sage Publications, page 37

[36] Arun, Ghosh (1992). *Planning for India; Challenge for the 90s*, New Delhi: Sage Publications, page 186

[37] N.S, Siddharthan (1992), "Technology, Modernization and Growth: A Study of the Corporate Sector 1975-83" in Arun Ghosh, et al eds., *Indian Industrialization: Structure and Policy Issues*, New Delhi: Oxford University Press, page 135

[38] ibid., page 136

The initial strategy of the government on technology was based on four overriding principles, namely, high growth, industrial and technological self-reliance, full employment and social equity. The underlying objectives demanded an interventionist role of the government in promoting technological innovation in the Indian industry. This massive task was therefore entrusted to the public sector. The new industrial thrust areas required huge financial resources. For starting production import of foreign technology through a protracted process of international negotiation was required. These products lacked ready demand and hence were regarded by private entrepreneurs as precarious, having low profitability. Due to these reasons the entrepreneurs felt hesitant in investing in technology and the intermediate goods. On the other hand, the government was reluctant in permitting foreign companies to take exclusive responsibility. Therefore, the only alternative was to assign the task to the public sector.

Though, earlier during the Nehruvian era the strategy was based on a hybrid of importation and indigenous development, in Mrs.Gandhi's reign coercive Acts like MRTP and FERA were enacted to put restrictions on the engagement of foreign companies. The number of foreign collaborations approvals fell sharply from 403 in 1964 to 241 in 1965 and remained under 400 for all years till 1979, exceeding 400 only in two years during the period. [39]Some of the foreign companies had to wind up their operations by 1978 due to a whole series of restrictions imposed on them by the new Acts.

While on one hand there was pessimism towards foreign collaboration and foreign investment in technology, the government did very little to develop an indigenous base for science and technology. The investment in R&D was miniscule as compared to other nations. In this case, the experience of East Asian countries has been exemplary. These nations followed a balanced approach towards the development of science and technology in their industries through innovation. It was based on the principle of 'learning by doing'. Where countries like Japan spent \$15 billion for technology import form 1965 to 1985; India acquired technology worth about \$4

[39] Kamal Nayan. Kabra (1990), "India's Developmental Strategy: 1950-90", in R.A.Choudhury, et al eds., *The Indian Economy and its Performance since Independence,* New Delhi: Oxford University Press, See page 12

billion during the same period, which is 1% of the industrial value added. Also, for every dollar of technology acquired Japanese firms have spent about 3 dollars on R&D, engineering and demonstration. In contrast, India as a whole, firms and laboratories spent about a dollar on R&D for every dollar of technology imported.

The result of government's inward looking technology policy proved to be detrimental for technological innovation and modernization in industrial production. In this regard, Sukhomoy Chakravarty observes that one widely diagnosed cause of India's growing lack of competitiveness in the international market is the so called 'technological-gap'. [40]The annual rate of growth on value added of the capital goods sector was 7.2% between 1960 and 1980. During 1961 and 1965, the rate was as high as 19.4%; it went down to -17.6% and -10.4% during 1966-68 and the fourth year plan respectively. However, in the fifth five-year plan a positive growth rate of the order 9.6% was achieved. The declining share of the capital goods production in total industrial production was due to 'technological-lag'.[41]

Emergency Period: A Shift towards Partial Industrial liberalization

The restrictive policies of the government in the arena of industrial development resulted in economic stagnation. By the end of 1974, India was also faced with a balance of payment crisis and it was compelled to approach the IMF for borrowings. If one adds the amount borrowed from the IMF, one would get the impression that the net foreign exchange had sharply declined by 485.3 crores during the first nine months of the financial year 1974-75. The excess of BOP over receipts represented a scintillating gap in our BOP during the period. During the first eight months of 1974-75 imports grew over exports indicating a towering trade deficit. The total value of exports in the first nine months i.e. April to November 1974 amounted to Rs.2026.8 crores while the imports valued Rs.2451.3 crores. The trade deficit figured around

[40] Sukhomoy, Chakravarty (1987). *Developmental Planning: The Indian Experiment,* New Delhi: Oxford University Press page 64

[41] Ibid., page 65

[42]Rs.224.5 crores as against Rs.105.3 crores in the first eight months of the financial year 1973-1974.[43]

During this period inflation was at its zenith. In Vijay Joshi's view the chief factor for the rise of inflation between 1972 and 1974 was the tremendous increase in the world prices of bulk goods such as fertilizers, food and oil. Oil prices started rising in October 1973 but its impact was felt only by the early 1974. Other exogenous factors causing inflation over which the government had little control were suspension of US aid, Indo-Pak war of 1971 and influx of Bangladeshi refugees.[44]These problems created an additional onus on government's expenditure.

It led to the burgeoning of black markets throughout the country where a large part of the government revenue got polled in illegitimate channels. In its institutional form, the black markets came to be termed as 'parallel economy'.[45]The Central Excise Review Committee known as 'Venkatappiah Committee' found in 1974 that tax evasion was almost universal in 21 of the 123 industries in which the government levied excise duties. Some 31 industries contributed 90% of the Central government excise revenues; the evasion was common practically in every industry.[46]Excessive price controls were a chief factor in encouraging black markets. It led to denial of profits to honest manufacturers and to discourage investment and capacity expansion. Secondly, the price controls created disincentives for savings and investments in innovative and new ventures by the private entrepreneurs. It is evident from the findings of Prem Shanker Jha that the industrialists, especially those belonging to the class of family-owned businesses, resorted to illicit ways of channeling money into the parallel economy. Entrepreneurs continued to apply for industrial licenses only because they could divert a part of their output in the black markets. Above all, a significant portion of the black money went to illegitimate activities like smuggling and only a miniscule part of it was used for productive investment.

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[42] Vijay Joshi and IMD Little (1994). *India's Macroeconomics and Political Economy,* Oxford University Press, page 108

[43] *Economic Survey,* Government of India, 1974-75, page 41

[44] ibid., page 106

[45]Prem. Shankar, Jha (1980). *India: A Political Economy of Stagnation*, New Delhi: Oxford University Press, page 45

[46] Ibid., page 49

Industrial production also fell sharply by the end of 1974. The actual rate of growth of industrial output figured 3.9% as against the targeted growth of 8% in the fourth plan. A shortfall was visible in most industrial sectors, predominantly consumer industries. In some industries, inadequate capacity creation and shortage of electricity, coal and steel immensely affected the growth of industrial production. [47] Continued sluggishness of industrial output affected public savings thereby limiting the expansion of public sector investment. The slow expansion of productive capacity was the key factor for shortfall in industrial production. It was estimated that for 40 major industries capacity utilization declined from 78% in 1968-69 to 70% in 1973-74.[48]In the private and corporate sectors, the fourth five year plan had envisaged a total investment of Rs. 2250 crores. However, it was found that investment in private sector had fallen short of plan targets. While the public sector failed to achieve its desired goals in industrialization; the private sector surrounded by a whole lot of restrictive policies could not make best use of its capacities. Black marketing and malpractices in the administrative circles, as discussed before perpetuated the economic stagnation. The ill effects of inflation and monetary policies of the government further worsened the situation. The labor unrest was widespread during this period. The poor sections of the society were directly hit by the hike in prices due to inflation. By April 1974; prices were 58% higher than three years earlier, having increased at the rate of 10, 12 and 30 per cent respectively.

The observation made so far approximates closely to Joshi's and Little's observation that the crisis had a political component and a macroeconomic component and he latter in turn had balance of payment component and an inflation component. These components interacted in a complex way.[49] The ongoing economic crisis and the resultant social unrest culminated into a political crisis by the end of 1974. The opposition under the leadership of Jayprakash Narayan launched a movement against the policies of the government. In response the government also retorted to coercive measures in dealing with the popular unrest. The railway worker's strike in 1974 was

[47] *Economic Survey*, Government of India, 1974-75, See page 11

[48] Ibid., page 13

[49] Vijay Joshi and IMD Little (1994). *India's Macroeconomics and Political Economy*, New Delhi: Oxford University Press, page 105

crushed badly. By the end of 1974 virtually the entire opposition with the exception of the Leftists had formed a 'National Coordinating Committee'.[50] It was during this time that Mrs. Gandhi's elections got challenged in the Supreme Court on account of electoral malpractices. Though the immediate cause of the emergency was allegation against Mrs. Gandhi elections; the new form of radicalization was a result of a conglomeration of factors such as economic instability, social unrest and the political impasse. It also came to be realized that the strategic influence of the Left in the Congress party had diverted it from its original agenda of promoting a mixed economy.

The twenty-point programme announced after five days of president's declaration marked the beginning of emergency. One prominent task embodied within the programme was controlling inflation and chart out an effective monetary policy and deal with the crisis. The government also decided to put enormous restrictions on its expenditures. New changes were made in the licensing procedures to provide easy access to private entrepreneurs.

The announcement of the 'New Economic Programme' in 1975-76 made vital changes in the sphere of industrial licensing to stimulate investment in priority sectors and to ensure full utilization of installed capacities. Some selected engineering industries were permitted automatic growth of capacity at the rate of 5% per annum, or up to a limit of 25% in the plan period, in physical terms over their prevalent authorized capacities subject to certain conditions. Some industrial firms were permitted to develop in-house R&D excluding the ones falling within the ambit of MRTP and FERA, but with a prior approval of the government. To encourage investment in the industry, the government decided to delicense twenty-one industries. However, the provision was not extended to MRTP and FERA. The MRTP and FERA companies were permitted to use their installed capacities exceeding the licensed limits provided the additional output was meant for exports. In this case, it is observed that even the large industrial hoses were given some minimal amount of incentive to expand their capacities.

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[50] Corbridge and Harris (2001). *Reinventing India: Liberalization, Hindu Nationalism and Popular Democracy*, New Delhi: Oxford University Press, page 86

Some procedures for the procurement of industrial license were also relaxed. For the licensing of imported raw materials and components to meet the intermediate requirements of the industries, 'automatic' licensing was introduced whereby the industrial units could directly apply to the import control authorities without routing their applications through the sponsoring authorities. To increase the production of non-traditional products import entitlements were enhanced by 10% in case of engineering goods, cotton textiles and ready-made garments. Procurement of 'replenishment license' was also made pliable. [51]To provide greater stimulation to investment in priority sectors further changes were made in the sphere of industrial licensing. The scope of a 'Technical Development Fund' created for technological upgradation, modernization and export development in regard to six selected industries, were extended to a number of priority industries and export-oriented units. Under the new scheme certain foreign collaborations were to be approved expeditiously by a special committee constituted for the purpose. [52]

Export policy was also modified. Two third of the 300 items earlier subjected to export licensing were delicesed. Most of these were placed under the 'Open General License' category. In the area of export incentives, a broad framework for the grant of cash compensatory support, import replenishment duty-drawbacks, supply of strategic inputs at international prices and liberal credit facilities continued for 1975-76. Some institutional innovations like the establishment of 'Export Project Planning Cell' in the Ministry of Commerce to coordinate the country's export effort; and formation of a separate cabinet committee on exports were attempted.

Most of the new measures taken by the government to reorient industrial licensing provided a propitious environment for the firms to invest and make reasonably good use of their capacities. The export-oriented units were provided with adequate incentives.

The liberal policies advanced by the government gave a boost to industrial production in the financial year 1976-77. The rate of growth in industrial production figured 10.6% in the first ten months of 1976-77. The figure was much higher than

[51] *Economic Survey,* Government of India, 1975-76, See page 47

[52]*Economic Survey,* Government of India, 1976-77, See page 14

the corresponding period in the previous year. The manufacturing sector recorded an increase.[53] As a result of excise concessions given to certain consumer industries, the industrial index indicated a substantial increase in the first nine months of 1976-77. The public sector undertakings also demonstrated enhanced capacity utilization. Capacity utilization of Hindustan Cables stepped up from 53.1% to 98.5% and Hindustan Machine Tools from 96.0% to 116.6% in 1976-77. The engineering industries also showed a marked improvement in capacity utilization than the previous years. The technology policy, however, remained in favour of the public sector monopoly. The government's claims of economic gains were bolstered by a dramatic improvement in the price situation, and reappearance in the market of essential consumer goods. The rate of inflation also plummeted since 1974, after the government promulgated anti-inflation measures.[54]

The government acted favorably on proposals for foreign collaboration and consultancy agreements involving the import of sophisticated equipments and designs. In addition new areas for Indo-US business cooperation were being explored. There were plans regarding setting up joint enterprises in the Third World.[55]

The business community was momentarily overwhelmed with the new initiatives of the government. The new line of policy also reflected a shift in the ideological underpinnings of the Congress Party. As Corbridge and Harris point out that quite was made at the time of supposedly positive effects of the emergency rule; and indeed there was evidence to show that both the profits and assets of big businesses had gone up. [56] The AICC resolution in 1975 stated, "While the commanding heights of the economy must continue to rest with the public sector, the Congress recognizes the useful role of a socially conscious private sector in accelerating the developmental process. Recent changes in the licensing policies have been designed to facilitate the process."[57] The statement clearly marked a transformation in the attitude of the government that initially depicted disenchantment towards the capabilities of private

[53] Ibid., page 11

[55] Francine Frankel, *India's Political Economy: 1947-77*, page 558

[56] Corbridge and Harris (2001). *Reinventing India: Liberalization, Hindu Nationalism and Popular Democracy*, New Delhi: Oxford University Press, See page 87

[57] Baldev, Raj Nayar (1989). *India's Mixed Economy: The Role of Ideology and Interest in India's Development*, Bombay: Popular Prakashan, See page 336

entrepreneurs. The progressive role of private sector in bringing about industrial transformation was duly recognized.

In response to the initiatives of the government the business community recognized the significance of emergency rule that not only came up with a host of liberal policy measures but assured labor peace by barring strikes, reduction of annual bonus to the workers and its abolition in case of loss making enterprises. The readjustment of labor laws provided the industrialists with an air of contentment. This could be achieved by the new measures adopted under the new economic programme to improve the climate for industrial relations. A National Apex body was set up to discuss worker-management relations and lay suitable guidelines for averting industrial disputes. Special national committees were set up for individual industries, such as textiles to sort out the discrepancies more specifically.[58] The industrialists were freed from the hassles of labor disputes and could now divert their energies into productive channels. The shift in policy line of the Congress party was quite much a result of a change in the social configuration of advisory body around the Prime Minster. While, earlier the Leftists dominated the Congress; since 1975 the party functioned under the influence Mrs. Gandhi's son, Sanjay Gandhi who had a neo-liberal orientation. The emergency rule resulted in demolition of democratic institutions at the cost of bringing about discipline amongst the various social groups and restoration of economic stability. It soon came to be realized in many quarters that decision-making had been appropriated by Sanjay Gandhi who had close links with a new breed of businessmen. As Corbridge and Harris point out that, "the industrial capitalists, initially sympathetic, were rapidly disaffected by the uncertainties caused by the disruption of rule of law, and by the evidence of cronyism deriving from coterie around the Prime Minister."[59] Frankel also argues that the unlimited power granted to the government during the emergency were exploited to advance the vested interests of a small

[58] *Economic Survey*, Government of India, *1975-76*, page 13

[59] Corbridge and Harris (2001). *Reinventing India: Liberalization, Hindu Nationalism and Popular Democracy*, New Delhi: Oxford University Press, page 87

coterie, rather than redeem Congress promises of far-reaching socio-economic changes to ameliorate the condition of the poor masses.[60]

The critics of the new liberal policies of the government during the emergency period expressed dissatisfaction on the predilection of the government towards the large industrial houses and the authoritarian ways of pursuing the desired objectives. The willingness of some of the large businesses to consider collaboration with multinational companies for expanding their industrial base in foreign countries created serious apprehensions about dependence on foreign technology, finance and distribution.[61]

Conclusion

The political scene of the late 60s and the early 70s suggests the embededness of state in certain social groups such as the small business associations and the labor. The state apparatus came to be used as a platform for fulfilling the aspiration of these groups each of which had a vested interest in maintaining the inward-looking economic system. The increasing political power of these groups and the presence of a powerful Left within the Cabinet diverted the Congress from establishing a linkage between the state and the large business houses. The radical measures adopted by the government to curb monopoly power were an upshot of its political alliances at the centre. The policies were accentuated in a populist direction to win maximum public support. The ex-communists and the social radicals in the Congress party channeled the ideas of the government towards greater state regulation of industry and economy. Most of the policies advanced in the late 60s were itself a result of direct confrontation between the conservatives and the social radicals within the Congress on ideological grounds. The institutions that came to be established for the control and regulation of industries crafted an ideological space for the new alliance groups

[60] Francine, Frankel (1978). India's Political Economy: 1947-77, New Delhi: Oxford University Press, page 570
[61] Ibid., page 558

within the Congress. Greater political and economic engagement with the Soviet Union also complimented well with the state-led industrial strategy to promote industrialization and modernization.

