THE STATE AND LIBERALISATION : A STUDY OF INDIA'S CHANGING INDUSTRIAL POLICY (1980–91)

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DECLARLATION

This is to certify that this dissertation entitled "THE STATE AND LIBERALISATION: A STUDY OF CHANGES IN INDIA'S INDUSTRIAL POLICY (1980-91)", submitted by Ms. Nikki Singh in partial fulfilment of the requirements for the award of the degree of MASTER OF PHILOSOPHY, has not been previously submitted for any degree of this or any other University. This is her own work.

We recommend this dissertation be placed before the examiners for evaluation.

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INTRODUCTION

"..........there is a view that the Nehruvian path of development which we have followed during the past 40 years is ideal and should not be tampared with. This view fails to take into account that after 40 years down this path we still have over 250 million people living below the poverty line......."

-SUDIPTO MUNDLE

"The discourse of planning in India in the statist paradigm .....the state has been seen as a virtually autonomus entity acting on a passive society-or rather that a society that could be galvanised into appropriate reponses desired by planner and policy makers. To this over simplified paradigm of the free market which also posits an all powerful state which is the source of of all unproductive (rent seeking) activities."

AMIYA KUMAR BAGCHI

The aforesaid views are representative of the mood that is prevailing among the literate and the influential who in the past few decade have been questioning the relative merit of the role of the state and that of the market sounded on the basis of the development experiences in India.

In the period between 1980-1991 the Indian state has been passing through a phase of great turbulence in the political arena. Fissiparous tendencies and regional movements in different parts of the country have combined with caste and communal tensions, in both rural and urban areas leading to what political scientist Atul Kohli has described as the 'crisis of governability in India.'[1]

At the same time it is shown to be a period of remarkable contrast, for this period is also witnessing changes in the economic policy of the state, in a significant deviation from the legacy that was carried since the hey day of freedom struggle. Such changes have headed toward what have been popularly known as liberalisation.

Broadly a product of the west, the term liberalisation, generally means 'opening up'. In the contemporary international arena, discourses on the changing aspects of the global economy has come to acquire pre-ponderence over other issues. Liberalisation in this context is today recognised as world wide phenomena, especially after the dismantling of the Soviet Union and other socialist economies of East Europe. Developments towards 'privatization' or 'globalization' are all part of liberalization programmes. Openinig

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1. Sudipto Mundle, "Conflicts of Ideas and Powerful Interests", The Week, Dec. 27th, 1991.

up of any given economy has two aspects to it. The first is the internal aspect that connotes changes at the domestic level in terms of Denationalization-the transfer of public property and enterprizes to private investors; Franchising - contracting out to the private firms a public services financed by taxes or Deregulation which stands for liberalization of private enterprize operations from public control.[1]

The second is the external aspect which means integrating the domestic economy with the world economy through external borrowings; both multilateral and bilateral; export oriented industrial growth or allowing free entry of multinationals into the domestic arena.

For the purpose of my study, I propose to look into that aspect of liberalization which deals with changes in the industrial pattern of growth at the domestic level. In the last two or three decades, the public sector India has contributed to a large capital base, diversified industrial structure, a degree of self reliance and widespread managerial as well as entrepreneurial talent. However, by the 1980s a transformed picture emerged. The private sector broadened and matured. The fiscal crisis forced a re-examination of costs and optimal means of achieving social objec-

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1. James Malloy and G. Malloy (eds.), L.A. and Caribbean Contemporary Record

tives. The high cost economy was attributed to government regulation and performances of public enterprises.

What then were the factors which led to review of the existing policies and to an economy tilting towards liberalization? These were in respect of controls namely administrative bureaucratic controls, market control and self defeating nature of price controls, trade controls etc.

Major industrial changes towards liberalization in India, has become a focus of attention not only among advisors, policy makers, economist, political scientists etc., at home but in international circle as well. Such changes have come about in two phases: while the second phase is a contemporary phase where liberalization policies are being implemented with a series of programme packages yet to given effect; the first phase of policy changes covers the entire gamut of the debate that have centred around the need for liberalization and significant measures initiated by the state towards a more open and competitive economy, as a major break away from previous pattern of Nehruvian socialism inforced since the time of indenpendence.

The present series of change can only be understood in the light of the foundation already provided by the previous regimes.

My study shall be delimited to the first phase of policy initiatives towards liberalization that covers the period between 1980-1991 with special attention to the Rajiv Gandhi era.

The hypotheses of my research design is: the role of the state has changed through the process of industrialization of India. Literature on political economy will show the any pattern of industrial development can be implemented via a strong and viable state. At any given point of time, while the underlying economic condition prevailing in a country is related to its on going process of political development, a political system that fails to systematically deal with economic deprivation, as pressing political problems, can not be said to be represented by state that has achieved stability and viability.

Before dealing with central question of industrial policy changes, in chapters III & IV, I shall dwell into the previous policy framework within which major resolutions have been taken by the state.

CHAPTER I

THE PHILOSOPHY OF INDUSTRIALISATION: CHANGING INDUSTRIAL POLICY IN INDIA

The term 'Industrial Policy' is a comprehensive concept which in the context of a mixed economy like ours, includes the rules and regulations intended to control and regulate industrial undertakings of all types i.e. large scale and small scale industries, the classification of industries into public and private sector, the monetary and fiscal policies intended to promote industrial development.[1]

Problems of India's largely agrarian economy, apart from the other sectors, can partly be viewed in the context of her industrial system. And if at all a sound system exists, it is necessary to understand the background from which it evolved - that is, the pattern of industrial growth so envisaged by an independent state, since 1947 and the objectives of major policy resolutions.

As generally understood, industrialisation is conceptually a product of the West ushered in by the

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1. Industrial Policy Resolution, 1980, GOI.

Industrial Revolution that took place first in England. Industrialism which was closely associated with the rise of capitalism, had been written down by economists right from Adam Smith in the 'Wealth of Nations', down to Ricardon theories as favouring a more balanced economy in terms of better standards of living, employment, education, production etc.

The paradox was that while industrialisation brought its positive results to imperial countries, colonisation prevented its rapid growth in the case of countries like India. Despite possessing geographical, cultural and economic advantages over other countries, prior to the advent of the Industrial Revolution, India could not experience a healthy development along industrial lines. Historians like Sumit Sarkar, A.R. Desai and D.R. Gadgil attributed decline in Indian industries to the policies of the British Government. Eminent authors such as R.C. Dutt and Dadabai Noaroji have pointed to the drain of wealth in India as a result of British policies. Indigenous industries that already existed, not only declined in the course of time, but disappeared altogether in the economic field.

Industrialization after independence came to be unanimously approved as major steps towards rejuvenating an impoverished economy. Nationalist leader in the Awadhi

Session of the Congress (1955) were agreed that the economy development was to be achieved through industrialization on the basis of modern science and technology. What was peculiar in this option, however, was the fact that in a country which was largely agrarian, not only economically, but also in the context of the mental set up of a large chunk of its society, rapid industrialization was chosen as the road to building a self reliant modern economy to make its political freedom secure and meaningful.