The committee reports on industrial licensing depicted only a half-hearted approach towards balancing the interests of the concerned social groups. The reports of the Dutt and Hazari committees gave an impression of disinclination towards the promotion of the large industrial houses. However, the positive contribution made by some of these committees was that of providing greater flexibility in the procedural norms of procuring a license. The study of the pre-investment approval through industrial licensing and import licensing conducted by the Ministry of Industrial development is particularly noteworthy in this regard. The institutional innovation recommended at least provided some respite from the problems arising out of time delays and red-tapeism. The insulation of large industrial bodies created fresh breeding grounds for the small businesses that were most instrumental in channeling a large part of government revenue into the parallel economy.

Coercive Acts like MRTP and FERA created a rift between state and the business groups. On one hand the government ravaged the expansion of large businesses, on the other hand the nationalization schemes expanded the base of the public sector vis-à-vis the private ones. Establishment of public monopoly over banks and unrestrained encroachment of the government into strategic industries like coal, textiles and steel resulted in low industrial production. The lob-sided monetary and pricing policies created disincentives for the industrialists on one hand, and burgeoning of black-marketing on the other. High levels of regulation on foreign firms through Foreign Exchange Regulation Act and imposition of stringent terms of foreign equity participation created unwillingness amongst some of the best firms to continue with their operation. Although, these steps were to reduce dependence on these firms for technology advancement, most of the industries faced deprivation of the technical assistance that it received from these firms. The government also demonstrated disinclination towards the complicity of private sector in building a technological base for industrialization. The effort taken to develop in-house R&D was in no way comparable to the international standards.

Ideas undergo transformation with changing political and economic circumstances. The forces that are beyond human control exacerbate the circumstances already laden with a myriad of contradictions created by human follies. The integrated impact of these forces presages the dire consequences of an impending danger. The realization of the unfolding reality acts as a deterrent to the continuance of past practices and lead to the adoption of new ideas. The concatenate set of events resulting from transformative practices may sometimes go unnoticeable of its future impact.

The pressure for the impending economic crisis and the resultant political impasse had started building up since the early 70s. The restrictive policies of the government and the failure to build up state-capital alliance to promote industrial transformation had resulted in abysmally low output in various industrial sectors. The impact of the rising world prices of bulk goods created further disjuncture in the economy. The political unrest that followed worsened the situation. The problems were dealt with a heavy hand through the imposition of internal emergency. The emergency period marked a shift in the ideological underpinnings of the Congress party. The large industrial bodies enthusiastically welcomed the move towards liberalization in the arena of industrial policy making. The government fittingly recognized the ill effects of inward looking policies accompanied by a whole lot of physical controls on the private sector. Though, the interests of the large industrial houses were not completely accommodated, it did provide them with some amount of respite from the labor tensions. In the wake of restoring economic stability and boost industrial production the government was compelled to resort to some degree of authoritarianism. Whether, the emergency was launched to check the opposition to Mrs. Gandhi's position or it had an overarching objective of improving the economic condition is still a matter of enquiry and investigation. However, it could be stated that the disciplinary measures imposed by the government to eliminate corruption and malpractices at all levels did prove to be beneficial for industrial growth. Moreover, the liberal measures adopted in areas of import and industrial licensing manifest a change in the attitude of the government.

Chapter IV

Industrial Policy in India between 1980 and 1987: Towards Liberalization

The transformation of the Indian economy from a socialist pattern to a liberal pattern gained momentum in the early 80s. Although, it is a generally accepted belief that the second tenure of Indira Gandhi marks the beginning of industrial liberalization, the seeds of the phenomenon were actually sown in the emergency period. The changes were not brought forth overtly and the 'pro poor' image was maintained subtly by the political leadership. However, the government began to liberalize industrial policy by bringing necessary changes in industrial licensing, import licensing and foreign collaboration. As Frankel observes that, the government was even prepared to act favorably in proposal of foreign collaboration and consultancy agreement regarding import of capital goods. In addition to this, new prospects for enhancing Indo-US business relation were explored during this period.[1] The new moves on the part of the government did not mark a break form the past. The 'rhetoric' of socialism was subsequently maintained.

The political circumstances created by the Congress party led to its own downfall and failure to win the 1977 elections at the center. The Janata government that came into power did not do much in the arena of industrialization and followed 'mass based industrialization'. The commitment of the new leadership to 'Gandhian model of development' resulted in greater emphasis on 'decentralization' and a strong impetus to rural based industry. The Janata government's Statement on Economic Policy was released in 1977 had committed the party to concentrate public sector investible resources, including creation of new job opportunities in the rural sector and development of small scale and cottage industries employing labor-intensive techniques for production.[2] The Janata government has not been very significant in bringing about any change in the pattern of industrialization in view of following reasons:

[1] Francine, Frankel (2005). *India's' Political Economy: 1947-2004*, New Delhi: Oxford University Press, pg. 555.
[2] Ibid, pg. 572

1. The government was short-lived lasting for only 3 years. The short span of time proved to be inadequate in pursuing any distinct policy change.
2. The Janata government was formed by a coalition of various parties, exhibiting divergent ideological underpinnings. This caused greater hindrances to consensus building.
3. Ideological crisis within the new political formation caused difficulties in formulating any coherent industrial policy.
4. In addition to the above-mentioned factor, the political factionalism amongst various coalition partners had diverted the attention of the state from promoting industrial growth and establishment of a stable economy.

Mrs. Gandhi was returned to power at the centre in 1980 election. The second tenure of Mrs. Gandhi depicts a political phase characterized by both continuity and change. Continuity could be maintained by assertions made by the government in its commitment to past policies, which were 'pro-poor' in nature and the change was carried out in a piecemeal manner. Mrs. Gandhi adopted a new posture in her second tenure realizing the political repercussions of her earlier policies during the early 70s. The government seemed determined to follow a balanced policy framework that ensured accommodation of diverse interests. There is greater engagement with international monetary institutions, particularly IMF and enhancement of business relations with the US and other Western countries from which it had remained isolated for a very long time. Overall, the nature of state intervention in industry and economy can be clearly cited as 'liberal' and 'market-friendly'.

With the advent of Rajiv Gandhi in the political scene, liberalization gained further momentum by provision of a freer environment for the play of market forces. Intermittently, the government tried to reinforce its commitment towards the promotion of public sector by promising to make it more dynamic and forward looking. The new Industrial Policy advanced by the Rajiv Government provided greater incentives to the private sector creating greater opportunities to them in areas of investment, production and development of technical know-how. The new ideas which were interpreted as being highly elitist in nature and antagonistic to the interests of marginalized sections were received with diverse responses from various social groups.

The chapter attempts to study the political forces behind the transformation in the attitude of the government towards industrial – policy making. The political forces include both 'domestic' and 'external'. The electoral compulsions also led the policies of the government in a certain direction during Indira Gandhi's second tenure.

The liberal policies of the government well evince the ideational change in the direction of seeking greater complicity of the private firms in the arena of industrialization. Apart from domestic factors driving the pace of liberalization, certain external factors have also been responsible in influencing the ideas and policies of the government. The compulsion of catching up with the advanced nations of the world provided the rationale for adopting an export oriented strategy and thereby providing greater incentives to the industrialists; for instance liberalization of imports required for the production of export – oriented goods.

This chapter has been divided into two sections. The 1st section deals with the nature of industrial policies during Indira Gandhi's second tenure. This section makes a detail analysis of the liberal measures brought about by the government during this period and the interplay of political factors responsible for facilitating a shift towards greater liberalization and modernization of the Indian industry. In addition to this, the engagement with the IMF and its impact on policies has also been elucidated.

The second section makes a comprehensive study of the policy framework adopted by the congress government under the leadership of Rajiv Gandhi. There has been a special emphasis on the background of Rajiv Gandhi considering its impact on his style of functioning as a political leader and his ideas and thoughts. The third part of the section analyzes the responses and reactions of various social groups towards the new political posture adopted by the government in the arena of industrial policy making, in order to depict the democratic constraints on radical restructuring of policies. The social groups include the Left, middle class and the business communities. Lastly the role of external forces and the objective of greater engagement with the international market also influenced the change in perception at various political levels.

Indira Gandhi's second tenure

Indira Gandhi's' second tenure marked a continuity with the emergency period in terms of industrial liberalization. However, she avoided any radical restructuring of policies and attempts to liberalize the economy in a piecemeal fashion. The underlying objective was to avoid any such move that would lead to political repercussion and defame Mrs. Gandhi's image as a populist leader. As Frankel points out that, in the early 1980s, the government was unwilling to openly embrace a new industrial policy that departed from the established ideology of socialism and still contributed to the claim that the congress was "pro – poor".[3] Various committees were installed during this period to identify loopholes in the prevailing industrial, trade and fiscal policies. Most of these committees recommended an overhaul of the regulatory measures that had encumbered the enterprises with a whole lot of restrictions on investment, capacity utilization, trade and technology transfer.

The excesses of emergency and the resultant political setback suffered by the Congress party in the 1977 Lok Sabha elections had brought the realization that in a democratic set up, any attempt to monopolize power was detrimental for the political existence of political parties. It was felt that any policy framework had to be designed, keeping in mind its political feasibility.

A balanced approach had to be undertaken to accommodate the interests of diverse social groups. At the same time the pace of liberalization was gradually increased to allow greater play of market forces. It was no longer possible to stifle competition within the domestic market by maintaining the monopoly of the public sector. Private participation was essentially required to drive the pace of industrialization especially in technology-intensive

[3] ibid. pg. 585

sectors such as electronics and telecommunications. To avoid political backslash from small business communities it was firmly decided that incentives to small-scale entrepreneurs should continue but it had to be complimented by commensurate participation of large industrial houses by removing unnecessary controls and regulations. It was also necessary to provide some relaxation to MRTP and FERA companies from both economic and political standpoints. It was strongly believed that the large industrial house were completely handicapped by stringent controls and regulations for a very long time and any further insulation meant debilitating the economy and Indian industry. It was imperative to provide a boost to private production and investment and induction of advanced technology harnessing the R&D efforts of private firms.

The policies underscored a proper balance between the promotion of private and public sector enterprises. The participation of big businesses in various industrial projects was advantageous from economic and political standpoints. The technical enterprise and the management skills of the private businesses had to be harnessed for building industrial assets of the country. Moreover, it was imperative for the Congress party to strengthen its political base amongst these groups which it had failed to accomplish in the 70s because of its restrictive policies.

Any radical stance on the part of government towards the appeasement of big businesses at the cost of immolating the aspirations of poor masses would have disrupted the populist image of Mrs. Gandhi that had been her biggest political strength over the years. The rationale of balancing the interests of large industrial houses, small businesses, technocrats and the labor groups actuated the government to advocate changes in a piecemeal fashion. While on one hand industrial liberalization received strong impetus to promote rapid industrialization, the rhetoric of socialism and the amelioration of poor masses were equally maintained.

Change in political orientation: Mrs. Gandhi was returned to power with a thumping victory in 1980. The success of Congress party is ascribed to growing internal dissension within the Janata party and sympathy wave created by the death of Sanjay Gandhi. As James Manor observes that, "when the Janata party disintegrated in mid-1979, many of the elements that have formed it splintered. In this context, Mrs. Gandhi's Congress I appeared to be the only coherent national party even though its organization was in a state of disarray."[4]

Mrs. Gandhi's new style of functioning is well reflected in greater interaction with international monetary institutions like IMF and World Bank. It marks the inception of 'politics of foreign aid' in India's political economy discourse. In 1980, India drew an SDR 530 million from IMFs' Trust Fund and 266 million from the Compensatory Financing Facility, though in low conditionalities. [5] The deteriorating Balance of payment situation in the late 70s necessitated this step. The trade deficit had increased tremendously by increasing imports over exports following the external borrowing the government adopted a constructive approach towards the promotion of business communities.

Government's engagement with business groups

The early 1980s is characterized by greater involvement between government and the business community. Prime Minister's two well publicized meetings with a selected group of leading industrialists are most significant in this regard. The minutes of the meetings reflected a positive attitude of the government towards the participation of leading industrialists in new industrial projects.

The government recognized the fact that industrial policies underscoring the need to promote rapid industrial growth often subserve social objectives as, regulation of investment and production according to social priorities, control of concentration of economic power through regulation of large industrial houses and expansion of employment. Although the government advocated the primacy of these objectives in the drafting of 6th Five-year plan, it was made quite clear that the government intended to create a better environment for high industrial production. On the other side, the

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[4]James, Manor (2002). "Parties and the Party system" in Zoya Hasans' eds., *Parties and Party Politics in India*, New Delhi: Oxford University Press, pg. 447

[5] Nugent, Nicholas (1990) *Rajiv Gandhi: Son of a Dynasty*, London: BBC books, pg. 58.

memorandum submitted by the industrial and trade associations comprising of leading industrialists and businessmen placed various demands that sought to remove alleged fetters on large production. [6]At these meetings the Prime Minister reiterated the advancement of various concessions and incentives to private sector in the 1980 budget.

The business chambers representing the interests of business communities, especially the big ones became more forthright in pressing their claims before the government. This was possible because there was greater hope and faith in government's commitment towards providing a propitious environment for private investment and production and that the new political circumstances will yield them rich dividends. They presented a charter of demands prescribed in 'a minimum programme of economic action'. [7]These new demands found adequate place in the industrial policy statement of 1980, the budgets of 1980 and 1981 and the industrial licensing policies.

Government attitude towards public-private participation

The Industrial Policy Statement of 1980 advanced by the Ministry of Industrial Development depicted a change in perception of the government towards the role of private sector in the process of industrialization in the country. The new approach was more constructive and positive in nature. It followed a balanced approach towards public-private partnership in industrialization. Paragraph 9 of the statement states that, the Industrial Policy of 1956 assigned a positive role of industrial undertakings in the private sector... the government recognizes it.[8]

The government also reiterated its firm belief in the contribution of public sector in the industrial development of the country. The policy statement pledged to rehabilitate faith in the public sector which was thought to have been eroded by the previous government, by labeling public sector as 'nobody's sector.[9] Although the contribution of public sector in industrial

[6] Review of Management (August 30, 1980), "All for production". *Economic and Political Weekly*, vol. 15, no. 35, M-73
[7] BM, (January, 1980). "FICCI's Blueprint" *Economic and Political Weekly*, vol.15, no.4, page 135
[8] *Industrial policy Statement*, 1980, Ministry of Industrial Development, Lok Sabha Secretariat, New Delhi, pg. 3, Para 9.
[9] Ibid, Para. 6, Page 2.

development since independence received prior attention, the inefficiency and slackness in functioning of some of the units was duly recognized.

The government installed the Arjun Sengupta committee in 1984 to review policy for public enterprises. The committee submitted its final report on December 1984. The primary objective of the Report was to determine the constraints that inhibited effective functioning of the public enterprises and suggest measures to improve their performance. The committee recommended a greater application of the principles of autonomy and accountability in the functioning of public enterprises. The committee also suggested changes in the organizational structure of public enterprises and their relations with the government, the procedures and regulations which determine the degree of autonomy to the public enterprises, the system of performance evaluation and accountability and the code of conduct that governs the exercise of authority in the government circles and in public enterprises.[10] The underlying idea was to provide a freer environment to the functioning of public enterprises by the elimination of unnecessary regulations, controls and protective measures.

Autonomy had to be combined with accountability; therefore certain suggestions were made to ensure greater transparency and perspicuity in its functioning. For instance, it was recommended that the 'committee on public undertakings' (COPU) should examine and probe the working of such enterprises in greater depths and the Debate on the demand for grants should include a discussion on the performance of public enterprises.[11] The new measures were recommended to enhance the functioning of public enterprises, make them more business oriented and free them from the shackles of political and administrative barriers.

Industrial sickness

The most serious upshot of physical controls and regulations on public and private sector enterprises was the emergence of sick units in the early 80s. A high cost industrial structure had rendered many units unworkable. This

[10] *Arjun Sengupta Committee Report on Review Policy for Public enterprises* (1984). Ministry of Finance, Government of India, Para 26, pg4.
[11] Ibid., Para 5.26, pg. 22.

hazard was duly recognized in the Industrial Policy statement of 1980 and various measures were taken to eliminate it. The government expressed deep concern over the problem of growing sickness in a large number of industrial units. It called for immediate investigation of the symptoms of sickness so that measures for their rehabilitation could be charted out. It was decided that those industries that demonstrated some chances of recovery should be merged with healthy units. However, recourse to take over of the management of such units had to be taken only in exceptional cases on grounds of public interest. The Arjun Sengupta committee suggested that the closure of sick units should be undertaken in extreme circumstances. It proposed suitable criteria for rendering a certain industrial undertaking sick.[12] It was also suggested that the symptoms of 'sickness' should be thoroughly investigated and examined by various institutions like the 'Bureau of Public Enterprises' before the closure of respective units.[13]

The growing industrial sickness was a result of mismanagement and technological obsolescence of the industries. The handling of sick units has been a politically sensitive area and any decision regarding their closure had to be taken tactfully. A radical move on the part of the government would have been precarious for its political existence.

Industrial Liberalization under Indira Gandhi's leadership

A series of liberal measures were adopted to provide a healthy environment for investment and production in the private sector. Investment limits for small scale and ancillary industries were raised from Rs. 20 lakhs to Rs. 25 lakhs respectively. Installed capacities in excess of licensed capacity in thirty four selected industries needed to be regularized.[14]

For export purposes, even the MRTP companies were permitted to extend beyond their licensed capacities. Imports required for export –oriented goods were liberalized and a special board was set up to provide a single

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[12] Ibid, Para 7.5, pg. 24, Following were the criteria: a) such units should have increased cash losses over a continuous period of five year b) value added per employee per month should be less than the average monthly evolutions per employee c) equity capital should have been wiped out by mounting deficits

[13] ibid, Para 7.6 and 7.7, pg. 25.

[14] *Economic Survey*, Government of India, 1981-82, pg. 23.

point clearance for setting up 100% export oriented units. The budget for 1981-82 extended a number of incentives to various industrial houses. Complete tax holiday was to be granted to export – oriented industrial units set up in the Free Trade Zones for an initial period of five years.[15] The MRPT and FERA companies were provided with greater relaxation and flexibility in regulations and controls by the government. A new scheme was formulated where in industrial units including the MRTP and FERA companies could further re-endorse their capacities in respect of Appendix – I industries could use the facility.[16]

The government also decided to review and extend the list of industries in which large houses and FERA companies were being permitted to set up capacities. The rationale for these new measures was provided by the pressing need to increase production, high export generation and induction of modern technology in the Indian industry.[17] In 1983, nine industries which were considered 'strategic' from 'country's development' point of view were exempted from the provision of section 21 and section 22 of the MRTP Act. There was a clause attached to it which stated that the recipient's contribution should not be less than 20% of the project cost and debt – equity ratio of not less than 2:1 should be maintained.[18]

The new changes in rules and regulations were directed towards promotion of large industrial houses that had not received prior attention throughout the 70s. The idea was to create greater opportunities for them in areas of production, investment and capacity utilization. The government, by advancing these measures also intended to build up its support base amongst the business communities, an area that was left untouched for a very long time. The business chambers in India, namely FICCI and ASSOCHAM,

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[15] Ibid, pg. 23

[16] *Economic survey*, Government of India, 1982-83, pg. 30, Under the new scheme all industries units were to report their production in the five financial years for 1981-82 and if their best production during any of these years plus one this thereof was higher than the licensed capacity plus 25%, the capacity would be reendorsed on the licenses to the extent of best production achieved plus one third there by. These units would again have an opportunity of further reendorsement of capacity on March 31, 1983, it they achieved a high level of production during the year 1982-83 than the reandorsed capacity.

[17] Ibid, pg. 30

[18] *Economic Survey*, Government of India, 1983-84, pg. 30.

welcomed the new initiatives taken by the government. It provided a sigh of relief to the business communities who were caught up in a web of controls and regulations and seemed helpless to enhance their competitiveness, both in the domestic and international market. However, the new initiatives did not reflect a retreat of the state from its controls and regulations completely. Most of the incentives carried with it certain conditionalities that had to be fulfilled prudently.

Impact of external forces and the Politics of Foreign Aid:

The early 80s witnessed a greater interaction and engagement with the international monetary institution, particularly IMF. Although, the observable shift was not an upshot of a deliberate attempt on the part of the government to increase state's dependence on international financial institutions for aid, the invariable circumstances demanded abandonment of previous ideas that often restricted such engagements.

The balance of payment situation deteriorated tremendously in 1980. The oil import bill rose from $ 2 billion in 1979 / 80 to $ 6.6 billion in 1980/81, and the total import bill rose over the same period from $ 8.3 billion to $ 158 billion. The data indicates tremendous rise in imports, disturbing the trade balance. The current account deficit also rose sharply in this period. Under such adverse economic conditions, the government was compelled to approach the IMF for borrowings. India drew SDR 530 million from 'IMFs Trust Fund' and 266 million from 'Compensatory Financial Facility under low conditionalities.[19]

There was wide scale opposition to the conditionalities imposed by the IMF. It was assumed that such conditions shall lead to radical structural adjustment in the policies which would ultimately hit the interests of the poorer sections of the society. To counter such opposition, the government justified its step by stating that the loan would reduce the burden on the poor by eschewing recession; and that the conditionalities of the IMF were not rougher than the requirements of country's' Sixth Five Year Plan.[20] After the

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[19] Nicholas Nugent (1990). *Rajiv Gandhi: Son of a Dynasty*, London: BBC Books, page 59
[20] ibid, pg. 60

completion of the agreement with IMF the government pursued a more relaxed fiscal policy and attempted policy changes in the direction of liberalization.

This new posture adopted by the government indicated a shift towards dilution of the traditional political and bureaucratic austerity while it reasserted its commitment towards amelioration of the poor masses by following sound fiscal policies. The conditionality imposed by the IMF was limited and did not directly impinge upon the autonomy of state vis-à-vis the international institutions. However, there were apprehensions about policy adjustments made immediately after the foreign borrowings.

The second tenure of Mrs. Gandhi is characterized by period of both continuity and change in industrial policy making. The pro-poor rhetoric had to be maintained to demonstrate governments' commitment to the democratic principles of 'equality' and 'social justice'. However, domestic pressure for policy change had grown over a period of time. The external forces were also instrumental in driving the pace of liberalization to some extent. As Kohli argues that after 1980 Mrs. Gandhi seemed to be more concerned about building her base amongst business communities by shifting away from socialism. She had adopted a more pragmatic, pro-business attitude to accelerate economic growth and build up her support amongst industrial and commercial groups.[21] Any further isolation of business communities could have been detrimental from both political and economic standpoints.

The new political strategy of the government was centered on three areas:

1) To maintain the rhetoric of 'socialism', 'self-reliance' and 'people-friendly policy making'. This was done in view of the fact that ideological appeal to the masses was enough to keep them satiated.

2) The new political difficulties compelled Mrs. Gandhi to pursue the communal appeal to the dominant Hindu community.

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[21] Ibid, pg. 311

3) New economic measures in the direction of liberalization were required to secure political base amongst the business communities.[22] The government followed a balanced approach towards industrial – policy making eschewing any radical departure from the earlier policies. As Frankel points out that in the early 80s, the government seemed to be unwilling to embrace an industrial policy that departed from the established ideology of socialism. However, the government extended whole-hearted support to the private sector to promote greater competition in the domestic market and relinquish its jaundiced view of giving priority to the public sector.[23]

The necessity of greater integration with the international market by following an export-oriented strategy of industrialization had also changed the perception of the government. It was felt that the conventional method of protecting the Indian industry through controls and regulations had debilitated the Indian industry over a period of three decades since independence. To provide a suitable environment for greater investment and production, the government provided greater relaxation and flexibility in industrial licensing, import licensing and advanced various export incentives. The extension of such incentives to MRTP and FERA companies produced better prospects for their expansion. The 'business friendly' policies of the government depicted increasing proclivities towards greater engagement with the key economic players in domestic and international market. The influence of pro-business, pro-liberal, pro-private economic advisors such as P C Alexander, L.K. Jha and Arjun Sengupta is highly significant in driving the pace of liberalization.

The politics of foreign aid had begun to take roots in the Indian soil. Although, there is not much evidence to state that the external factors, during this period, were directly responsible for the new policy direction, a linkage seems to be emerging between greater engagement with international

[22] Atul, Kohli (1991). *Democracy and Discontent: India's Growing Crisis of Governability*, New York: Cambridge University Press, pg. 313
[23] Francine, Frankel (2005). *India's Political Economy: 1947-2004*, New Delhi: Oxford University Press, pg. 585

monetary institutions and the shift towards a liberal, pro-private, and pro-business, export oriented strategy of industrialization following thereafter.

Political Economy of Industrial-policy making during Rajiv Gandhi's tenure

A thorough move towards industrial liberalization was attempted under the regime of Rajiv Gandhi. The New Industrial Policy, the 1985 budget and the new trade Policy encompassed an array of liberal measures towards industrial transformation. It came to be understood in political circles that plenary reliance on public sector shall inhibit the process of industrial growth and aggravate industrial sickness. Participation of private entrepreneurs in the process was essentially required to provide a new thrust to industrial development. Though, complete isolation of public sector enterprises was not politically feasible, a balanced approach had to be followed toward public – private participation. Even from economic point of view, the contribution of some public sector enterprises to industrial growth had been promising. The public sector enterprises deserved the credibility for building a strong capital base of the state and generating large amount of resources for further investment. However, cornering the promotion of private sector to create monopoly of public sector in the market had proved to be detrimental for a healthy germination of infant business class.

The economic and political circumstances demanded an overhaul of the previous line of policy and the inward-looking strategy towards industrialization. Though, export orientation was a part of the agenda of the previous government, nothing much was done to eliminate the constraints that impeded trade liberalization. Technological obsolescence of the industrial products inhibited their promotion in the international market. The technological backwardness of the industry was understood as the root cause behind industrial stagnation and sickness by the government. The inward working policies operated within a complicated framework of political constraints and much cherished ideology of socialism. This is evinced by the fact that any move towards liberalization in the earlier periods had resulted in popular backslash by various interest groups and the associated political parties.

The political scenario in the mid 1980s reflected a consensual attitude of various interest groups toward industrial liberalization. Though diversion from the ideology of socialism was bound to create some backslash, it was realized in many corners that any further procrastination in industrial liberalization would be detrimental to stable economic growth and technological development. The rise of middle class in the political scene was also responsible for bringing about an attitudinal change in the bureaucracy and political leadership. The interests of the new middle classes necessitated expansion of the consumer industry for technologically sophisticated products. As Frankel points out that an elite – mass class cleavage tended to support a broadly socialist ideology, while the elite-middle mass differentiation has created a brand base for capitalism.[24]. The new political base of Congress party in the emerging middle class was a major driving force towards liberalization deregulation and privatization. As E Sridharan points out that, deregulation is expected to command widespread support among the middle class, regional capital and small business.[25] On the contrary, the radical move towards liberalization was bound to create resentment among organized labour, small business and left parties as their interests were directly hit by greater reliance on market forces.

The greater play of external forces and international institutions like the IMF and World Bank led to restructuring of industrial policies. The requirement of upgrading technology for industrial modernization demanded greater engagement with foreign companies. This further necessitated greater allowances for foreign collaborations and foreign direct investment. These moves on the part of the government impinged upon the autonomy of

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[24] ibid, pg 305-328

[25] E.,Sridharan (October, 2004) "The Growth and Sectoral Composition of Indians' Middle class: Its impact on the Politics of Economic Liberalization", *India Review*, vol. 3, no. 4, pg. 425.

state as an independent actor vis-à-vis the international actors in the arena of economic policy making. The dictates of the international institution towards domestic policy making was also detrimental for the vested interests of various sections of the society and their representatives in various political parties.

The immediate political turbulence also impacted upon the policy making. In other words, law and order situation, communal tension and caste related issues which had occupied the stage of politics since the early 1980s tended to divert the time and energy of political leadership towards these issues. The political situation under which Rajiv Gandhi came into power indicates the perception of the people towards a young promising leader with a modern out look. The next section is devoted on the background of Rajiv Gandhi which clearly influenced industrial policy making science the mid 80s.

Rajiv Gandhi – A pragmatic leader

Political leadership in India in the mid 1960s appears to be completely driven by ideological considerations than by any generally felt urge for economic and social developments. In this context, public policy has also been largely influenced by the ideological preferences of the dispensation in power. They failed to involve the private sector in industrialization and modernization of the country. As a result, India inherited an industrial policy which had relied heavily on public sector.

A perceptible departure form the previous industrial strategy took place with the advent of Rajiv Gandhi government in 1985. Rajiv Gandhi's modern and technological aptitude is often attributed to his Doon school background and his engineering days from Cambridge. Though, he was unable to complete his degree due to adverse circumstances at home, he took a co-pilot's job in the Indian Airlines. His mother then was at the zenith of political power. But Rajiv preferred to keep himself away from politics and tried to remain an apolitical person. Therefore its observable that right from his early childhood, Rajiv was provided an elite background and his technical qualification and profession offered him a modern and technocratic outlook.

Rajiv's personality preferences served as an important factor in the adoption of technologically – driven, liberal, export oriented policies after his inception as the Prime Minister of India in 1984.

The death of Sanjay Gandhi in 1980, in an aircraft accident created undesirable circumstances for Rajiv's entry into politics. Rajiv took a year leave from Indian Airlines and started to assist his mother in her work. In June 1981, Rajiv Gandhi was elected to the Lok Sabha as a candidate of the Congress-I from Amethi, his brother's constituency in Uttar Pradesh. Rajiv worked meticulously, reorganizing the party and preparing for the next elections scheduled on January 1985. This also provided him immense opportunity to build his own base within the party. He disbanded the Sanjay Youth Brigades; recast the entire leadership of youth congress not only at national level but also in most of the states. He aspired to employ the youth power as a vital electoral instrument. The new attitude marked a departure from the earlier configuration of the party where the old leadership with traditional feudalistic outlook had monopolized the top echelons of the party. The induction of new blood within the party was seen as a vital step in building a modern and technocratic society. The young party workers were also used to strengthen the party at the grass root level.

Rajiv Gandhi began to modernize and transform the congress party by using its numerous cells and front organizations, along with rebuilding the state and district congress committees. Bhabani says, "That his working style was different from the earlier congress leaders. It had a new orderliness, discipline and meticulousness, a new attention to detailed hitherto unknown to congress culture". The congressmen were enormously impressed by his working methods and looked forward to have him as a future leader of the party. Even before the death of his mother, Rajiv was accepted as a future leader of the party. This technocratic aptitude was well reflected in his style of work, which was well organized and impeccable. However, there were apprehensions raised by some of the old congress leaders against the outlook of the young leader' who found a scintillating gap between the feudalistic and traditional outlook of the congress and the modern and technocratic and managerial language of politics.

Indira Gandhi's demise almost converged with the conclusion of seventh Lok Sabha. The January 1985 elections were scheduled to be announced on 25 November 1985. Rajiv worked scrupulously for the scheduled elections. He appealed to the masses by his new, innovative modern ideas to reorient the society and build up a potent economy in seeking a mandate from the Indian people. Rajiv Gandhi offered them the promise of a great leap forward to the 21st century. He projected to the Indian voter a new political sociology of rapid modernization relying primarily on high technology of electronics and computers.[26] He aspired to revamp the feudalistic political culture of the Indian society and transform it into a modern technologically advanced industrial society.