Although voices favouring agricultural predominance was raised in the course of debates ensuing around the issue of growth and development, consensus emerged on the question of industrialization, it was agreed that a country having special advantages in agriculture need not be taken as unfit for manufacturing industries.[1]

Changing Industry Policy

India's industrial system consists of policies plans and regulations. Policies lay down broadly the objectives and their rationale as well as the strategy to subserve these

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1. Rajni Kothari, Politicas in India,

objectives. The plans lay down in specific terms the targets of expenditure and physical achievements for major groups of activity in the public sector as well as the private sector on the basis of the general approach laid down in the policy framework and within the objective and strategy of each plan. The execution of the plans is sought through public sector outlay and private sector investment within the framework of an existing system of regulations which is subject to modifications from time to time.[1]

The broad objectives of industrial policy in India have been periodically articulated in the Industrial Policy Resolutions of 1948, 1956 and 1973 and the changes significantly made in the I.P. Resolutions of 1980 and 1991.

Before making a brief outline of the above policies, it is necessary to understand the line of demarcation that was arrived at by our planners between the role of the state and that of private capital within the basic framework of industrial planning in a mixed economy like India.

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1. Sandesara, J.C., Small-Scale Industrialisation: The Indian Experience, EPW, 26th March, 1988, Vol.23, p.640.

THE SCALE OF PUBLIC AND PRIVATE ENTERPRISE

The very role of the public sector so envisaged by our policy frameworks shapened the nature of the state that was to decide for a post colonial society like India. This is in contrast to a corporatist market dominated system in which the leading actors are the local and foreign capital working in close collaboration with the state. The existence of an interventionist state institutionalised through a democratic process as provided by the constitution and was build around the three objectives of growth, self-reliance and social justice underlying the needs of a developing society.[1]

It was agreed that the public sector would hold the commanding heights of the economy, for it was to take the responsibility of creating a large capital base and and diversified industrial structure.

Looking into the dynamics of history, an increasing role of the interventionist state in India is in conformity with the trends of global economic mechanisms. Not only have countries of delayed industrialization experienced more

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1. CONSTITUTION OF INDIA, as modified upto October, 1969.

active role of the state but even in countries like Germany and Japan, the degree of state participation in developmental activites have been high. Modern economic discourses viz. Reaganomics and Thatcherism' best outline the new role of more powerful states have evolved in a changing global order. It is therefore a viable state that provides direction and structures in any system. The difference lies in that in a market economy while the state merely regulates in varying degree the mechanisms of demand, supply and prices, the government through state enterprises itself participates in many activities in India.

While the public sector was to be the king pin in developing a strong infrastructure for industries in India, the private sector on the other hand was to complement its role and investment in areas wherever required.

In order to allay any apprehensions that an active role assigned to the public sector might arouse among private enterpreneurs, the Industrial Policy Resolution 1948 issued by the Government of India, broadly demarcated the divison of responsibility between the public and private sectors. It divided industries into four categories:

(1) Defence strategic industries including manufacturing arms and ammunitions, atomic energy. Management of railways

has to be the exlusive monopoly of the state.

(2) Basic key industries including steel, iron, ship building manufacture of aircrafts, telephone and telegraph equipments which were to remain with existing private undertakings. With reasonable opportunities for expansion allowed to them, new undertakings were to be set up only by the state.

(3) Twenty important industries including heavy machinery, machine tools, electrical equipments, automobiles, sugar etc were to be with the private sector but subject to government control and regulation.

(4) The residual industries were to be run by private enterprise but were subject to general control of the state.

THE INDUSTRIAL POLICY STATEMENT, 1956

The First Five Year Plan concentrated on agriculture, irrigation and transport with other overheads. In the field of industry it had confined itself largely to measures for fuller utilisation of existing capacity. By the close of the First Plan, the economy had overcome the critical shortages resulting from the partition and a measure of stability had been attained.

Against this background the second plan took a turn towards rapid industrialisation and accorded high priority to heavy industry particularly iron and steel. The previous policy statement was revised in the light of a stronger commitment to a socialistic pattern of development, in 1956.

The I.P. statement substituted a three-fold classification of industries for the earlier four-fold classification the new categories were:

SCHEDULE A industries were those whose future development was to be the exclusive responsibility of the states, there were 17 such industries.

SCHEDULE B included 12 industries which were to be progessively state owned. In these areas, the state would generally take the initiative in establishing new undertakings but private enterprises were also expected to supplement the efforts of the state. The industries in the schedule included alumunium and other non-ferrous metals not included in Schedule A.

SCHEDULE C : Included residual industries whose future development was to be left to the initiative and enterprise of the private sector.

INDUSTRIAL LICENSING

General objectives of policy formulation and specific priorities of industrial development were laid down in I.P. Resolutions and the successive Five Year Plans the two principal instruments designed to achieve these priorities and goals were:

(1) a system of industrial licensing under the Industries (Development and Regulation) Act 1951.

(2) The Foreign Exchange Regulations Act 1946 that provided a system of import licensing and other trade policy measures designed to foster import substitution oriented industrialization.

The rationale behind industrial licensing is that in a resource scarce economy such as India, there lies the need to 'direct' the process of industrial growth along a path consistent with broad objectives of the existing policy framework.

Under the Act of 1951, a license was now required to set up a new industries, or for substantial expansion of capacity in the existing line or manufacture, or taking up manufacture of a new article.

In the 1960's there was a widespread feeling that the actual working of the Industries(Development and Regulation) Act had not served its original purpose. In 1966 a Committee under Dr. R.K. Hazari, was appointed to review the implementation of the Act. The report of this committee (Industrial Planning and Licensing Policy, Final Report 1967) brought out several loopholes in the existing industrial licensing system the report brought out unhealthy practises of leading business houses in trying to monopolise licenses, therein preventing entry of new enterpreneurs to set up units negligence in following up the progress in implementation of licenses by the state contributed to malpractises, regional disparities and other maladies.

DUTT COMMITTEE REPORT (1969)

A discussion of the Hazari Committee Report led to the appointment of the Industrial Licensing Policy Enquiry Committee in 1967 to inquire into the working of the licensing system and to suggest recommendations for removing defects.

The committee revealed that there was substantial growth of big business in India, which was inconsistence with the goal of distributive justice. Besides, exemptions were being misused by a particular section of the private sector and overall, medium and small scale sector suffered negligence....

The committee suggested ceilings to be placed on expansion of industrial units in connection with which it identified 20 "larger industrial houses" (with assets exceeding Rs.20 crores) and 53 "large independent concerne" (with assets exceeding Rs.5 crores).[1]

Its recommendations were embodied in the Monopolies Restrictive Trade Practicesd Act (1969) , on the basis of the findings and recommendations of the Dutt Committee report the government issued' the new INDUSTRIAL POLICY STATEMENT (1970).

In the statement, a list of core industries consisting of basic and critical strategic industries was drawn up. Accordingly, in the core and heavy investment sectors outside industries reserved for the public sector under the I P Resolution 1956, larger industrial houses and the branches and subsidiaries of foreign companies, were expected, along with other applicants, to set up enterprises.