The congress party returned to power in 1985 elections with a thumping majority. It captured 4/5th majority in the parliament.[27] The new government was sworn on 1 January 1985, with Rajiv Gandhi as the Prime Minister and V P Singh as the finance minister. Both the leaders, as will be observed, showed a strong proclivity towards liberalization and modernization of the industry. Also, the new set of economic advisors such as Montaek Singh Ahluwalia and L.K. Jha who had a pro-liberal attitude, became highly influential in directing the policies of the government.. As Kohli points out that, competent group of managers, economists, and bureaucrats were known for their technocratic rather than political image. Some of them had World Bank background.[28] They were strong advocates of deregulation and pro-liberalization policies. The element of pragmatism toward industrial modernization could be traced prominently in the new leadership and the bureaucracy. The underlying idea was to revamp the traditional bureaucratic framework and induce greater professionalism within it. In one of his speeches, the PM stated that the bureaucracy had become maligned over the years, being entangled in their own red tape. It is much required to make them dynamic and forward looking.

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[26] Bhabani, Sengupta (1989) *Rajiv Gandhi: A Political Study*, New Delhi: Konark Publication Pvt. Ltd , page 34

[27] Nicholas Nugent (1990). *Rajiv Gandhi: Son of a Dynasty*, London: BBC Books, page 62

[28] Atul, Kohli (1991). *Democracy and Discontent: India's growing Crisis of Governability*, New York: Cambridge University Press, Page 316

Under the prime ministership of Rajiv Gandhi, the government initiated a series of liberal reforms depicting a thorough departure from the politics of regulation towards greater efforts at building closer linkages with business groups. The new policy framework was adopted in the 1985 budget, the 7th plan and the New Industrial Policy.

Industrial liberalization in 1985 and 1986

Industrial liberalization can be understood through a broad prism of industrial and import licensing, fiscal and monetary policy and technological initiatives. The new changes were brought about in the New Industrial Policy, the 1985 and 1986 budgets and the 7th plan.

On March 1985, the government announced the delicensing of 25 broad categories of industries. However, this provision was subject to the condition that undertaking concerned does not fall within the preview of MRTP & FERA. In June 1985, delicensing was extended to 82 bulk drugs. In December 1985, delicensing was extended to MRTP and PERA companies for 22 and of 27 industries exempted from section 21 & 22 of the MRTP Act in May 1985, provided that such undertakings were situated in backward areas.[29]The asset threshold was raised from Rs. 20 cores to Rs. 100 cores in March 1985. The New economic policy had led to rethinking on issues like upward revision of assets for MRTP purposes; offering MRTP and FERA companies tremendous opportunities; de-reservation of many items exclusively reserved for the small scale sector; broad banding of 25 categories of industries.[30]

The List of Appendix I industries was expanded in December 1985 to 30 broad categories of industries, in which MRTP and FERA companies were permitted to set up capacities, provided the concerned items of manufacturing were not specifically reserved for the small scale sector.[31]

By the end of 1985, the government announced a scheme of re-endorsements of capacities under which a re-endorsements facility was available to all the

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29 *Economic survey*, Government of India, 1985-86, pg. 29.
30 P. Kumar and K.K. Uppal (November 8, 1985) "New Economic Policy- Will gamble Pay?" *Economic Times*
31 *Economic survey*, Government of India, 1985-86, pg. 34.

licensed units that had otherwise 80% of their licensed capacity during any previous five year preceding 31st March 1985. The same undertaking was permitted further re-endorsement if the production exceeded the reendorsement capacity. These policy changes reflect a strong proclivity of the government towards providing a better environment for private investment and production. In a Lecture at all India Business Convention, Rajiv said that,

"Earlier we had limited the industry to certain productive limits. We are now trying to change that by saying that you cannot makes less than this because it is inefficient. You must put a bigger limit..."[32]

There was an overwhelming response to the new policy initiatives taken by the government. By the end of December 1985, about 1916 registrations had taken place in the 25 broad – banding groups delicensed in March 1985. As regards broad banding, 17 MRTP companies had availed the facility by the end of December 1985, mostly in the automobile sector. In the category on non-MRTP companies, 27 had taken advantage of this provision.

Public enterprises in the highly capital initiative core industrial sector had generated tremendous resources for first two years of the 7th five year plan. Of the total 37 companies under the 'Dominant Public Enterprises' category, the number of profit making units had increased from 11 in 1980-81 to 15 in 1985-86. About 15 out of the 37 industries were taken over from the private sector, of which 6 were nursed back to health.[33] The continued existence of public sector was also desired for political reason. At a time when the utility of public sector was being seriously questioned and demands were being raised even within the Congress to privatize, Mr. V.P. Singh had done well to remind the party members and the public that, continued existence for public sector was necessary for political, if not economic reason.[34]

The development of public sector was seen as critical in industrialization of the country. The inefficiency of public sector was due to the fact that it was

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32 *Rajiv Gandhi's selected speeches and writings: 1986*, Vol. II, May 1989.
33 S.Ramachandran (December 21, 1986) "Technology gaps being filled", *Economic Times*
34 *Hindustan Times*, December 9, 1986.

forced to enter into areas which lacked communication, infrastructure power etc. Abid Hussain recognizes the vitality of public sector in industrialization of the country but suggests greater incentives for the private sector. He says that, "The state has assumed greater authority in building a potent public sector and providing a mechanism to regulate private sector. Times have changed and our previous success demands a fresh look so that successes can be accelerated."[35]

Another area which required tremendous attention was the necessity of removing unnecessary trade barriers. In April 1985, the new 'Export and Import policy' was announced for the first time for a period of three years ending March 1988, with the objective of providing stability to the policy regime.

Under the new scheme, the category of automatic licensing was abolished and majority of items were shifted to 'Open general License' category. The new provision was advanced to eliminate unnecessary time delays that impeded private investment and production of export-oriented goods. The decision – making machinery was decentralized by delegating more powers to regional licensing authorities. Import policies for computer systems were liberalized. A new scheme known as 'import – export pass book scheme' was introduced for manufacturer-exporter to provide duty free access to imported units and export production. The minimum limit for import of capital goods against REP licenses was raised from Rs 1 lakh to Rs. 2 lakhs for registered exporters irrespective of their level of export performance.[36]

The new 'Exim policy' created a suitable environment for the entrepreneurs to compete with their counterparts in other countries in the international market. The protective measures had rendered the private entrepreneurs handicapped so much so that over a period of time even the latter had begun to show its preference for protection. The needs of the time required setting them free and face the competitive pressures in the international market. The real potential can only be judged by providing greater exposure to

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35 Abid, Hussain (November 15, 1986) "Perception of New Industrial Policy", *Patriot*

36 *Economic survey*, Government of India, 1985-86, pg 93

competition. If this is not done one falls into the trap of stagnation or retardation.

A similar kind of argument was made for removing protection of the public sector. While addressing a seminar on 'Improvement in productivity in Public Enterprises' in New Delhi on May 6th, 1986, the Prime Minister stated the following:

"Public sector has a key role to play in the process. But like everything grows, it must go through a process of change..... In the initial stages it is essential that industry, just like a baby, gets the attention and protection it needs. But as the industry grows, it is equally essential that the attention is reduced, and the industry is allowed to stand on its feet and face its own challenges".[37]

The Prime Minister highlighted the pivotal role of public sector in the future industrialization of the country and reiterated governments commitment to socialism. However, he refused to favor the brand of socialism that relied on excessive government assistance.[38]

The Long Term Fiscal Policy in 1985-86 budget

The 1985-86 budget was a landmark in the history of India's political economy. The Ministry of Finance released two major documents, namely 'Long term Fiscal Policy' and 'Budget at Glance'. These two innovations reflected bold and novel steps undertaken by Rajiv Gandhi to relax the unnecessary tax burdens on the industrialists providing a better environment for their growth. These new measures reflected the dynamism and pragmatic thinking of the new political leadership taking adequate precaution in considering the interests of every class of businessmen; small, large and medium. It also set a strong drive for the Seventh Five Year Plan.

Under the scheme of Long term Fiscal Policy', the custom duties were rationalized. A new scheme called 'MODVAT' was introduced in the arena

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[37]*Rajiv Gandhi's Selected speeches and writings: 1986*, vol. II, May 1989, pg 78.

[38] From the correspondent (September 20, 1986) "Penalty for causing Industrial Sickness", *Financial Express*

of indirect taxation. The new budget also slashed the personal and corporate tax bringing maximum benefits to the industrialists.[39] Rationalization of tax policies yielded handful of opportunities for private businessman to invest in innovative ventures without facing the troubles of corporate taxation. These tax incentive provided to businessman was commensurate with penalties for dishonest businessmen in areas of tax recovery. The LTFP also attached high priority in keeping inflation under control and placed greater reliance on surpluses generated by the budget and public sector undertakings.

The new Innovations on the part of government in the areas of taxation were met with an overwhelming response from the business communities. They were made free from the shackles of unnecessary tax burden and thus it was made possible to divert their energies into productive investment. However, the government retained its control over the activities of businessman by advancing stringent measures for the collection of taxes. The result of the pro-liberal, pro-active role of the government in the arena of industrial policy formulation resulted in doubling of the index in Bombay stock exchange. Reliance industries numbered 1.8 million shareholders.[40]

The 1985-86 budget did reflect a deviation from the earlier policies of the government that fell within a broaden framework of 'socialist philosophy'. In fact the 1985-86 budget did not even include the word, 'socialism'. According to Frankel, the new policy initiatives were taken in the absence of any political consensus for by passing the public sector. The left within the congress and the old leadership of the party advocating socialist ideology resisted the departure from Nehruvian policy of self reliance and Indira Gandhi pro-poor programmes.[41]

These arguments loose sight of the balanced approach followed by the government towards industrial development. It would be a grave mistake to assume that public sector was relegated a backseat. While the public sector enterprises were assigned a leadership role in the process, the private sector

[39]Kathleen, Healy (1989). *Rajiv Gandhi: Years of Power*, New Delhi: Vikas Publishing House Pvt. Ltd, pg 244
[40] ibid., page 246
[41] Francine Frankel (2005). *India's Political Economy: 1947-2004*, New Delhi: Oxford University Press, page 5&6

participation was initiated by the advancement of incentives to businessmen at all levels. The underlying idea was to provide a technocratic orientation to the public sector enterprises by assigning greater autonomy to the managers and removing unnecessary controls and regulation which had led some of these units redundant for years. The new approach clearly served to strengthen the notion of public-private participation in industrialization which is considered as one of the fundamental principles of our constitution.

Industrial sickness

The most observable consequence of regulatory, inward – looking policies of the government over nearly three decades has been the emergence industrial sickness and the resultant stagnation in the economy.

The biggest hazards faced by the sick units were in the areas of manufacturing and sale. The manufacturing problems included imbalance of installed plants and machinery, improper plant maintenance and lack of technical know-how in running the plant. In areas of marketing, main victims were medium and small scale enterprises who lacked the expertise to compete with large scale industrial houses. These enterprises faced the problem of lack of good marketing facilities and information system. In addition to this, technological obsolesce in the industry rendered large number of units sick. The financial problems included choice of finances, high interest payments, frauds, lack of financial controls, balance of costing system and delays in release of funds by the financers.[42]

Apart from the various technical discrepancies mentioned above, there were external factors responsible for the emergence of sick units. These forces were beyond the control of the entrepreneurs and had to be dealt with greater intervention by the government. It included restructuring measures in the areas of industrial and import licensing; increase in duties on tradable products and stringent taxation measures. Most of these are the instruments of control by the government on the private entrepreneurs. Technological degradation in the industry was consequent upon the inward looking, protective policies pursued by the government.

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[42] K.S Bhatt and R.K. Mishra (August 17, 1985) "Industrial sickness-II: Strategic Decision Model". *Fconomic times*

To deal with the problem of sickness a large number of such units had to be nursed back to health. In extreme cases the only alternative was closure of such units. Rajiv Gandhi warned the industrialists and managers of industries in his various statements made in the press that the government would be compelled to penalize the industrialists found responsible for rendering their units sick. It was not always possible to take over such units and effective means had to chart out to make the units economically viable.[43] In a speech delivered at All India Business convention the Prime Minister Said that, "Sickness is a very sensitive area.... If it is not possible to bring them up and make than viable, then we should accept the challenge of closing them down..."[44]

The external factors responsible for sickness were to be eliminated by removing unnecessary controls that hindered productive investment and technological upgradation. Thanks to the liberal measures adopted by the congress government. The technical loopholes in the production process had to be eliminated by following prudent management techniques and effective cooperation of the labor in dealing with emerging problems. To achieve this, the PM suggested 'in-built' training of workers in newer technologies.

Technology policy for Industry

One single area that received a major thrust in the mid 80s was technological upgradation in the industry. It came to be realized in many corners that the backwardness of Indian industry was predominantly a result of 'technological backwardness'. Such a phenomenon is directly linked with the inward looking strategy of the government in this area. As discussed earlier technological backwardness was one of the main factors behind industrial sickness and stagnation, the quality of technology used in the production process was most unlikely up–to-date compared with international standards. One reason why we were unable to adopt adequate technological skill was apathy towards competitiveness of industry, both in domestic and international market. Since the competitive drive was missing

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[43] ____,(September 20, 1985) "Penalty for causing Industrial sickness", *Financial express*

[44] *Rajiv Gandhi's Selected Speeches and Writings: 1986*, vol. 2, May 1989, pg 68

in our industry we could not judge our capabilities and potential compared with international standards.

A new thrust provided to competitiveness in the Indian industry automatically reversed the earlier strategy for technological development. In the speech delivered while inaugurating the National conference on ‘Productivity through people in the age of changing technology’ in New Delhi on October 29, 1986, the PM said the following:

“What India needs today is not just a gradual growth of technology and upgradation of technology. We are now ready to take a jump. If we go through the full process at each step, we will only fall behind; we will never be able to catch up; we will go through all the negative aspects that the developed countries have already gone.”[45]

Efficiency, productivity and technological upgradation were the watch words of the new industrial policy. A greater emphasis was laid on technological upgradation in the public sector. Most of the public sector units were locked up in technologies that were most inefficient so to speak of. The government recognized the economic and political significance of public sector units for industrial development of the country. It pledged to make the public sector more dynamic and forward looking under the pressing need of increasing its productivity and efficiency, and this could be made possible by the induction of advanced technology absent in these units.

Along with the new impetus provided to the public sector in the area of technology, the small-scale sector equally became the recipients of various incentives and opportunities. They were encouraged to move into newer fields and develop the potential in dealing with more complicated technology. Though some degree of protection was required for such enterprises at the earlier stages, it was decided that over a period of time protection should be lifted once they are in a position to compete in

[45] *Rajiv Gandhi's' selected speeches and writings: 1986*, Vol.2, May 1989, pg 116.

domestic and international market. The government also looked forward to their membership in FICCI and ASSOCHAM in the coming years.[46]

A number of initiatives were taken by the government in 1985 and 1986 in promoting advanced technology in the Indian industry, especially the sunrise industries which had strategic importance from an economic standpoint. While greater reliance was placed on in-house development of R & D, technology transfer was permitted in areas that lacked requisite technological input. In one of his speeches the prime minister observed that,

"In everything that we have done today, except perhaps in a very few industrial sectors, we have limited ourselves or satisfied ourselves with buying a certain technology, never attempting to develop that technology and catch up with the people who sold the technology."

The government intended to follow a balanced approach by providing greater impetus to the development of inherent capabilities in science and technology on one hand, and learning and improving upon borrowed technology on the other. A parallel strategy is observed in case of South Korea's technology policy during Park Chung Hee's regime.

The new technocratic, professional and management language of politics is well reflected in the new policy framework. The new line of policy was to operate within the larger framework of socialist pattern of economy embodied in the constitution and providing the benefits of modernization and liberalization on egalitarian basis. The new political leadership found sufficient complimentarity between a technocratic approach of policy-making and redistributive measures providing benefits of modernization on equal terms. Rajiv Gandhi had clearly stated that the government aspired to distribute the benefits of technology to the poverty – stricken, indignant masses and to educate them in science and technology so that they could lead a life of dignity. In one of his speeches, the PM stated that, "we want the sophisticated computer to study the monsoon so that we can tell the farmer when to plant and what the rainfall is likely to be, more

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[46] Inaugural speech to the "National Convention on Small Industry", New Delhi, 17 September, 1986 in *Rajivs' Gandhis' Selected speeches and writings: 1986*, Vol. 2, May 1989, pg 102-106.

accurately."[47] He also sought the participation of workers in the new technological drive and a better management of the industry. Despite all these claims, the new measures were considered as 'radical' that catered to the elite class of the society, especially the emerging new middle class. It caused resentment amongst various social groups, political parties and above all the old leadership within the Congress. It was felt that in the wake of establishing a modern, technologically sound India industry, the interests of the workers were immolated. In a multi-class, multi-ethnic society like India, any grand, overambitious design of policy framework is bound to create some degree of popular backslash. As a result of negative repercussion to the new policy measures, the government, during the later years was compelled to readjust its policies without disturbing the basic framework of industrial liberalization.

Reaction of various groups towards liberalization

The new experiment conducted by the government for promoting industrialization produced different reactions amongst different social groups. The success of any policy depends upon the extent to which it can balance the interests of various classes within the society. A grand – design of policy making must be attempted with utmost prudence, as any radical measure may lead to popular discontentment and endanger the survival of the political regime. The rationale of increasing the industrial isn't sufficient to explain the vitality of a certain policy. It needs to be complemented by the acceptance of such policies by most sections of the society.

Rajiv Gandhi's modernization drive for rapid industrial development of the country was met with diverse responses by various groups. While the business communities, especially the big ones, and the new middle class welcomed the new initiatives of the government; the Left parties, factory workers and the old leadership within the Congress expressed their

[47] Ibid., page 102-106

dissatisfaction towards it. The reaction of these social and political groups can be investigated by analyzing their responses to the policy measures.

Business groups: The new policy measures were widely applauded by the large industrial houses. The increment of the threshold limit for MRTP companies to Rs. 100 crores was particularly beneficial to the large business houses. Since the very inception of the five year plans in late 40s, the FICCI had been highly instrumental in demanding lower taxes, delicensing, removal of restrictions on monopolies etc. These demands were ultimately met in the budget of 1985-86 and the new industrial policy pursued by the congress government under the leadership of Rajiv Gandhi.

There was some disagreement regarding indiscriminate opening up of the external sector. Although many industrialists welcomed the new initiatives regarding liberal import of technology, those who were producing the same quality of goods within the domestic market felt insecure. Generally, there was a consensual attitude amongst most industrialists towards industrial delicensing, deregulation and new taxation measures under the scheme of long term fiscal policy'.

Import liberalization was only welcomed by those industrialists who were willing to launch their products in the international market. To justify its stand on the policy of greater opening of the external sector, the Prime Minister stated that import liberalization was not on the immediate agenda. The idea was to foster competition within the domestic market at the initial stage and gradually open the economy to international competition.

Middle class: The biggest beneficiary of the new industrial policy was the emerging new middle class. Kohli has pointed out three issues that linked this particular class to the government. These are as follows:

i) There seemed to be a sense of identity with the new political leadership. Rajiv's new vision of establishing a high-tech industry strongly appealed the new middle class.

ii) The new taxation policy was particularly beneficial to the new middle class.

iii) A greater impetus provided to the consumer industry for production of high – tech household products like television, sets, refrigerators, computers etc seemed to be highly attractive. The new middle welcomed the idea of greater engagement with foreign companies through foreign collaboration and transfer of technology. This class had shown a strong tendency towards 'brand consciousness' showing greater preference for foreign brands over local products. The procurement of foreign products not only acted as a source of greater comfort but also a matter of 'status-symbol' for them.

The policy deregulation indirectly catered to the interests of the new middle class. E.Sridharan observes that deregulation can be expected to command widespread support among the middle classes, as regulation is identified with corruption and inefficiency. [48] The greater play of market forces provided a diversity of choice for the middle class consumer. It was beneficial both, from the point of view of price of the commodity, and maintaining a high standard of living. They welcomed the competitive thrust provided to the Indian industry under the new policy framework. As Romesh Thapar has commented that, India's middle class has been profoundly excited by the way in which the national budget has finally recognized the respectability of the capitalist system and its dominance on policy-making.[49] The political support of the new middle class to governments' new initiatives provided enough reason for continuing with the liberalization drive. Moreover, by the mid 80s it had become quite clear that the new middle class was emerging as a politically significant group, and that it was in the interest of various political parties to secure their political base amongst them.

Left parties and organized labor: A joint statement was put forward by 29 respected economists in October 1985 in Calcutta on their views regarding the new economic policy. The conference was organized CPM. Though majority of economist belonged to the left parties, there were liberal

[48] E.Sridharan (2004) "The Growth and Sectoral Composition of India's Middle Classes: Its impact on the Politics of Economic Liberalization", *India Review*, vol. 3, no.4, page 425
[49] Romesh, Thapar (March 30, 1984), "The New Economics", vol. XX, NO. 13, page 531-532

thinkers as well. Although there were divergent views on the new economic policy because of difference in perceptions, they came to the common conclusion that if the economic policy was self reliant economic growth and based on equity, the official policy trends unfolding in the name of liberalization of the economy would not help either to accelerate growth process or ensure equity for masses.[50]

The adherents of Marxist economic philosophy overtly condemned the new policies adopted by the government under the new economic policy. It was also felt that the policies were largely driven by IMF and World Bank strategies. They found a certain degree of convergence in the interests of such social classes and segments and their political representatives and the external forces, including the World Bank and the IMF, which were quite instrumental in pressuring the government for certain kind of policy adjustment.[51] The adherents of the new economic policy were labeled as 'World Bank strategies'.

The main support base of the left, the labor, was found to be adversely affected by the new industrial policy. The new trend in the direction of liberalization and modernization provided them with job insecurity. While on one hand liberalized imports reduced protection, more use of automation generated unemployment. Unorganized poor were being directly hit. The agitation of the workers against the policies of the government culminated in a national strike organized by the workers in the public sector in 1986. They overtly opposed the policy of privatization and the uncontrolled flow of foreign and national capital into public sector activities.[52] It was felt that the new modernization drive characterized by a high degree of computerization of the Indian industry would threaten the position and job of the factory workers.

Old leadership within the Congress: The new style of Rajiv's functioning as a general secretary of all India Congress Committee had created suspicion

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[50] BM, (October 26, 1985), "Economists Concern at economic Policy Drift", *Economic and Political Weekly*, pg 1813.
[51] Ibid. pg 1813
[52]Atul, Kohli *(1992). Democracy and Discontent: India's growing Crisis of Governability*, Cambridge: Cambridge University Press, page 335

in the minds of old congress leadership. The feudalistic orientation of these leaders and adherence to conventional methods of political functioning contradicted with Rajiv Gandhi's technocratic and managerial parlance of politics. Frankel observes that, the left within the congress as well as the old-style congressmen attached to the socialist pattern of society resisted any deviation from Nehru's policy of 'self-reliance' and Indira Gandhi's pro-poor policies.[53] In May 1985, the economic resolution presented to the congress working committee by the Finance Minister was overtly disputed. The old leadership resented the neglect of public sector in the new budget. It also showed its disagreement over the provision of greater incentives to MRTP and FERA companies. The new policy of import liberalization and greater allowance for foreign collaboration was seen as a threat to state – autonomy vis-à-vis foreign actors.

The new policies were attacked also from the point of view of electoral and political ramifications of abandoning socialism. Rajiv Gandhi, V.P. Singh and the economic advisors were criticized for the lack of political judgment in providing greater freedom to the private entrepreneurs. As Kohli observes that, the political behavior demonstrated by the new government was a result of extreme centralization of initiatives, lack of communication between the elites and the party ranks and the arrogance of power that comes from absolute wisdom of ones own opinions.[54] The internal dissensions had started emerging within the congress party over ideology and policy matters. Although the political leadership constantly asserted its commitment to socialism, it was felt that the overambitious goals of the government had led to the abandonment of socialist objectives. The political implication of the radical changes in the industrial policy framework did not go unnoticed by the political leadership itself. As VP Singh stated that, dismantling of public sector would result in populist backslash which will eventually destroy the privatization and weaken the region".[55]

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53 Francine, Frankel (2005). *India's Political Economy: 1947-2004*, New Delhi: Oxford University Press, page 586

54 Atul, Kohli (1991). *Democracy and Discontent: India's growing Crisis of Governability*, New York: Cambridge University Press, page 332

55 ____, "A Political Necessity, "*Hindustan times*, 9 December, 1986.

CONCLUSION

Since July 1986, liberalization of industrial licensing, easy access to import coupled with lowering of imports duties and promotions of foreign collaboration have become key aspects of the government's industrial policy. The ideational transformation in the direction of liberalization has been a result of various domestic and external factors that had become significant over a period of time. No great event, whether positive or negative, occurs spontaneously out of nothing. There are long term factors and forces both political and economic which create conditions for the event to occur and there occurs a spark or stimulus which results in the unfolding of events. Rise of particular classes as significant political forces alter the ideas and the policies of the government.

Ideas change with changing circumstances. However the changes are brought about within an overall framework of fundamental principles. Lakatos's framework for theoretical progress explains the vitality and primacy of certain basic principles which are perpetual in nature. In addition to this certain alternation are made at different instances to adjust the theories and their application with unfolding reality. The role of the state underwent a transformation from a regulatory to a promotional one. The private sector, that had remained insulated from the planning process till the emergency period became a major recipient of government incentives. The state played the role of a mentor, particularly the early years of the prime-ministership of Rajiv Gandhi, directing the energies of the private entrepreneurs into productive investment. Peter Evens points out that the state structures are embedded in a coherent set of social ties that binds the state to the society and provides institutionalized channels for continued negotiations and renegotiations of goals and policies. Though Peter Evans considers India as intermediate case, exhibiting partial and imperfect approximation of embedded autonomy, by the late 80s the nature of state intervention in economy reflects great proximity with the idea of 'embodied autonomy'. The technical and managerial approach adopted by Rajiv Gandhi and his group of economic advisors towards industrial transformation attempted to change the overall pattern of state's role in bringing about industrial transformation.

In the wake of fulfilling its long term vision of establishing a modern and technocratic industry, the government unwittingly came up with policies that catered to the interests of only a certain class of people. In the process, the interests of other groups such as factory workers and small businesses were adversely affected. The critics of the liberalization drive, especially those in the Left parties argued that the government was succumbing to the pressures of the big business houses and the new middle class at the domestic level and the international institutions such as the World Bank and IMF at the international level. These misapprehensions are however refuted by the following facts:

1. The government sought to promote an equal participation of public and private sector in industrialization

2. The conditionality attached to the industrial licensing, taxation and EXIM policies that the incentives to private firms were firmly based on prescribed performance standards. The firms were liable to penalties if the prescribed standards were not maintained

Chapter V

State and the Development of Computer Sector

The main motif of this chapter is to analyze the growth and structural changes in the Indian computer industry between 1960 and 1990, since its inception in 1960s. The reason behind the selection of computer industry as a case study is that it reflects a positive role of the state in changing its earlier strategies with greater play of market forces. Although, during the early 1980s a complete transformation from import substitution was not attempted, under the prime ministership of Rajiv Gandhi a full blown export-promotion was adopted. It became an imperative on the part of government to develop this sector as it came to be realized that it had strategic role to play in national development and economic growth. For any modern economy, it was essential to promote the computer industry as the computer technology could enhance productivity and efficiency in any economic activity. The unprecedented breakthrough in microelectronic technology led to the emergence of new products in the market characterized by high levels of efficiency, reliability and versatility. The convergence of electronics, computing and telecommunications also referred to as the 'New Industrial Revolution' or the 'Information Technology Revolution' brought significant transformation in the organizational structure of industrial activities. For India, it became really important to develop the industry on priority basis as a high level of efficiency in this sector had already been attained by the western nations and the newly industrialized countries in East Asia. To gain comparative advantage in the sector, especially the software industry, the government in the mid 80s took a series of initiatives. With the introduction of 'New Economic Policy' in the same period the private sector received a strong impetus from the government in taking charge and sharing the responsibility of industrial growth. The new measures adopted by the government abandoned the previous policy framework characterized by import substitution, stringent licensing and a series of controls and regulations imposed by the government. The underlying idea was to expedite the process of overall industrial growth that could be achieved by the rapid growth of certain industries termed as 'Sunrise Industries' ,namely electronics, petrochemicals and automobiles.

This chapter attempts to analyze the transition from inward-looking industrial strategy to export-led growth assigning greater responsibility to the private sector in the context of ever-increasing competitiveness in the global market for computer products. It also attempts to study the direct and indirect intervention by the government in promoting technological innovation which is essentially required for this sector. Technology is one of the most important resources for development. The state's role in the field of science and technology is however more critical for a developing nation, since no other sector in an initially poor nation has the capacity or resource to undertake major research or capital-intensive projects. The initial start up for the building of indigenous base for technology through the establishment of research centers requires an interventionist role of state and its agencies. However, after attaining a certain level of competence in this field a greater role is assigned to the private sector. In case of India, the government played an interventionist role in this area by establishing research centers all over the country. Since the mid 1980s the private sector was encouraged to shoulder the responsibility.

Associated with the idea of technological innovation is the induction of advanced and sophisticated technology from the western nations through joint ventures and foreign collaboration. On one hand the advent of foreign companies in the domestic market is necessary for technological innovation in the local industry; on the other hand it may lead to greater bargaining power of the foreign companies vis-à-vis their domestic partner. The contradiction calls for a greater intervention of the state to set the limits of participation by the foreign company.

Another area that has often been a matter of concern for industrial growth is the trade policy. An increase in the imports may drain out foreign exchange if not complemented by equal content of exports. The EXIM policy is conditioned by the nature of state intervention in promoting the industry. If the state follows an inward looking strategy and accordingly acts as a regulator then its prohibits imports, on the other hand a relatively liberal state gives greater incentives to import that are essentially required for the production of certain kinds of export oriented goods. But a state that permits the import of selective products and sets stringent conditions for export performance is not necessarily a liberal one since it controls the market by keeping a constant check on the whereabouts of the private firms.

The last variable that needs careful attention in the study of the evolution of computer industry in India is the role of political institutions established for the purpose of .regulating the activities of public, private and foreign enterprises operating in the computer sector.

Under the leadership of Indira Gandhi the complete focus was on self reliance; there was neither any industrial growth nor any significant exports. The emergence of pragmatic bureaucrats with their global ambitions in the Department of Electronics by the mid 1980s brought in the policy framework. There was greater interest amongst the new bureaucracy to work closely with the private sector. The pessimism towards the capacity of the private sector was completely abandoned. The new change in the attitude cleared almost half the hurdles that fell in the way of industrial growth.

The evolution of the computer industry in India can be studied in three phases.

Policy framework for Computer Industry in India

Phase I (1960-1970)

The genesis of computer industry in India can be traced back to August 1963 when the Committee on Electronics was established following India's defeat in the war with China the previous year. The chairman of the Atomic Energy Commission, Homi Bhaba was appointed as the chairman of the committee. The Bhaba Committee recommended ways to strengthen the technological base of the electronic industry. The committee recognized the significance of foreign firms in the production of large systems. It observed that the indigenous computer industry had the potential to produce medium and small systems which were in greater demand in the domestic market.[1] Initially the policy making was in the hands of Electronic Committee that was established in 1965 after the United States cut off the supply of electronic equipments during the war with Pakistan that year. Given the circumstances the Committee, the committee was dominated by the Defense

[1] Joseph, Grieco (1984). *Between Dependency and Autonomy: India's Experience with International Computer Industry*, Berkley and Los Angles: University of California Press, page 22

Ministry's Department of Defense Supplies. As the Electronic Committee lacked the finances and staff to implement policies, the Department of Electronics was established in June 1970. It reported directly to the Prime Minister. In February 1971, the Electronic Commission replaced the Electronic Committee as the primary policy making body.