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1. I.L.P.I.C. Report, 1969.

The concept of the Joint (State-private) sector sugested by the Dutt Committee was accepted in principle. As a sequel to this venture, greater participation of public finance institutions was suggested in the management of industries, especially at the policy making level of major projects, where substantial assistance from these institutions was involved.

By the end of the Indo-Pakistan war of 1971, the implementation of industrial policies so far formulated failed to reach plan targets. Drought conditions, wars and other maladies took their toll but economists, advisors and other authors were now critical of the existing licensing policy. The licensing system that stood for government regulations, closed competition and self-sufficiency actually led to stagnation and low rates of industrial growth.

If liberalisation was ever thought of, then, it was in 1971-75 when the existing government decided to liberalise the existing industrial system on the plea that there was an urgent need to increase industrial output.

LIBERALISATION OF INDUSTRIAL POLICY (1971-75)

The main provisions of the industrial policy was framed to necessitate the implementation of the approved development strategy of the Fifth Five Year Plan (1974-79).

Liberalisation measures in particular included rethinking on India's adopted strategy of Import Substitution In the literature on ISI, many liberal economists have pointed to the manifold inefficiencies arising from "the bureaucratic allocation mechanisms of restricted foreign trade regime"[1].

While the overall impact of import substitution may not have been negligible in fostering skill-formation in a whole range of sophisticated manufacturing industries. Such a policy had begun to shelter, many 'white elephants' in PSUs and lined many pockets in the corridors of power, that too at the immediate cost of consumers and industrial users of domestic intermediate and capital goods[8].

Another highlighted feature was the encouragement of cooperatives and small and medium enterpreneurs participating in the production of mass consumption goods.

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1. Bhagwati and Srinivasan (1975).

INDUSTRIAL POLICY STATEMENT (DECEMBER 1977)

The new Janata government that came to power at the centre in March 1977 strongly favoured cottage and small scale industries, particularly heavy industry that had been the trend of the previous regime. Large-scale industries were to have a more restricted area of operation comprising basic industries, capital goods industries, high technology industries and other industries previously considered essential for the development of the economy. Other main thrusts of the policy were : dispersal of industries away from metropolitan areas simplification of licensing procedures, especially for the small scale sector, raising the upper limit of industrial licensing from Rs.1 crore to Rs. 3 crores and simplification of the procedures for import of capital goods; Financial institutions, as in the case of IDBI for large-scale industries, were set up to lend credit to small scale industries.

INDUSTRIAL POLICY STATEMENT (JULY 1980)

There was a sharp decline in industrial production in 1979-80. The index of industrial production (1979=100). For manufacturing industries declined from 146.5 in 1978-79 to 143.5 in 1979-80. Reiterating the basic framework of the Industrial Policy Resolution of 1956 and the government commitment that the public sector would continue, to occupy a commanding position in the economy the new regime that came to power in January 1980, made certain modifications within the framework of the existing policy Resolution.

The new policy statement of July 1980 putforth the following objectives:

(1) Increase in industrial production through optimum tulisation of installed capacity, expansion of industries so as to reverse the previous years set back to the manufacturing sector

(2) Rapid and balanced industrialisation of the country with a view to benefiting the common mass was by increased availability of goods at reasonable prices, larger employment and higher per capita income; and

(3) Promotion of production for exports.

Measures were specially improvised to step up Export Promotion. These included exlusion of export-oriented units from the provisions of the Monopoly and Restrictive Practices Act 1969; duty free import capital of goods, raw materials components for export production; concessions in respect of central excise and other central levies to 100 per cent export industries manufacturing non-traditional items; special consideration to applications for setting up 100%

export; relaxation in industrial location policy towards providing natural growth of units for export - production and setting up of export -oriented Free Trade Zones.

Other measures taken were for fuller utilisation of the existing capacity in the country. Such measures were made conspiquous by adoption of a technology policy of developing indegenous technology and efficient absorption of imported technology suited to national priorities resources, savings energy, raising the competitive capability of industry. Most important, incentives were given to NRI's (Non-Resident Indians) and persons of Indian origin to invest in India, progressive delicensing of industries and raising the exemption limit for industrial licensing and a decision in 1981 to engage foreign parties in the exploration of oil resources.

The provisions so embodied in the new industrial policy statement in 1980, reflected a wind of change and alterations in the basic approach towards industrialization, of the very same party which had initiated the previous industrial decisions and had now come back to power in 1980.

By 1985-86, the government began to initiate a number of measures aimed at removing constraints on industrial growth and providing a congenial environment for development.

The major measures were in the following areas:

(1) **LIBERALISATION OF LICENSING CAPACITY** : In order to introduce the latest technology with a view to give further impetus to industry, the scheme for re-endorsement of capacity was liberalised. The Government granted automatic increase to those industrial units working to achieve economies of scale and 49% rise in capacity due to modernisation was allowed. On Jan. 30th 1986, the Govt. decided to delicense 23 industries of MRTP and FERA companies, provided the industrial undertaking was located in any of the centrally declared backward areas.

(ii) **NEW CONCEPT OF BROAD-BANDING INTRODUCED**: The concept of broad banding was introduced in a large number of items such as machine tools, motors, two-wheelers, four-wheelers, Paper and Paper Pulp, chemicals enterprises, electronics etc. The basic advantage was that licenses issued interms of broad categories would enable a given undertaking to manufacture any type of items covered so long as total production did not exceed the overall license capacity.

(iii) **THE ASSET LIMIT OF MRTP COMPANIES RAISED**: The threshold asset limit of campanies (large-scale industries) under MRTP ACT was beyond from Rs.20 crores. As a consequences, 112 companies come out of the purview of MRTP Act. In December

1985, 22 industries were de-licensed for MRTP and FERA. Comapny controls were virtually abolished on these 22 industries.

(iv) **SMALL-SCALE UNITS:** The Small-Scale enterprise has been defined as one having investment upto Rs.35 lakhs in plant and machinery, and in the case of ancillary units, it has been revised to Rs. 45 lakhs. Nearly 200 itmes which were on the reservation list were made open for the medium and large-scale sector.

Recent changes have envisaged an enlarged role for the private sector and the economy is gradually being opened to foreign corporations, offering high technology. There has been greater stress on internal financing and borrowings from the capital market. The rationale behind the changes is that i) Public Sector has not been able to create enough infrastructure facilities or resources. ii) Controls though necessary, failed to achieve their purpose due to faulty implementation. iii) Liberalisation induces competition in many sectors and competition is expected to promote efficiency, upgradation of technology, improvement in quality and reduction in cost of production even while weeding out sick and inefficient units and iv) as Indian Economy has become more complex and has many more linkages than before through which it can produce a large variety of good and services, the use of market forces for governing allocation of resources becomes a more appropriate instrument of development planning.