The department of Electronics was basically the policing agency and emerged as the prime agency for devising suitable industrial strategies in the computer sector. The main task of the DOE has been enlisted as follows:

1. To approve the firm's entry into electronics and computer systems.
2. Approve changes in production line or increased output for a product already approved.[2]

This period can be characterized by a complete foreign control over the computer industry. IBM entered India in 1964 with other two major companies, namely, International Computers and Tabulators (ICL) and Digital Equipment Corporation. IBM was a 100% foreign owned subsidiary in India. ICL, a British firm involved 40% of Indian ownership in the manufacturing unit. It seemed to be a little more sensitive towards the participation of Indian entrepreneurs in the computer sector than IBM. However, the sales unit of the company which made all the decisions was completely under foreign control. Between 1962-1972 the shares of IBM and ICL taken together amounted to 85% of the total shares in the computer industry of India The IBM went on to dominate the Indian market until the early 70s, controlling nearly 75% of the market.[3]

A heavy dependence on the foreign companies especially on those that had greater political stakes in India is due to the incompetence of both public and private sector in this field. The market structure of the computer industry was completely concentrated. The foreign firms imported and renovated the already existing systems and leased them at very high rates.

Even though the computer industry was nowhere near to its establishment in India, a firm groundwork was laid by taking initiatives in developing a solid base of science and

[2] Peter, Evans (1995). *Embedded Autonomy: State and Industrial Transformation,* New Jersey: Princeton University Press, page 113

[3] Joseph, Grieco (1984). *Between Dependency and Autonomy: India's Experience with International Computer Industry*, Los Angles and Berkley: University of California Press

technology. Nehru's government set up a variety of R&D laboratories under the aegis of either specialized ministries or administrative councils. Under Nehru, the Indian parliament adopted the nation's first 'Science Policy Resolution' in March 1958, with committee's state-run R&D laboratories to serve heavy industrialization. India was the first nation to establish a government office dedicated to development and promotion of science and technology, namely, the 'Department of Science and Technology'.

At this stage groundwork for broader vision of a self reliant, import substituting computer industry, though no adequate measures were taken to build a public sector enterprise for the industry. At the same time the responsibility could not be handed over to private sector as there were none to shoulder the responsibility. The foreign firms, especially the IBM was most reluctant in securing greater collaboration with the Indian producers. It went to the extent of stating that it would prefer to withdraw than sharing ownership with Indian nationals.[4] The bargaining power of the government vis-à-vis the foreign firms was debilitated by the incapacity of both public and private enterprises to take up the big responsibility.

Phase II (1970-1980)

This period marked by the emergence of public sector unit for developing an indigenous computer industry. There is a shift in emphasis from the production of large computer systems to medium and small systems. A committee on microcomputers was formed that gave the following recommendations:

-to buy components from other companies

-adequate investment in R&D, design, assembly testing, software, maintenance and sales promotion[5]

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[4] Joseph, Grieco (1984). *Between Dependency and Autonomy: India's Experience with International Computer Industry*, Berkley and Los Angles: University of California, page 25

[5] Joseph, K.J., *Market and Performance: A case study of Computer Industry in India* (1989). New Delhi: Oxford University Press, page 70

One advantage of importing components was that the international market for components such as semiconductor chips and peripherals were becoming highly competitive thereby opening possibilities to choose among a wide range of products.[6]

To achieve the desired objectives the 'Electronic Corporation of India Limited' (ECIL) was formed in 1969 to develop and manufacture a wide range of products. The underlying idea was to develop a self reliant, import substituting public sector for the computer industry and avoid dependence on the foreign companies. The formation of ECIL was accompanied by the establishment of two peripheral industries, namely, Bharat Electronic Limited and Hindustan Teleprinter Limited. The ECIL functioned under the aegis of protection and regulation of the Department of Electronics. The policy framework in1970s laid greater emphasis on self reliance, employment generation and equitable distribution of productive assets.

M.G.K Menon, a solid state physicist and earlier director of Tata Institute of Fundamental Research was appointed as the first chairman of the Electronic Commission and secretary of the Department of Electronics. Apart from Menon, the other members of the EC were the Cabinet Secretary, the secretaries of the Finance Ministry, the planning commission and the chairman of the ECIL. Therefore, an institutional set up was charted out for the establishment of an indigenous computer industry. Investment decisions were taken not on the criterion of market profitability but in accordance with overall plan requirements.

The DOE'S disinclination towards securing an equity participation of the private enterprises in the production of computer systems was mainly grounded on the idea of providing greater protection to ECIL from undue competition in the domestic market and to secure technological autonomy in this area. In this way, the state played the role of demiurge in inhibiting the entry of private firms and delaying the exploitation of microprocessor technology by the Indian industry. [7] The private sector was often barred from operating in this sector, although both public sector enterprises and private sector firms were affected by a highly restrictive and discretionary licensing system in which the state sanction for virtually all aspects of their operation, be it production capacity, plant location or credit and foreign exchange needs was mandatory. To realize the

[6] ibid., page70

[7] Peter Evans (1995). *Embedded Autonomy: State and Industrial Transformation*, New Jersey: Princeton University Press, page 114

desired objectives the government introduced a series of control instruments under the rubric of Monopolies and Restrictive Trade Practices Act (MRTP) and Foreign Exchange Regulation Act (FERA).

The computer industry during this period was completely captured by ECIL. It was promoted as the national champion in the computer industry in India. The first system produced by the ECIL was a 12-bit machine, TDC-12. In 1974, it released a more advanced version of the machine, the TDC-312, and a 16-bit machine TDC-316. To develop software, ECIL assembled a team of hundred engineers and supplemented their efforts by awarding contracts to TFIR, Indian Institute of Management (Ahemdabad), the Indian Institute of Science (Bangalore), and Administrative Staff College of India (Hyderabad). [8]Compared with international standards the systems lacked efficiency.[9] The lack of adequate software severely limited the uses to which ECIL's computers could be put to use. Above all, the ECIL had built up a reputation for delays, inefficiency, astronomical prices and high levels of protection.[10] All this resulted in less demand of systems in the private sector. Of the 208 TDC-12, TDC-312 and TDC-316 computers sold by the ECIL until 1986-87, only 18 were purchased by the private sector. In contrast, of the 154 IBM machines installed until 1978, more than 50 were in use in the private sector.[11] The given data clearly reveals the productive capacity of the ECIL compared with IBM. However, by 1972 ECIL had displaced IBM as the major player in domestic market. The ECIL produced 40% of the total computer between 1973 and 1977.[12]The increase in share was a result of the efficiency or versatility of its products combined with adequate governmental support through policies that placed a series of control on the operations of private and foreign firms in the production of computer systems. As a result

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[8] Balaji, Parthasarthy (May 3, 2004), "Globalizing Information Technology: The Domestic Policy Context for India's Software Production and Exports, *Iterations: An Interdisciplinary Journal of Software History 3*, page 9

[9] ibid, page 10, a number of custom packages was developed for several applications including data acquisition system the DAE, and data loggers for the steel industry. However, there were few applications for the electronic data processing. E-COBOL was developed by ECIL that proved to be a non standard language. Due to its incompetence and inefficiency it could not be used to the utmost satisfaction of the users.

[10]By a Special Correspondent (December 1, 1984), "Computer Policy: Technology Goals Forgotten", *Economic and Political Weekly*, vol. XIX, no. 48, page 2017

[11] C.R., Subhramanium (1992). *India and the Computer: A Study of Planned Development*, New Delhi: Oxford University Press, page 193

[12]K.J., Joseph (1989). *Market and Performance: A Case Study of Computer Industry in India*, New Delhi: Oxford University Press, page 72, table 3.2

the ECIL could establish a strong foothold on the domestic market without any fear of competition from the private and foreign counterparts.

The increasing strength of the ECIL in the form of its economic gains itself provided greater bargaining power to the government to impose its conditionality on the operation of foreign firms in India.

The Department of Electronics began pressurizing both IBM and ICL, the two major foreign companies to move away from trading and manufacture more up to date data systems locally. Further since IBM's presence in India was through a 100% subsidiary of the parent company, it fell within the purview of Foreign Exchange Regulation Act (FERA), 1974. As per the provisions of the Act, the equity participation of foreign companies in any firm was fixed at 40%. A higher stake of 74% was permitted where there was a question of unavailability of the required technology in India. IBM proposed to set up a 100% export unit to manufacture peripherals and another unit to export software worth a million dollar annually. But this was conditional on the import of computer systems up to 80% of the value of exports. Also, it demanded 100% equity in core manufacturing, marketing and maintenance operations. [13] The conditions were unacceptable to the government because the conditions were not in consonance with the provisions of FERA. As a result the IBM was forced to shut its operations in India in 1978. [14]

Contrary to the failure of negotiation between the government and the IBM, ICL and Burroughs Corporation abided by the conditions of the government and continued with their operations. ICL diluted its ownership of the resulting enterprise to 40% paving way

[13] C.R., Subhramanium (1992), *India and the Computer: A Study of Planned Development*, New Delhi: Oxford University Press, page 193

[14]Zail, Singh (January, 1981), "Electronic in Indian Parliament", *Electronic Information and Planning*, vol8, no.4, January, 1981, page 204. In the parliamentary session 1977 during the question hour the following question was asked by Sitaram Kesari, Shree Shyamal Gupta and Shree Bhishma Narayan Singh: Whether the government held any talks with the IBM management in India and whether it has taken any decision on the continued function of the IBM in India. (RSQ 683). The answer was as follows: IBM has proposed to phase out its operations by the end of May 1978and has agreed to transfer all spares, tools, test equipments held by CMC, a wholly central government owned public sector undertaking to enable it to offer maintenance service with effect from the Ist of June, 1978, for all unit record equipment, computer systems and electronic typewriters supplied by IBM in India and also enter into valid maintenance service agreements who have such equipments. IBM has also offered equipment currently in rent for sale to existing users at a purchase price equal to three months rental; over this period the user would continue to use the equipment with maintenance by IBM, without any additional charge.

for its Indian unit to have majority ownership. The Burroughs Corporation formed a joint venture with Tata's on 50% ownership basis. [15]

Although, the period did not witness any advancement in the export arena as the computer industry in India was still in its nascent stage compared with international standards, some efforts were made in this direction. However, these moves were half-hearted. On September 1970, the DOE issued newspaper advertisements for developing software especially for exports. In 1973, the government established the Santa Cruz Electronics Export Processing Zone (SEEPZ) in Bombay. Guidelines issued in 1974 stated that computer time for exports would be guaranteed on a non-profit basis at the government's regional centers.[16]New computers could be imported provided there was no foreign collaboration involved and net foreign exchange earned within a five year period equaled the amount spent on imports. The export requirement was further increased to 200% of the cost of systems. The conditions proved to be highly unfavorable and restrictive. Secondly, the procedure for the import of computers was highly elaborate. A five step procedure had to be followed.[17] Laying half hearted conditions were not enough, what was essentially required was a complete revamp of the bureaucratic framework.

The Indian computer industry during the 70s operated within a highly regulated and autarkic framework. The imposition of a highly regulatory framework on the private sector was mainly on the ground of promoting ECIL as an unprecedented supplier of computer hardware for the domestic market. Instead of promoting the private sector as most of the newly industrialized nations did, the state attempted to monopolize the market in the industry. Ironically, it did not create much demand for its products among the private customers who had greater preference for foreign products. All that the

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[15]Joseph, Grieco (1984). *Between Dependency and Autonomy: India's Experience with International Computer Industry*, Berkley and Los Angles: University of California Press, page 30.

[16] Balaji, Parthasarthy, "Globalizing Information Technology: The Domestic Policy Context for India's Software Production, *Iterations: An Interdisciplinary Journal of Software History 3*, page 8

[17] These were the five steps that had to be followed for obtaining permission for imports:

1. Submitting application for imports.
2. Scrutiny by the DOE to see whether the requirement could be met domestically.
3. A Commission of Exports appointed by the DOE then evaluated the tenders and a final decision was made with input by the user.
4. A letter from the concerned state government stating that the interest of the labor would not be hurt
5. Placing of the order.

government could do was to create a niche within its own sectors especially the defense sector.

The efforts made in the direction of promoting software exports were half-hearted. The policies that permitted import of state-of-the-art computers in exchange for a guarantee to export a certain amount of software were not enthusiastically received. Import procedures were cumbersome; duties were still very high despite some minor concessions and the foreign exchange needed for business exchanges were difficult.

The IBM was forced to move out of its Indian operations by the imposition of exorbitant limits to equity participation under MRTP and FERA. The industry had to incur some serious losses with the exodus of IBM. The first and foremost of these is the loss of advanced technology that the industry received in the form of technical collaboration with the foreign firms. Secondly, the immediate loss was of the foreign exchange that could be generated by the export oriented programmes of the IBM. Despite all restrictions some private firms made entry into the computer industry by the mid-70s. The two most significant amongst these were DCM Data products DCM which initially produced hard calculators and later started making minicomputers and Hindustan Computer Limited, a joint venture between Microcomputer Limited UP Electronics Corporation Limited.

Phase III (1980-1987)

While policies regarding industrial growth in the 70s stressed on self-reliance, the use of indigenous technology, import substitution, in the 80s there was greater emphasis on openness, technology imports and export-led industrialization. It marked an overall departure from the earlier policies giving greater incentives for the promotion of private sector to make a mark in the field of computers especially software production.

The emergence of the new middle class by the mid 1980s in significant numbers also facilitated the adoption of pro-business, pro-private policies. The market for sophisticated electronics and the computer systems had expanded from government department to prominent sections of new middle class.

The attitudinal change towards engaging the private firms in the computer sector is well reflected in various policies advance by the government from time to time. The new incarnation of the DOE and the committee reports subscribe to the view that in order to promote rapid growth of the computer industry it was necessary to change the orientation towards dismantling controls over private sector enterprises, providing better prospects for investment, production and building in-house R&D.

Throughout the 70s the DOE incumbents set greater restrictions for the entry of private sector into the computer industry through its myriad of rules and regulations. The position of DOE changed completely since the early 80s demonstrating greater proclivity towards the promotion of private sector in the field of computers and electronic production. Peter Evans suggests following reasons behind the transformation in its attitude:

1. Informatics and Computers was a sector that could not possibly be used as a plank for power aggrandizement by either politicians or bureaucrats.
2. The sector neither represented a major political constituency nor was it a source of patronage. Therefore, no clientele exchange relation could be visible.
3. The DOE was inhabited by technically oriented managers who took adequate interest in the growth of the sector and were generally without any political affiliations. Therefore, the department was corruption free.

The period is marked by the entry and expansion of private sector in this industry. The 'Microcomputer policy' of 1978 gave a boost to the entry of private sector. Under this policy, permission was granted for setting up system's engineering companies to design and assemble computers. However, the policy was accompanied by certain restrictions. A limit of Rs. 20 million was set for annual production. Secondly, as per the guidelines of the new policy not more than five different types of systems could be produced and none of them could cost more than Rs. 3 lakhs. Also, an access to foreign exchange for importing components and peripherals was limited to Rs 2.6 million. [18]Taking advantage of the new policy, four private firms established themselves to produce microcomputers, incorporating advances in microprocessor technology. These firms captured 75% of the total computer market between 1978 and 1980. ECIL's share in the same field fell to 10.7% from approximately 50% between 1973 and 1977. Some of the private sector

[18]K.J., Joseph (1989). *Market and Performance; A Case Study of India's Computer Industry*, New Delhi: Oxford University Press, page 72

companies in the computer industry had already come into existence by 1978. One of these was Hindustan Computer Limited (HCL).[19]

Some of the others were Operational Research Group and International Data Management Limited.

A high level Review Committee was set up in December 1978 by the Prime Minister to undertake a quick review of policies and organizational structure in the field of electronics and computers. The report of the Committee was submitted to the government on September 1979. The committee recommended a package of measures in the area of industrial approvals, tariff policies, fiscal arrangements and exports. The essence of the package was dismantling of unnecessary controls, but with an overall coordinated and integrated approach on growth with due regard to specific strategies of development.[20]

In the new Import Policy for 1978-79, a large number of electronics and computer systems were placed under 'Open General License'.