INDUSTRIAL POLKICY STATEMENT 1991

The industrial policy text of 1991, that was announced on July 24th 1991 could be referred to as a landmark in the way of freeing industry from constricting bureaucratic controls. This covers the entire gamut of private investment, especially foreign investment and technology agreements, interms of relaxation of rules. Aimed at making Indian industries competitive not only at the domestic level but the international level as well, ".....this would bring abundant advantages of technology transfer, market expenditure, of modern managerial techniques and new possibilities for promotion of exports"[1].

The policy statement places focus on the following areas:

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1. Ahluwalia, I.J., Industrial Growth; Stagnation in India Since the mid 60's.

(i) Industrial Licensing

(ii) Foreign investment

(iii) Foreign Technology

(iv) Public Sector Policy

(v) MRTP Act.

The new industrial policy first did away with all industrial licensing, irrespective of the level of investment, except in industries related to security and strategic concern; social reasons, environmental issues and manufacture of products of hazardous nature.

The role of the public sector was redefined withthe intention of changing the degree of participation of the private sector in industrial development. Out of the 17 areas now reserved for public sector investment, only 8 areas remained so. The NIP announced removal of all manufacturing industries from the reserved list except those industries where security and strategic concerns dominate. Autonomy was to be offered to public sector management so that a kind of 'industrial culture' could be inculcated pertaining to a more business like atmosphere.[10]

FOREIGN COLLABORATION:

Foreign investments in India was traditionally tightly regulated in India. Specific prior approvals were necessary for both foreign technology agreements sought by Indian firms as well as foreign investment.

With the expansion of industrial activity in the country, case by case approval became unwieldly. Moreover, withincreasing technical sophistication of Indian firms, there now was little scope for government interference.

For a specified list of high investment and technolgoy priority industries, firms were to receive automatic approval to make any foreign technology agreements with certain guidelines. These guidelines were to allow royal agreement upto 5% to of domestic sales and 8% of export sales.

Besides foreign companies could now hold 51% equity shares in a domestic industry campared to the previous figure of 40%. The purpose was to increase the limit of foreign participation in industrial activities in India. The thrust of the MRTP Act was now confined to merely controlling unfair business practises.

The main theme put forward by this New Industrial Policy Resolution was "continuity with change". While self-reliance would continue to be the guiding policy, greater emphasis would be placed on "building the ability to pay for imports through foreign exchange earnings......and increasing competitiveness of domestic industry."

The Union Budget that was presented in the same year for 1990-91 by the Finance Minister Man Mohan Singh was largely based on the above Industrial Policy Resolution.

CHAPTER II

THE FRAMEWORK OF INDUSTRIAL POLICY (1950-75): A BACKGROUND STUDY

The present shift towards liberalisation, and for our immediate concern, in the context of Industrial Policy decisions can best be explicable against a background reference to the framework of development strategy that had evolved since the time of Independence. This framework which was based on what came to be known as "Nehruvian Pattern of Socialism" was arrived at under circumstances peculiar to that of a post-colonial society like India.

A BRIEF HISTORY

Girish Mishra is quoted to have said: "Political independence of the country was accompanied by its partition. There was communal frenzy leading to enormous loss of lives and property and serious dislocation of the economy especially the closure of a large number of cotton-textiles and jute mills...." "Notwithstanding immediate political and economic difficulties, the Congress grappled with the problem of creating an independent industrialised economy."[1]

Deliberate policy making with state help for the purpose of facilitating economic development was not the brain-

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1. S. Gopal (ed.), Selected Works of Jawaharlal Nehru (Second Series), Vol.1, New Delhi, 1984, p.20.

child of Nehru alone. Rather, its roots lay in the early thinking on India's economic situation developed during the hey day of freedom struggle. Since the mid-19th century, a section of the growing Indian intelligentsia, from Raja Ram Mohan Roy to Dadabhai Naoroji, R.C. Dutt, M.G. Ranade, G.K. Gokhale and the more Swadeshi leaders like Tilak (Chandra, 1969) had developed perceptions of the nature of the colonial economy and the economic underdevelopment, India as a colonial nation was characterised with.[1] However Bipan Chandra rightly concluded that there was a great deal of divergence in the political and economic thinking of erstwhile national leaders. While they wanted to retain India as a self-governing entity - complete independence still appearing nowhere in present sight - their economic stand was anti-imperialist with a desire for overall change in Indo-British economic relations aimed at undermining the very foundations of British imperialism.

When the new generation of nationalists arrived on the scene in 1920, they were able to resolve their contradictions under qualitatively new situations and conditions. Much of the new economic thinking at this time reverts to two dominant sets of contradictory ideas expressed by Mahatma Gandhi on the one hand and Pt. J.L. Nehru on the other,

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1. Shankar Ghose, Modern Indian Political Thought, op. cit., p.75.

who stood close to each other at the time when the freedom struggle came to acquire a mass-base. Taking a concise look into the central theme of Nehruvian thought vis-a-vis Gandhiji's growth plan, one discovers that their ideas represented an unlikely blend of the religious morality preached by Mahatma Gandhi and socialist ideas of Nehru based on the materialist philosophy advanced by Marx.

Gandhi's prominent ideas held that economic independence could not be a product of industrialisation of the modern, western type and had an aversionto it throughout his life. He wished to return to the old village community with its unity of agriculture and industry. Nehru and his colleagues were not persuaded and there were fundamental differences.[1]

Nehru turned out to be a staunch advocate of centralised planning and industrialisation. He was to later write in his Discovery of India: "No country can be politically or economically independent, even within the framework of international dependence, unless it is highly industrialised and has developed its power resources to the utmost nor can it achieve or maintain its high standards of living, liquidate poverty without the aid of modern technology in almost

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1. Francine Frankel, India's Political Economy (1947-77), Oxford Univ. Press, (Oxford) Princeton Univ. Press, ,1978, 1984, pp.10-11.

every sphere of life."

Moreover, within the pretext of industrial planning, while Gandhi stood for decentralisation and economic development beginning from grassroots level - that is the village, Nehru advocated centralised planning as indispensable for economic growth. He believed that the transformation of the Indian economy could only be brought about through active state intervention.[1]

Nehru's views found their most vociferous expression in the set of national economic policies based on the Reports of the National Planning Committee set up in 1938 and chaired by Pt. Nehru himself and of the Bombay Plan 1944-45.

Both the NPC and Bombay Plan emphasized that rapid industrialisation and all-round self-reliant economic development was required on a high priority basis fo develop further a largely agrarian economy. A Gandhian plan was also put before the AICC Congress Economic Working Committee in 1944. But by this time, nationalist leaders were agreed that India's economic development was to be achieved through industrialisation on the basis of modern science and technology. Gandhian principles related to small-scale and cottage industries were no doubt highlighted, being a major

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1. S. Gopal (ed.), Selected Works of Jawaharlal Nehru (Second Series), Vol.1, New Delhi, 1984, p.425.

source of employment generation. Otherwise, since land was already under a pressure squeeze and subject to diminishing returns, they held that India has to industrialise or perish. Another significant aspect of industrial policy that nationalists were agreed upon was the question of minimum outside interference in the form of foreign aid of any sort, keeping in mind the objectives of self-sufficiency and self-reliance underlying the Nehruvian pattern of development.

As it is to be made out, the fashioning of this kind of ideology took place during the national movement which was anti-colonial and created a desire for independent development. The pattern of colonial economic development was held to be the result of market forces and laissez-faire which was in the interest of the metropolitan powers and seen as hampering the growth of industry in particular. This image of colonial economic history dominated the thinking of the elite who came to subscribe to the "industrialisation ideology". This ideology arose out of the ideas and writings of the Nehruvian school of thought. Besides, being largely influenced by Soviet planning, the Nehruvian pattern of national development in terms of industrialisation came to be accepted by leftist blocs, within and outside the Congress socialist party and the communists, respectively.

The consensus about the rhetoric on planning was based on the vision of the activist state. It was at the same time also based on an agreement that the state would not interfere in the process of profit-making and establishing industries by the private sector within society. Nehruvian socialist ideas recognise the co-existence of the public and private sector as part of the fabric of Indian politics. This was welcomed by the industrial bourgeois class that had emerged after the Second World War. Big houses, viz., Tatas, Birlas, Dalmias played a decisive role in framing the Bombay plan.

What was remarkable about Nehru's tactics in handling any opposition was that all along he consistently tried to push his programmes before the AICC Economic Programm Committee while passively accommodating any opposed views within the higher rungs of the ruling political elite. The takeover of an existing state apparatus with least distrubances to the powers and class-relations in society, could in no way be effected without the most thrusting elements of the ruling class elites in the emerging enterprise of tansfer of power.[1]

That the Nehruvian School of thought could emerge as the dominant ideology, marginalising other streams of

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1. Amiya K. Bagchi, "From a Fractured Compromise to a Democratic Subscription", EPW, Annual Subscription, 1991.

thought, certain authors attribute it to failure of parties or persons within the Congress to surpass Nehru. The socialist faction within the Congress began to weaken after Subhas Bose, a member of the left-oriented leaders, left the party in 1939. By 1950, Gandhian ideology seized to be as influential as it was, with the death of Mahatma Gandhi. The only remaining stalwart whose voice remained forceful in 1950 was that of Sardar Vallabhai Patel. His influence was strong enough to retain the conservative element the draft of the First Five year Plan and the Industrial (Resolution) Policy Statement 1948. The result was what Rudolph and Rudolph referred to as the emergence of an "interventionist managerial state, pursuing welfare and socialist objectives this too underwent."[1] This too underwent change after his death in 1951.

The policies of the Indian state aimed at promoting, guiding and controlling industrial development are best reflected and started in the Five Year Plans. The relationship between the government and the two sectors of the industrial economy - the public and private - are in fact best determined by the nature of the Five Year Plans.

By 1951, despite disapproval expressed by the right

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1. Rudolph and Rudolph, In Pursuit of Laxmi, The Political Economy of the Indian State, Orient Longman, Bombay, 1988.

wing within the Congress, the Planning Commission came into formation as an extra constitutional advisory body intended to play a keyrole in pushing the policies of the state which by now came to appear as highly centralised and autonomous.

The final version of the First Five Year Plan published, in December 1952 reflected Nehru's new authority over national questions of economic and social policy. Besides, the question of the extent of state controls over industry and the fact that co-existence of a public and private sector had been accepted as part of the fabric of the Indian policy from the very beginning was reflected in the formulation of the Industrial Policy Resolution of 1948.

However, in the First Plan, the planners saw agriculture and industry as complementary to each other. It was the Second Plan, which when after the Industrial Policy Resolution of 1956 was approved, that was reflective of the state emphasis on heavy industry and the investment in the public sector on a large-scale is seen (W. Melenbaum, 1964; A. Hanson, 1966; M. Banerjee, 1981).

By this time, Nehru emerged unopposed as the single leader of the Congress and Nehruvian ideologue based on social welfare and state intervention was now supported unanimously by all major section and interest groups. Even pro-business groups who leaned more towards the conservative elements in the Congress were agreed that the private sector was not in a position to undertake a major chunk of responsibility to build an infrastructure for the purpose of industrialising a developing society.

Two preliminary outlines of the Second Plan were prepared by prof. Mahalnobis (Draft Recommendations for the Formulation of the Second Five Year Plan) and the other by the economic divisions of the Planning Commission and the Finance Ministry, were circulated for discussion in March 1955.[1] Both the drafts were based on working papers prepared at the Indian Statistical Institute and aimed at constructing a frame to achieve the mixture of economic and social goals outlined by Nehru:

(1) To increase the scope and importance of the public sector and in this way advance to a socialist pattern of society;

(2) To develop many industries and "to strengthen the foundation of economic independence;

(3) To increase production of consumer goods an expansion of labour intensive village and small-scale industries,

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1. Prof. Mahalnobis, the Cabinet's Statistical Advisor from 1956 to 58, member of the Planning Commission from 1959 and leading architect of the development strategy of the second plan was a physicist whose special talent for statistics had by 1931 elevated him to honorary director of the Indian Statistical Institute.

thereby increasing employment among the poorer sections of the people so that a greater proportion of the increase in income would go to them;

(4) To eliminate unemployment after a pèriod of ten years;

(5) To increase agricultural productivity;

(6) To improve the quality of social services in housing, health and education, especially for the poorer sections of the population.

All of these measures together were expected to increase national income by about 25% and also to "achieve a more equitable destruction of wealth.[1]

The decision in favour of rapid industrialisation sharply reduced the proportion of total outlay allocated to agriculture and irrigation from 34.6% in the First Plan to 17.5% in the Second Plan.

THE USHERING IN OF LICENSE RAJ

By the mid-1960's, the term "License Raj" came to be increasingly used. The Industries (Development and Regulation) Act 1951 provided the legislative mechanism for imple-

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1. The Second Five Year Plan document.

menting the 1948 Resolution. The Bill was extensively debated and while the original bill used the term "control", it was substituted by "regulation". It was later amended in 1971, 1974 and 1979 - the main changes being already mentioned in the chapter dealing with the regulation of scheduled industries.

Other legislative measures apart from the 1956 resolution which strengthened the hands of the State and gave it control over the "commanding heights" of the economy, were:

(1) Capital Issues (Control) Act 1947 which controlled all joint stock companies.

(2) FERA Act 1974 which in various ways secured the domestic market for local producers and controlled use of foreign exchange for imports.

(3) Banking Act of 1949 by which the State could control and regulate credit operations through the RBI.

(4) Essential Commodities Act 1955, Companies Act 1956 (amended in 1960).

The nature of State controls were given in it and its vast structure was expected to help industry through a 'comprehensive' approach.[1] They were gradually providing

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1. S.S. Marathe, Industrial Development and Regulations, p.45.

the State with more and more space for entering areas where no such flexibility was allowed to the private sector. Over time, the political and administrative system became increasingly conscious of the advantages to itself arising from increasing controls over industry.