In 1981 the government appointed the Sondhi and Menon Committee to review the status of electronics and computers in India and suggest measures for its improvement. The committees attacked the bureaucratic controls and regulatory procedures that hampered the growth of the industry. Paragraph 2 of the report makes the observation that in electronics the emphasis has so far been on regulatory rather than developmental or promotional aspects. It recognized the fact that the situation has stifled initiatives and enterprise, even in case of small entrepreneurs and self-employed technocrats, by subjecting them to time consuming procedures and multichannel scrutiny.[21] The Committee had held meetings with some of the industrial groups and professional experts and had come to the conclusion that these groups were unhappy with the existing state of affairs. Acknowledging the disenchantment of these groups towards government's policies and methods, the Sondhi Committee suggested that if growth of the electronic and computer industry has to gain momentum , the first step that needs to be taken is dismantling the present control structure to the extent that it does not sub serve the

[19] The unit was started as a joint venture between UP State Electronic Department Corporation and Microcomputer Limited in 1975. In 1981, the UP State Electronic Development Corporation bought back its share and HCL became a private sector unit..

[20] "A Report of the Review Committee on Electronics: Part-I" (March, 1980), *Electronics Information and Planning*, vol.7, no.6, page 303-388.

[21] "Sondhi and Menon Committee Reports on Electronics: Government decisions", (May, 1981), *Electronic Information and Planning*, page 595, para.2

accepted socio-economic objectives. In response to this suggestion, the government decided to review the existing regulatory framework and bring about necessary changes. Paragraph three of the report suggests that, to avoid excessive time consumption in the clearance of all applications, a time bound package of a maximum of 45 days should be fixed.[22]

On the R&D front, the committee recommended that the industry in private sector, especially those in the organized sector be persuaded to develop in-house R&D capability which should not be merely for the purpose of obtaining fiscal relief but essentially for the development of indigenous technology and for adaptation and upgradation of imported technology. It was suggested that reasonable percentage of turnover or profits of the industrial units should be invested on R&D which is meaningful, relevant and commercially linked with their production. The suggestion was welcomed by the government and it proposed that at the time of granting of industrial license to companies in the private sector for the manufacture of electronic items, a mandatory condition of the license should be that these companies have to invest 20% of their turnover on R&D.[23]For the first time, the private companies were invited to share the responsibility of R&D with the government. A closer interaction between the DOE and the industrial groups was recommended by organizing annual meetings to ensure that national specifications get involved over a large spectrum with overall requirements of the industry.[24]The committee proposed the prioritization of the production of minicomputers and microprocessors based system costing not more than Rs. 5 million with maximum flexibility on import of computers and all computer systems and such subsystems, peripherals, accessories, software etc as are under production in the country be subject to import duty at 1% and a countervailing duty at par with the excise duty levied on indigenous manufactures.[25]Although, some relaxation was proposed in the import of the accessories, not many changes in the existing procedure were recommended. The duties and tariffs recommended were still very high.

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[22] ibid.., Para 3
[23] ibid., Para 36, page 601
[24] ibid., para37, page 601
[25] ibid., page 604, Para 47(ii) . It says that the countervailing duty should be reduced to 8%. Full duty should be levied on identifiable discrete units of the above imported systems that are manufactured in India and already enjoy protective duty. Secondly, excise duties on all indigenous computer systems, subsystems, peripherals and accessories should be reduced from a level of 25% to a general of 8%.

The government provided series of concessions to the electronic and computer industry in the 1980-81 budget. Custom duty were to be reduced to a total of 25% from the existing levels of duty on specified items of capital goods such as machines and instruments required by the electronic industry not produced within the country computer industry, which was still considered to be in its infant state was provided an additional incentive for indigenous production and improvement. The excise duty on indigenously manufactured computers was reduced from 25% to 20% ad valorem.[26] Moreover, the government recognized that in 1980-81 and 1981-82 Union budget, the DOE had recommended a series of financial incentives for electronic products, including computers, most of which were accepted by the Finance Ministry and included in the budget. It was proposed that the electronics components industry must be included in the ninth schedule to Income –tax Act and thus dividends derived by a domestic company from an Indian company engaged exclusively in the manufacture of electronic components will be completely eliminated from income tax. The scope of import duty concessions extended to cover fifty nine new items of capital equipments and twenty three items of raw materials and components used by the electronic industry.[27]

Despite these minor concessions provided by the government after accepting the recommendations of made by the report various Committees, out of the 86 approvals that were given by the DOE for the manufacture of computers, only six licenses went into the production.[28]Concerned with the existing state of affairs in the computer industry, the Electronics Commission undertook the task of revising the Computer Policy in the later half of 1982. After much input and data a draft policy was approved on 14 September 1983. Unfortunately, the draft never became a policy.

Taking advantage of the current situation, Aziz Premji, the chairman of the WIPRO company decided to enter computer business. Thus WIPRO was a direct offspring of an established business house. The inability of HCL to enter the minicomputer industry provided WIPRO the chance of harnessing the opportunity. The first minicomputer built by the company powered the early IBM PCs. By the mid 1980s WIPRO was successful

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[26] *Budget Speech*, 1980-81, Ministry of Finance, page 27-28
[27] *Budget Speech*, 1981-82, Ministry of Finance, page 26
[28]C.R., Subramanian (1992). *India and the Computer: A Study of Planned Development*, New Delhi: Oxford University Press, page 40

in implementing the latest version of UNIX on a minicomputer built around the new microprocessor launched by INTEL in 1986. [29]

To transform the existing pattern, the Rajiv Gandhi government in 1984 adopted a liberal approach in removing the institutional barriers by announcing the 'Computer Policy' in November 1984. The new policy aimed at developing manufacturing capabilities in the country incorporating advanced technologies, simplifying procedures and promoting applications for software development. The underlying idea was to foster the production of computers based on latest technology at prices comparable with international standards and with progressively increasing indigenous content. [30] Under this new policy framework, no restrictions were to be imposed on the entry of firms including large industrial houses (MRTP) companies and foreign controlled firms (FERA) companies. There was complete relaxation on the import of computer technology, components and capital goods. The basic idea and objective was to induce technological innovation and produce computers at internationally competitive prices.

However, a high duty was to be levied on those products which were produced by the Indian manufacturers to give them protection. Nevertheless, it was decided that gradually such restrictions would be removed to give protection to such products in the international market once a certain level of efficiency and competence is attained. As far as the manufacture of mainframe was concerned, they continued to be reserved for the public sector that is the ECIL, although the reservation was to cease after two years.

The software sector received a strong impetus from the Computer Policy. It was recognized as an 'industry' eligible for investment, allowance and other kinds of incentives. Although, duties for the import of software were lowered, a high duty on application software was to be continued.[31] On the technological front and R&D efforts, a 'National Microelectronics Council' was to be set up to plan and coordinate computer R&D among existing R&D centers.

The 1984 policy marked a through departure from the earlier polices adopting a relatively liberal approach towards the industry. Despite such liberal measures, a certain amount of

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[29]Peter, Evans (1995), *Embedded Autonomy: State and Industrial Transformation*, New Jersey: Princeton University Press, page 168

[30]*Economic Survey*, Government of India, 1984., page 20

[31] Source code and object code could be imported at 60% ad valorem, instead of 100%

protection to the private sector was essentially required. The ISI strategy was to be applied selectively for providing greater space and time to the private firms in attaining a reasonable level of competence in the field. However, a relatively free policy environment enabled them to gain access to fast changing technologies in the international computer industry. The 1984 policy succeeded in achieving one of its main objectives, which was to ease availability of computers, especially microcomputers. A more business friendly environment provided by the 1984 policy framework resulted in almost ten-fold increase in the production of microcomputer; from 3400 in 1984-85 to 33000 in two years.[32]

The new computer policy received crucial political support from the cabinet members. As Parthasarthy points out that political support came from Shivraj Patil, Minister of State for Science and Technology; and from M.S.Sanjeevi Rao, the Deputy Minister of Electronics and the Chairman, EC. [33]There was wide political consensus amongst the cabinet members in adopting a new approach for the promotion of computer industry.

Another major breakthrough in the history and evolution of the computer industry in India is the 'Computer Software Export, Development and Training Policy', announced on 18 December 1986. The main objective of the policy was to increase India's share of world software production by facilitating India's software exports besides promoting the domestic industry. Under the new dispensation, Indian firms were to be provided a ready access to latest software technology and software tools to improve the technological content of the products. To achieve the desired objective, the policy placed the software imports in the Open General License category i.e. software could be imported in any form, in any quantity and by anybody by paying 60% ad volorem duty. Being placed in the OGL list meant that an item could be imported by merely paying the import duty without obtaining the import license.

The bureaucratic procedures, under the new policy were also simplified. Those wanting to import hardware for software production could apply to IMSC. Another route for obtaining such a license was the EXIM Bank. In fact, import through the later route was

[32]C.R., Subramanian (1992). *India and the Computer: A Study of Planned Development*, New Delhi: Oxford University Press, page 75

[33] Balaji, Parthasarthy (May 3, 2004),, "Globalizing Information Technology: The Domestic Policy Context for India's Software Production and Exports", *Iterations: An Interdisciplinary Journal of Software History 3*, page 12

given 50% duty rebate. However, these policy measures did not go unconditional. The government had adopted a performance oriented approach. Importers who went through the IMSC route and needed foreign exchange from the government had to generate net exports equivalent to 250% of the amount, while those who followed the EXIM bank route had an obligation of 350%. The time frame for achieving the expected targets was fixed to four years. All those who failed to meet the requirements had to pay a penalty equal to the export shortfall.

The 1986 policy marked a complete switch over to export-led growth strategy. While the earlier policies had adopted measures in simplifying the controls and regulations, the new approach transformed the role of the state from regulatory to promotional. The policy also invited foreign investment and promised to make venture capital available to encourage new firms in the area.

The prime mover behind '84 and '86 policies was Dr, N.Sheshagiri, Additional Secretary at the DOE. Seshagiri had long argued that India's policies were too restrictive, its procedures too cumbersome, and the idea of self reliance was defeating. Parthasarthy further elaborates on this and says that, as Seshagiri's view fitted well with Rajiv Gandhi's own interest in encouraging the widespread application of computers, Seshgiri came to be one of Gandhi's 'computer boys', as the PM's team of advisors popularly referred to. With political backing at the highest level, Seshgiri was able to push through his policies without even formally informing the EC until February 1985[34]

The Software Policy of 1987 made some changes in the 1986 policy framework by placing some amount of restrictions on the imports. With India's growing inability to pay for the imports new norms were introduced regarding import of software under OGL. It was now to be restricted actual users, including government department and computer manufacturers, the DOE, and the firms registered with the DOE as distributors of foreign software. The duty on imported software was raised from 60 to 65% in 1988. The policy indicates backtrack from the earlier policies of 1984 and 1986 that had provided greater concessions for trade and tariffs. It was felt in many corners that with an increasing propensity towards neo-liberal policy Rajiv Gandhi had gone a little to far from the socio-economic objectives. The ambitious Prime Minister had come to realize that continuation

[34] Ibid., page 13

of such extremist policies that were 'elitist' in nature might insecure his position and disrupt his political image. Consequently, he slashed down some of the earlier concessions provided under the1984 and 1986 policies. Probably, the new paradigm shift had created unrest amongst various sections of the society, especially the workers as the various moves were seen as political appeasement of the industrial groups and the multinational companies.

Although, some attempts towards liberalization had already begun since the late 70s, an overhaul of the earlier strategy was achieved only since the mid 80s. The election of Rajiv Gandhi was a turning point for policy reform in India's computer industry. The new policy framework with a pro-business orientation created greater incentives for production and investment by the private entrepreneurs. With the rise of the new middle class the demand for computers was increasing in the domestic market. By providing fresh breeding grounds to a number of private firms that wished to make their mark in this field, the government facilitated competition in the domestic market. Therefore, the government acted in the best interest of the consumers who could now choose among a range of products available in the domestic market. A series of import concessions provided by the government lured many companies to enter software production.

The production of systems increased at a rapid rate after the advancement of various concessional schemes to private production. Table 1 provides figures of Indian Computer production and export s in hardware and software between 1984 and 1988 (in millions of US dollars)

	1984	1985	1986	1987	1988
COMPUTER PRODUCTION	66	111	200	268	347
HARDWARE - EXPORTS	0.6	0.5	3	3	-
SOFTWARE- EXPORTS	17	20	30	41	-

Inference: the data indicates a significant rise in production from 1984 to 1988. While, in case of hardware exports the figures indicate fluctuating trends, the software exports have risen at a tremendous rate.

Critical Analysis and Conclusion

The iron fist control by the government over the private sector, an inward looking industrial and trade strategy, technological degradation, stringent bureaucratic norms, corruption and red tapesim embedded in the bureaucratic and the political system and prioritizing power aggrandizement over industrial development had resulted in dismal performance of the computer industry in India in the 70s. The main elements of policy framework that had stifled efficiency and growth until the mid 70s were as follows:

1. Extensive bureaucratic control over production and investment.
2. Inward-looking industrial, trade and foreign investment policies.
3. A substantive public sector, ECIL, going well beyond the conventional confines of public utilities and infrastructural development.

The first two adversely affected the growth of private sector. It stifled the entrepreneurs and isolated India from the global economy. Consequently, we lacked behind in the export arena. The third factor that highlights the inefficiency of ECIL compared with IBM additionally impaired PSU's contribution to the economy. It posed a barrier to what India could get out of its investment.

The dogmatic adherence to regulation of private sector and placing limits on the operations of foreign firms indicates a growing tendency of the government towards monopolization of the industry by the public sector. The ideological underpinnings of the government provided the rationale for greater dependence on ECIL for development of the industry. The sustenance of the dominant position of ECIL necessitated limiting the operations of IBM and the other foreign firms operating in the sector by restricting them to a certain minimum level of production by setting stringent conditions for equity participation.

The Indian planners and bureaucrats sought to regulate both domestic and import competitions, to eliminate product diversification beyond what was licensed, to set exorbitant limits to capacity building and define virtually all aspects of investment and production through a maze of controls.[35] All these measures left no ground for the autonomy of the entrepreneurs. Bhagwati points out that, institutions like the licensing system and other measures for strict control by the government created interests where politicians profited from corruption, bureaucrats grew like Frankenstein monster enjoying immense power, and business and labor who liked sheltered markets.[36]In reality, the priority of the government was to establish its monopoly in the market and eliminate all its rivals, be it private firms or foreign companies. The aversion towards foreign companies is clearly reflected in its authoritative allocations like MRTP and FERA.

On the technological front there has been yawning gap between the promises made by the government on this front and its fulfillment in real terms. Although, some serious attempts were made in Nehruvian era in the upgradation of science and technology essentially required for the establishment of computer industry, all such initiatives were relegated a backseat in the face of authoritarian policies of the new government. Technology acquisition till the late 70s has been a difficult proposition. While countries like Japan spent about $115 billion for technology import between 1965 and 1985, India acquired technology worth about $4 billion in the same period, which is hardly 1% of the industrial value added. Also, for every dollar of technology acquired, Japanese firms spent about 3 dollars in R&D, engineering and demonstration. In contrast, India as a whole, including firms and laboratories barely spent a dollar on R&D development for every dollar of technology imported. The coordination between R&D development and investment plans was missing. A cooperative venture between state and business firms was completely rejected. It has been pointed out that, with a concern for state capitalism and bureaucratic controls bordering on the neurotic, the DOE built up a history of delays and confusion. As far as an application for the import of a computer was concerned, it used to take over two years of wrangling in the committees before it was accepted or rejected, unless the prospective importer decided earlier that he had better use of his money. [37]Decisions

[35] Jagdish, Bhagwati (1993) *India in Transition,*, Oxford University Press: New Delhi, page 53
[36] Ibid., see page 53
[37] By a Special Correspondent (December 1, 1984), "Computer Policy: Technology Goals Forgotten", *Economic and Political Weekly*, vol. XIX, no.48, page 2017

were taken invariably by the officials of the department, often inspired by a few shadowy academicians who acquired power leverage, though each application by a committee composed of supposedly independent but certainly unwilling individuals from governmental or quasi governmental organizations. A political nexus between government, bureaucrats and the technocrats demolished all initiatives for the growth of the computer industry in the wake of ever-increasing desire towards power aggrandizement. The institutional framework was used as an instrument for the fulfillment of collective ambitions of the association.