Authors like Shirokov described this kind of attempt as "State capitalism" where the State was to be the single biggest capitalist investor. However others like Anupam Sen pointed out that it was "State socialism" that was attempted. Private business was not eliminated but its role was defined to complement the State sector. What was significant was the consensus behind the adopted strategy. It was not an authoritarian 'one party system' that was effecting a gradual path of change. Rather, a single dominant party with a nationalistic outlook which chose an independent path of development with a great degree of intervention and keeping out foreign capital and aid as far as possible. The basic components in the industrial field were to be a mixed economy, centralised planning, ISI heavy industry, protection to home industry, self-reliance and a growing public sector.

INDUSTRIAL PERFORMANCE

The period from 1951 to the mid-60's was devoted to accelerated industrial growth. The indices of industrial growth rose from an annual rate of about 5% after the Second World War to 7% in the decades of the 1950's to 9% during the first five years of the 1960's. The 50's constitute a point of departure from the virtually zero growth rate witnessed in the second half of the British period and also lay the foundation for meeting the challenges of the 1960's. There was ample consensus among economists that the high growth rate was based on the greatly increased volume of public development expenditure, which together with import restrictions, provided a wide market for producers in the private sector, while the growth of capacities through public investment especially in the basic and intermediate goods sector made a real expansion in the economy possible (Patnaik and Rao, 1977; Bagchi, 1975; Mitra, 1977; Patnaik, 1979 etc.). The share of the gross national output devoted to savings and investment rose to about 10% in the early 50's. What appeared promising was that 'manufacturing' industries were showing a cumulative annual rate of growth and the contribution of the manufacturing sector to the net domestic product was 15% (at 1970-71 prices).[1]

According to I.J. Ahluwalia, industrial growth during

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1. The Raj Committee Report, formally titled, 'Working Group on Savings Report, on Capital Formation and Savings in India, 1950-51 to 1979-80' (Bombay, 1982), pp.141-145. And GOI, Economic Survey, 1983-84 (New Delhi, 1981).

the first three plan periods, "while falling significantly short of the targets, was not too bad in itself...." But the overall picture that emerges is one of "industrial stagnation in the organised sector after the mid-60's." "Heavy industries, i.e. machinery, transport equipment, base metals suffered a major showdown in growth, while light industries such as food and textiles never experienced a take-off. A major crisis in the Indian economic scene began to brew as a result of a major 'Food Crisis' (1965-66) due to failure of monsoons and most importantly the wars India had to fight with her neighbours - that is, with China in 1962 and Pakistan in 1965 had a rather reversed impact on India's relations with other nations - especially the USA. The quantum of assistance coming from abroad in comparison to other developing countries - newly emergent third world nations - was lower as far as India was concerned. Between July 1948 and December 1961, Rs.438 crores of non-Banking investments flowed into India (RBI Survey, 1961).

The above major economic crisis inthe 60's led to the devaluation of the rupees in June 1966 (Bhagwati and Srinivasan, 1975). Besides, there was overall shortfalls in production, stagnation in real wages, slow rise in NI, prices and unemployment rose leading to inflation and a serious crisis in planning (P. Streeton and M. Lipton, 1968).

There were scathing criticisms against Nehru's strategy of achieving distributive justice. George Rosen described his policies as meddlesome and 'mercantilist'. The ISI policy in particular evoked negative response. It failed to promote exports leading to a balance of payment crisis. According to a newspaper comment, the Nehruvian obsession with self-sufficiency has made India a jack of all trades and master of a few.[1] Figures could show that India's industries have done well for itself but they still lag behind the performance of middle income countries like Brazil.

According to Bhagwati and Srinivasan, the import policy during the early phase of industrialisation was very strict and there were comprehensive direct control over foreign exchange utilisation. Reliance on the direct allocative mechanism was thus almost complete during this period. As stagnation began to creep in into India's industrial system and reached its peak in 1965, the state decided to alter its previous policy towards "liberalisation" of a minor degree, gradually often the devaluation of the rupee in June 1966. Even here, the state still did not go in for large-scale external borrowings and policy changes were made to conserve foreign exchange, protest indigenous industry and promote

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1. Deccan Herald, 5th April 1985.

ISI.

Even if Nehruvian strategy of self-development proved workable in terms of laying down a stable infrastructure for India's industrial system in the long run, it could hardly benefit from an all pervasive system of control and licenses. With a trend moving against competition and maximisation of efficiency in production, what emerged out of this strategy, an autonomous state dominated by an urban elite comprising both ministerial level elements and key bureaucrats, stable enough to oppose any alternative view.

Hence when a retreat from socialist objectives, which had already begun in 1964, was attempted on a greater scale by Lal Bahadur Shastri during his brief tenure, he could do little as he lacked any independent political base.

When Indira Gandhi came to political scene in 1967, she continued with the legacy of the socialist framework of development strategy founded by Nehru. However by the late 70's, she began to move towards the right and more liberal policies. This initial ideological shift can be explained in the context of certain political developments, which apart from emerging economic problems, culminated into a major crisis by the mid-60's. Stagnation had already penetrated Indian industries (see Appendices) apart from the failure of agriculture to increase productivity which led to the food crisis, drought conditions, persistence of mass poverty, unemployment and underemployment, urban decay, made the weaknesses of the Nehruvian strategy apparent.

However, when Indira Gandhi came to power, her claim to leadership after the death of Shastri lacked unanimity within the party organisation and in particular, faced challenge from the older generation of Congressmen, who right since the time of Nehru, had dominated state politics and emerged victorious with stable control over the governments of their respective home states. The syndicates as they were known, Mrs. Gandhi initially had to wage a major political struggle against this group of Congressmen.[1]

The rhetoric on social welfare, distributive justice and self-sufficiency that shaped the pattern of Nehruvian socialism was to be therefore maintained and the present regime went in for the adoption of populist-oriented policies as a prelude to tackling some of the major economic problems and fulfilling the Congress party's popularly known election slogan of 'Garibi Hatao' under the banner of which Indira Gandhi contested the parliamentary elections of 1971.

The most significant were the set of 'anti-poverty' programmes adopted as an integral component of the Fourth

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1. See Francine Frankel, India's Political Economy, Chapter 3.

Plan process. Other measures that received mass applause were radically tilted viz., the proposed bill abolishing privy purses (1967), the MRTP Act of 1969[1] to curb monopolies and nationalisation of fourteen major banks, some of which were a major source of private investment.[2]

The adoption of the slogan and the above policy measures were a part of Indira Gandhi's attempt to centralise and control the Congress. Most important, it was a part of her political strategy to build an independent national support base that would free her from political dependence upon the party bosses.

A final explanation could be a reflection of deeper economic forces and its interplay with entrenched social classes which were structural forces whose actions constrained political elites against their interests. For instance, the New Food Policy introduced by Indira Gandhi in 1973, was intended to placate an emerging class of rich farmers - the rural elite who now became a manipulative pressure group shifting their centre of interest orientation from the bureaucracy, directly on the political masters

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1. Monopolies Restrictive Trade Practices Act.

2. The anti-poverty programmes were actually beneficiary oriented programmes aimed at providing employment generating greater income in the small-scale sectors at village level. Some of them are SFDA, MFAL and later the IRDP (introduced by the Janata regime in 1977-80).

through a farm lobby.

In the Fourth Five Year Plan, due to severe drought between 1966-68, greater emphasis was placed on agriculture and in particular, the application of science and technology to this sector

However the outlay on industry was not cut and most of it was in the public sector and in core industries i.e. iron and steel, petroleum etc. (Fourth Plan document). Expansion of consumer goods industry was also envisaged. There was to be less reliance on foreign aid (see Appendices) compared to the previous periods of annual plans. The plan, in other words, reaffirmed the principles of self-reliance and growth with justice. The Fourth Plan, at the same time laid down a new policy which allowed for greater freedom to the private sector, though it was within the framework of the 1956 resolution. Except for fields reserved under the 1956 resolution of the public sector, the larger industrial houses were expected now to participate in the "core" sector and the government would provide them help in doing so. New industries requiring investment of Rs.1 crore or less would not require any license to be set up. Further changes were made in 1975. Expansion of installed capacity was also allowed (Ahluwalia, Banerjee). In spite of this minor alteration, there was no attempt to abandon the framework established by the 1956 Industrial Policy Resolution.

A major crisis for the public sector and heavy industrialisation strategy arose during discussions surrounding the formulation of the Fifth Five Year Plan. The performance of the industrial sector fell far short of targets fixed due to a variety of shortfalls in different industries, lack of planning strikes, shortages etc. the Fourth Plan generated much controversy (Streeton and Lipton, 1968). It was criticised as having a strategy that was long-term and too vulnerable to shortfalls and excesses of political pressures and too sensitive to food crisis and inflation.

Due to a number of pitfalls built around a situation of poor industrial production (see Appendices), inflation, sharp increase in deficit financing, rise in oil prices etc., the Fifth Five Year Plan was a non-starter and there were three annual plans upto 1976. The plan period therefore actually fell in between 1976-79. The growing economic and political crisis inevitably called for alterations in the current policies.

By this time, however, Indira Gandhi was able to consolidate her position as leader of the ruling party and the massive mandate that she secured in the 1971 Lok Sabha elections confirmed the position taken by political scientists like Rajni Kothari[1] that the idea of the relative autonomy of the Indian state can be applied to Mrs. Gandhi's long period of dominance to explain the persistence of the previous overall strategy and later, the new emphasis on changes in industrial policies that were introduced, from 1971 onwards.

A significant step that Indira Gandhi took towards changes in industrial policy was appointment of the Dutt Committee in 1969 to review the actual functioning of the licensing system that was in existence, now for nearly two decades. Widely known as the Industrial Policy Licensing Inquiry Committee (ILPIC), its observations together with those made earlier by the Hazari Committee (references have been made in the previous chapter) brought out a study of the structure of the corporate private sector and to what extent state control measures have been effective in curbing its expansion.[2] From the report of the ILPIC it became clear that the impressive gains made by large industrial houses having assets of Rs.5 crores or more which controlled over 1,125 units in 1964, have been secured through monopolistic protection provided by state licenses vis-a-vis smaller enterprises. The Committee, headed by an ICS offi-

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1. Rajni Kothari, Politics in India.

2. Industrial Licensing Policy Inquiry Committee Report, 1969, p.95.

cer, sought to provide an easy solution to the dilemma of efficiency versus an interventionalist state.

As a sequel to the need for finalising the major programmes under the Fifth Five Year Plan, Indira Gandhi went in for `liberalisation' of the licensing system in 1973, in the light of the recommendations of the Dutt Committee Report.

In 1970, a new industrial policy was announced by the government, incorporating most of the recommendations of the ILPIC. It envisaged a division of industries into a number of sectors: public, private, joint core, heavy industry, middle scale and co-operative sectors. The division of the core and heavy industries sectors in the New Industrial Policy was motivated by two considerations: curtailing the concentration of economic power in the large industrial houses and accelerating efficient industrial growth in the country. Under the new licensing system (mentioned in the earlier chapter) the large industrial houses were debarred from expansion of investment in the middle sector, which consists mainly of consumer goods industries thus, to remove disparities and to maintain a minimum level of investment for small-scale enterprise.

As a prelude to accommodate the interests of the business class who tended more towards conservative syndicates, the procedures for regularising the authorised capacity of the private sector, including foreign enterprises were further liberalised. However, when the major document of the Fifth Five Year Plan (1974-79) was completed during the Emergency year 1976, after the long delay, it vividly illustrated the continuing contradiction between political rhetoric and industrial policy. Reliance on foreign aid was still kept to the minimum and the private entrepreneurs in particular remained discontent with the half-hearted liberalisation measures. In 1972, the Tata Memorandum to the government was explicitly critical of many specific policies and complained of a "bias" against Big Business Houses. The performance of the economy between 1968 to 1979 as a whole remained unsatisfactory as growth was slower and subject to sharp fluctuations year after year. In the Industrial Sector, compared to the 7% growth rate between 1951 and 1965, the period, 1965-70 witnessed only 3.3% and 1970-77 a 4.8% growth rate. Over the 1965-77 period overall, the average annual growth rate was only 4.2% (I.J. Ahluwalia, 1979). However, while on the major premises of the Fifth Five Year Plan, the regime faced opposition - especially from factions representing the rightest wing. In view of poor growth trends the finalisation of the plan was an achievement by the government. The final plan as it emerged was more of a mid-term appraisal and was described as a `face-saver' rather than an instrument of progress whose real objective was to merely lay the base for a proper take-off to the Sixth Plan. In the wake of the period of uncertainty, especially with the Declaration of Internal Emergency by Indira Gandhi in 1975, the Fifth Plan could be but nothing more than a sheer disappointment where industry was concerned.

The declaration of Emergency vested the state with authoritative and extra-constitutional power. Going by official sources, the economic performance reflected an overall appreciable future for the 70's. There was an increase in industrial output. Probably, given the extent of concentrated unlimited formal powers in the hands of the State, several aspects of industrial functioning could be regulated i.e. the government began to issue decrees to public sector units, not related to demand conditions though. In fact as far as gains in the industrial sectors were concerned, a dramatic reduction occurred in the number of mandays lost in strikes and lock-outs in the pre-emergency agitations during the months of July to September 1974 which amounted to six million mandays: the corresponding figure for July to September 1975 being 1.56 million.

Notwithstanding the government's claim of economic gainst during the Emergency, structural obstacles to achieving sustained economic growth had still not been removed certain bottlenecks viz., in the way of excessive power of the bureaucracy to regulate and control business still marred market incentives and private initiative. Industrial production decreased again by 3.5% in 1977-78.

The ongoing political and economic crisis led to widespread discontent among major sections of India which manifested in the ultimate defeat of the Congress government in the 1977 Lok Sabha elections.

Between 1977-80, the economy continued to suffer a general setback. The Janatagovernment took 2 and 1/2 years to formulate its economic policy and was badly divided (Bhambhri, 1982). The political uncertainty arising out of changes in the party leadership and subsequently instability of the government in power, left little time for the state to coming out of the ongoing crisis.