However, the early 80s witnessed some changes in the attitude of the government towards establishing a relatively liberal environment for private entrepreneurs. There was recognition of the ill effects of controls and regulations and inadequacies of the import substitution strategy. A follow-up to this is the New Economic Policy of 1981 that lays a suitable groundwork for the promotion of private sector. As V.V.Bhatt points out that, the devaluation of the public sector and opening up of the economy are the two stark shifts that Indira Gandhi initiated as soon as she came back to power, and this has gone down well with most of the sections of the ruling elite, particularly the urban capitalists.[38]However, the new policies reflected a half-hearted liberalization as the export front had not yet been ventured adequately.

The new changes could be brought amidst a general consensus towards overhauling the regulatory framework that impeded the prospects of private sector participation in the field of computer and software production. The government attempted to establish direct linkages with the local firms to develop the industry which was under the dominant control of the ECIL. This marked change is evident in the subsequent meetings between the committee members of Samadhi and Menon committees and the leading industrialists before drafting the report. In addition to the recommendation on dismantling the control structure, the committee advocated greater interaction between the DOE and private firms in devising strategies to improve production.

The election of Rajiv Gandhi marked a turning point for policy reforms in India's computer and software industry. His administration was the first to emphasize new

[38] V.V., .Bhatt (March 23, 1985), "Government-Enterprise Relationship and Public Enterprise Performance", *Economic and Political Weekly*, vol. XX, no.12, page 503-504

policies for electronics, software and telecommunications and other emerging industries that can be grouped under what is commonly termed as 'sunrise industries'. The 1984 policy partially revamped the inward-looking strategy for the promotion of software industry. The shift in policy would not have been possible but for the political backing that it received. The previous autarkic economic model was abandoned and software was amongst the first industries that benefited from the shift. The emergence of HCL, WIPRO and various others by the early 80s is a direct pin-pointer to this.

Various export-promotion measures were advanced to promote the promising software industry in the international market. As suggested by R. Schware, the exports and marketing measures are crucial for software promotion. Some of the export measures are direct in nature like reduction of taxes in export revenues, exempting duty on imported hardware etc., while there are others that are indirect in nature such as setting joint venture training institutes, sponsoring business delegation to explore overseas market, supporting software market groups etc.[39]All these ideas got actualized in the software policy of 1986. The new policy redefined the role of state in industrial growth. In this context, it would be wrong to state that the policy marked a complete retreat of the state. The state had adopted the role of a guardian as seen in the case of the 'Newly Industrializing Countries'. It opted for a performance oriented approach. Export targets were fixed failing which a heavy penalty had to be paid. There was a strong emphasis on efficiency, competence and versatility as in the case of some of the East Asian nations like Taiwan and South Korea.

The concessions advanced by the government to promote exports were interpreted as being neo-liberal and elitist, although the government reiterated its commitment towards the distribution of the benefits of modernization on egalitarian basis. Concerned with the grievances of some sections of the society, the government had to take a step back in the software policy of1987. The alterations made in the '87 policy thus had political underpinnings. The Congress party under Rajiv Gandhi had to

[39] Robert, Schware (1987), "Software Industry Development in the Third World", *World Development*, vol.15, no.11, 1987, page 1263

secure its position and mandate which had already become shaky due to stark shifts in policy line.

Chapter: VI

Conclusion

The empirical history of industrial policy making in India suggests that the state has acquired the center stage in rapid industrialization of the country. In the process, the nature of state has itself undergone a transformation from an interventionist state to a guardian assisting the business groups in their operations in new industrial ventures. While an interventionist state which was prohibitive in reneged the complicity of big business groups in various industrial projects by placing several restrictions on capacity expansion and investment, the guardian state provided a series of incentives creating better prospects for business to flourish.

The state uses a series of control instruments such as industrial and import licensing, taxation measures etc. to regulate the activities of private enterprises as well as the foreign firms. The rationale behind the imposition of various restrictions through these control instruments was to check the concentration of economic power in few dominant business groups and lay suitable ground for the expansion of small businesses, which would otherwise lag behind in the race. At the same time greater responsibility was to be assigned to the public sector enterprises to meet the targeted goals of industrialization.

The attitudinal change towards forging close linkages with big business groups and creating better prospects for foreign investment and technical collaboration was conditioned by the setbacks suffered due to failure of past practices that had produced dismal industrial performance. This phenomenon is well observed in the case of computer industry where private production and investment got a strong impetus since the mid-1980s, and various private companies like Wipro replaced the ECIL as major producer of computers. In addition to this the induction of new ideas, establishment of new political alliances, the interest of the party towards establishing its base amongst the new middle classes and alienation from the CPI led to the advancement of policies that concentrated on industrial modernization. The ideological underpinnings of the political leadership struck a fine chord with those of its new set of economic advisors who were highly professional and liberal in their orientation. The perfect harmony of new ideas facilitated the abandonment of past industrial strategies and adoption of new methods to transform the existing pattern of industrialization. The limitations of excessive governmental control and regulation of the private and public sector enterprises and inimical attitude towards the engagement of private firms in core industrial sectors were widely recognized. The redundancy of past practices had resulted in a high cost, inefficient and technologically obsolete industrial units commonly called as the sick units.

During the later half of 1960s the power politics that existed within the Congress party played a decisive role in determining the nature and direction of industrial policies. The internal contradictions within the Congress party over the question of ideology and authority ultimately led to its split in 1969. The resulting alignment between the Congress and CPI necessitated the advancement of greater state control over private sector activities and nationalization of banks and industries. A significant presence of ex-communists and social radicals within the Congress party and the requisite support of the CPI from outside checked the concentration of power amongst big business groups and advocated greater reliance on public sector enterprises for the industrial development of the country.

The interest of the Congress party was closely linked with its ideological underpinnings in socialism. The congruence of interest and ideology provided the necessary rationale of assigning greater responsibility to public sector enterprises, advancement of MRTP, FERA and stringent licensing measures to check the monopoly of big business houses and imposition of strict conditions for the operation of foreign firms in equity participation and technological collaboration. On the contrary, the small-scale enterprises were provided with adequate incentives and the public sector enterprises were assigned the enormous task of promoting rapid industrialization.

The ideology of the government had to be altered with the changing needs of the society; the rising demands of the new classes; electoral compulsions; impending need to search for new political alliances; induction of fresh recruits within the Congress party and economic turmoil both at domestic and international levels. These new developments called for revision of past practices and adoption of new ideas that addressed the prevailing economic and political quagmire more effectively. The transformative practices are clearly reflected in the industrial policies of the government during the in the emergency period, the second tenure of Mrs. Gandhi and later under the leadership of Shree. Rajiv Gandhi.

The deteriorating economic and political situation by the mid-70s put pressure on the government to resort to various disciplinary actions to set things in order. The Congress alienated itself from the CPI by moving in a direction that no longer heeded to the desires and aspirations of the CPI and the ex-communists within Congress. Consequently, the government decided to establish proximate linkages with a few prominent businessmen and advanced policy changes that created better prospects for private investment and exports. It is most interesting to note that the attitude of government towards private production and investment underwent a change during the emergency period. A certain degree of relaxation on industrial and import licensing undoubtedly created relatively better prospects for private entrepreneurs to invest in new areas. This period marked the beginning of industrial liberalization. However, the policy changes were marginal.

The ideology of the government underwent further readjustment during Mrs. Gandhi's second tenure. The defeat of the Congress party in the national elections of 1977 as a result of Mrs. Gandhi's authoritarian practices during the emergency years directed it to follow a balanced approach towards meeting diverse demands of various sections of the society and advance policy changes in a piecemeal fashion. While there was no possibility of reversing the trend of industrial liberalization already started in the mid 1970s., the rhetoric of 'socialism' and 'equality' was maintained to keep the marginalized groups pacified. The policies marked continuity with the past in subtler forms amidst changes that were attempted in a slow and steady fashion. The industrial policies providing relaxation of MRTP, FERA and industrial licensing, corporate taxation etc. created a propitious environment for private investment and production. The ideological shift was most prominent under the leadership of Rajiv Gandhi, so much so that despite constant assertions made by the government towards its adherence to socialist principles and equitable redistribution of modernization benefits, the policies created social unrest amongst various sections of the society and political parties.

Although the government has played an autonomous role in transforming the pattern of industrialization, its embededness in certain societal groups has certainly influenced its industrial policies. The differential state-class linkages during various instances have been conditioned by the political and economic compulsions of the respective periods. During the 70s, the alliance between the Congress party attempted to create a social base amongst small business associations, labor groups and other marginalized sections of the society, and thus came up with policies that directly catered to their interests. On the other hand, it stifled the initiatives of the big business groups. On the contrary, the government moved closer to a selected group of businessmen during the emergency period. These businessmen included those who were successful in winning personal favors of Shree. Sanjay Gandhi.

The emergence of the new middle class by the mid-80s as a significant group necessitated the advancement of policies that provided a strong impetus to the production of highly sophisticated consumer goods, electronics and computers. This further required readjustment of the earlier policies towards greater induction of advanced technology in the Indian industry by encouraging foreign collaboration and R&D efforts of the private firms. The Congress party secured a political base amongst the leading industrialists and the new middle classes by acting favorably in the interest of these groups. The appeasement of these groups created discontentment amongst other sections of the society whose interests directly clashed with elite sections of the society.

The new incarnation of the government with greater interest in promoting private business and seeking their active cooperation in industrialization has accorded well with the embedded autonomy thesis advocated by Peter Evans. The government maintained its control over the private firms by setting strict performance standards for private production that had to be met within a stipulated time period. Any deviation from the prescribed standards was subjected to penalties and reassessment of the incentives provided.

In addition to the domestic factors certain international factors have also been responsible in the readjustment of economic policies. The intermittent changes in the international market have often created disjuncture in the economy and led to revision of fiscal, trade and industrial policies. The lob-sided monetary and trade policies of the government in the early 70s resulted in balance of payment crisis by the mid-70s and industrial production plummeted causing economic instability. In order to restore stability the government announced its twenty-point economic programme. New changes were made in the sphere of industrial licensing to stimulate investment in priority sectors.

By the early 80s it was quite clear that in order to harness the benefits of the global market a strong impetus was required for the promotion of Indian exports. The government paid prudent attention to priority sectors that exhibited a certain level of comparative advantage. The first and the foremost step to develop these sectors were to induce advanced technology into them. The new policies attempted to provide a strong thrust to the techno-centric industrial sectors categorized as 'sunrise industries'. It was felt that the participation of private firms in innovative industrial ventures in such sectors would make them internationally competitive. The liberal policies of the government prescribed greater incentives for the private firms to invest in these sectors and develop the requisite R&D for the induction of sophisticated technology. These attitudinal changes was clearly influenced by the realization that without facing competition in the international market the industries remain incubated in a shell that ultimately makes them redundant and inoperative. The fresh demands of the domestic and international market called for a new outlook on the part of government, the bureaucracy and the technocracy. The needs of the time demanded closer interaction between the government, bureaucracy, technocracy, private entrepreneurs, industrialists, and the labor to devise effective strategies that would make the Indian industry forward looking.

The interplay of ideology, alliances, state-class linkages, changes in global market, electoral compulsions and crisis has defined the limits and boundaries within which shifts in industrial policy-making is attempted. The transgression of these boundaries have often disrupted the image of the state and delegitmized the policies. For instance, during the emergency period the image of the state was completely disrupted as the government transgressed its prescribed boundaries to restore economic and political stability. The association between the political leadership and a selected group of businessmen based on favoritism blurred the boundaries between state and societal actors. The phenomenon is in contrast with state-business linkages during latter periods where the state played an autonomous role by attempting to build a potent industrial base with the cooperation of private firms. The incentives were backed by strict control and vigilance over the activities of private business and foreign firms through the prescription of requisite performance standards.

The overambitious designs of industrialization under the leadership of Rajiv Gandhi and its benefits reaching to certain sections of the society created unrest amongst most other sections whose interests were directly hit by the new initiatives of the government. The political constraints on policy-making have often prohibited the government to attempt stark shifts in devising industrial strategies to meet the desired targets. Any radical shift in policy-making has often been interpreted as deviation from prescribed norms and ideology; succumbing to the pressures of dominant interest groups and international institutions and actors; and canvassing to win favor of such political parties that struck the right chord with the interest and ideological underpinnings of the majority party. Atul Kohli has pointed out that in a multi-class fragmented state like India; policy intervention is aimed at not only promoting growth but also enhancing legitimacy and short-term welfare provisions. The two are often at odds with each other.[1] The most effective way to maintain a balance between the two would be to advance changes in piecemeal fashion so as to eschew political repercussions of any kind. The success of any policy lies in the extent to which it can balance the interests of all the stakeholders. A perfect illustration of such equilibrium is visible during Mrs. Gandhi's second tenure. The disturbance in the equilibrium was alarming during the mid-80s when past practices were completely overhauled and replaced by new strategies to develop a modern and hi-tech industry.

The governed market theory is most unlikely to explain the impact of social and political constraints on active state intervention in the economy. The divergent demands of the interest groups determine the contours of industrial policies. The advocacy of state insulation from societal ties in promoting rapid industrialization is most unworkable in a multi-class, multiethnic and country like India where even minor changes in policies affect millions of people. The emulation of authoritarian models like that of East Asia for developmental planning in a democratic nation like India is far from the reality. The governed-market advocates loose sight of the innumerable democratic constraints that arise out of contradictory interests between various classes within the society. The complexities of state-society relations determine the developmental goals and the nature of state intervention in industrialization of the country.

The state in society approach provides deeper insights into state-societal linkages in explaining the determinants of policy-making in a developing nation. However, it falls short of illustrating the interlinkages between other factors such as ideology, alliances, power politics, electoral compulsions, international linkages etc. that are responsible for varied patterns of industrial-policy making at different instances of time. These factors structure state-class linkages in certain fashion and thereby shape the policies in a way that caters to the interests of certain dominant classes. The formula for understanding factors influencing industrial policies can be best illustrated as follows:

[1] Atul, Kohli (2004). *Political Power and Globalization in the Global Periphery*, New York: Cambridge University Press, page 14

Interplay of ideology, alliance, interests, electoral compulsions, nature of political leadership, crisis, new class formations, international linkages ▶ state-societal linkages ▶ industrial policies such as industrial licensing, import licensing, export-incentives, technology policy, taxation, public/private incentives

With passage of time these factors transform the configuration of state-societal linkages and create new structures and patterns of relationships. These new patterns lead to policy changes that best suit the interest of dominant classes. While the state forged close links with the labor and small business associations in the early 70s, since the early 80s it moved closer to the business groups to promote rapid industrialization of the country. As a result the industrial policies in the early 70s were highly restrictive for the expansion of big business houses. On the contrary, the relaxation of industrial licensing, taxation etc served to create handsome opportunities for big businesses to invest in innovative industrial ventures.

While the government has subsequently reasserted its commitment towards accommodating the interest of all stakeholders through its egalitarian industrial policies, it has wittingly or unwittingly moved in a direction that has best suited the interests of certain classes. The dominant role of public sector, for instance was thoroughly in the interest of the labor groups who found their position insecure in the expansion of private business and foreign firms. This is precisely the reason why these groups were most dissatisfied with the liberal prescription of the government to the private firms in the mid-80s.

The success of any industrial policy lies in its ability to accommodate the interest of all classes in addition to increment in numerical figures of industrial index. This is where the basic difference lies between industrial growth and industrial development. While, industrial growth refers to absolute increase in industrial index, the essence of industrial development lies in distributing its benefits to all on egalitarian basis. Therefore, it is very essential to carry out the task of policy formulation with utmost caution. The lessons of 1970s and the 80s guide us in this direction. While we cherish the efforts of the subsequent governments to build a potent industrial base of the country, the grim lessons learnt in the process has served as an effective guide for the future. It has provided us the benefit of doubt before advancing radical changes in policy framework. The essence of policy process in India lies in its effectiveness to strike a balance between continuity and change. While continuity depicts government's adherence to past practices and ideas which reaffirms its commitment to the egalitarian principles established by its predecessors; change and transformation tends to adjust the past practices with changing needs of the time.

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