In 1979, the overall growth rate was low, industrial production was below target, the overall growth rate of investment did not increase, industrial unrest and inflationary pressures were building and exports were slipping (Banerjee, 1981). While agricultural production increased efficiently due to the Green revolution, in the industrial field, the government's shift to emphasis on small-scale units and cottage industries, especially in backward areas, led to neglect of infrastructure. This was responsible for slow down of production in heavy industries and industrial sector, overall. When the Indira Gandhi government made a comeback in1980, India by this time was facing a major problem of foreign indebtedness and balance of payment crisis, problems of unemployment, poverty etc. and failure to implement industrial programmes in a whole hearted manner began to encourage `extremism' of both the left and the right which culminated into cessionist tendencies in the decade 1980's. Such a situation was a beginning to undermine any effort towards political consensus, stability and order which otherwise was more or less in control of the state at least till the 70's.

The question that can be asked at this juncture is: does the need for an alternative policy vis-a-vis the process of industrialisation in India arise. If so, then how far has the already existing development strategy been proved defunct? In the subsequent chapters I shall deal with the subject of an alternative policy which following a world set pattern, has been one moving towards liberalisation.

CHAPTER - III

DEBATES CENTERING AROUND INDUSTRIAL STAGNATION AND THE MOVE TOWARDS LIBERALISATION

Boothalingam is quoted to have said, "in the last few years, there has been what appears on the surface to be some veering of industrial economic policies in India towards a less fettered and more freely operated economy. This have came to be called Liberalisation....."

In the 1980's what came to be widely discussed was a tendency on the part of the state to deviate from the existing strategy for development that had been patterned along the lines of Nehruvian Socialism. Such a deviation formed a shift, especially from 1982 onwards, towards what came to be known as a new phase of 'liberalisation of industrial policy.' This was to gain greater momentum later.

As already been shown in the previous chapter, a period of political instability and beginning of a structural crisis in the economy already set in between 1966 and 1979. Industrial growth that began to decelerate in India since the Mid-60's culminated into deepening of this crisis by 1980.[1] The issue of sluggish industrial performance gave rise to a wider debate that began during Prime Minister

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1. I.J. Ahluwalia, Industrial Growth in India, Stagnation Since the mid-60's, Delhi: OUP, 1985, pp.113-119.

Indira Gandhi's last years in office, as she quietly initiated the process of economic liberalisation that was to be highlighted during the tenure of Rajiv Gandhi, where the issue of industrial policy now moved to the center of the political stage.

To best understand the ongoing process of economic liberalisation in India's case, it is necessary to probe into the nature of the change and the widespread arguments expressed by economist, intellectuals as well as policy makers that center around the very causes for such a change - also, to what degree are alternative measure's feasible in the Indian context.

Analysing the pre-conditions build by the state in India in the 1950's and 1960's that were widely regarded as facilitating rapid industrial growth, the major economic facts are not in dispute.

From 1956 to 1966, India's annual growth rate in the manufacturing sector was 7 per cent. From 1966 to 1982, it declined to 5 percent. The overall growth rate has been 3.5 per cent per year. It is impressive when compared with India's near-stagnant economy during the fifty years prior to independence.[1] Savings and investments have also increased, Oil price rise notwitstanding (in 1973). India did not have a major balance of payments problem, in part, because of remittance sent buy overseas migrants. Nor did India have the debt problems that beset many of the dependent countries of Latin America. Natural resources especially coal, iron ore and water, the very requisites for building a strong industrial infrastructure, are available in abundance. And the country has a large reserve of skilled manpower, including engineers and managers.[2] In the forty one years since independence, its quantitative and qualitative achievements in the industrial sector have been undoubtedly impressive. In 1950, consumer goods accounted for almost 75% of industrial output. By 1976, basic capital and intermediate goods accounted for over 70% of total industrial output. By the second and third five year plan the foundations of India's industrial structure was already established and the relative strength of basic and capital goods sectors combine rose after that, though much more slowly, and have since then more or less stabilised.[3]

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1. Myron Weiner, The Indian Paradox: Essays in Indian Politics, ed., Ashutosh Varshney, New Delhi: Sage Publications, 1989.

2. Myron Weiner, "Industrial Growth in India", World Politics, Vol.38, July 1986, pp.601-602.

3. Achin Vinaik, Bourgeois Democracy in India, Verso Pub., London, 1990, p.31.

In fact Myron Weiner goes on to compare favourably India's growth rate with those of European countries in the nineteenth century. He points to higher population growth rate as subverting the impact of an suppressive overall growth rate which consequently means little impact on the level of poverty.

Again, on the political front, India had two prerequisites for effective policy making and implementation. A well developed civil service and stability in governance provided by 17 year of Prime Ministership of Pt. Nehru and 15 years of Indira Gandhi, who in 1980 was voted back, to power by an overwhelming majority and was therefore free to pursue an industrial policy of her own choosing without much opposition in parliament.[1] Beside, there has been religious, linguistic and caste conflicts but they were episodic and generally confined to limited regions of the country, to call for any kind of radical change in state policy.

If such has been the performance of India's Industrial System, then the general question that was asked was, "What went wrong?" On this issue, a major and current debate on the need for change in the Industrial Policy regime was initiated.

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1. Myron Weiner, op. cit., p.602.

A number of economists have presented, by now, well known arguments to explain why the present pattern of India's development strategy was in question. Two undisputed conclusions were arrived at (1) Industrial growth had fluctuated from year to year and over plan periods, it had not assumed a steady pace (2) there was slowing of Industrial growth (was slowing of industrial growth) since mid-1960.

Shetty's (1978) made one of the earliest attempts to explain the reasons for the decline. He describes it as a phenomenon of "Structural retrogression"; the primary cause he points out being the "decline in planning". Here he referred to the new phenomenon of the need for reduction of vigorous Industrial controls which he shows to have given rise to distortions in production and investment patterns in the private sector and, of serious financial mismanagement which is shown in frittering away of a significant proportion of public sector outlays in non-development expenditure and in the distorted system of resource mobilisation. Thus on the one hand there has been no attempt to tax and reuse resources leading to lowering savings and investment and on the other non-developmental expenditure - especially subsidies which had risen at an alarming rate. Two eminent liberal scholars T.N. Srinivasan and Jagdish Bhagwati, also agreed on the inefficiencies in the use of resources as the central issue. Both argued on the problem of decline in infrastructure investments and wre particularly critical of India's import substitution policies and what they describe as 'export pessimism.'[1]

P. Patnaik, Amiya Bagchi and other left minded authors pointed to "Structural constraints" such as rise in unemployment, stagnation in real wages, wise in indebtedness, dependence on technology etc. as well as to a small internal market.[2] Pranab Bardhan closely associated slow Industrial growth to mismanagement in public sector investment. Accordingly, the performance of public sector has had a devastating impact on th economy; especially in terms of rise in capital-output ratios and as a consequence of subsidies and protection. Much of the private sector has also been inefficient. On his left, Indian economist, Sukhamoy Chakravarty too argued on the same lines, advocating the need for a larger volume of public investment as well as adequate aggregate demand, to be remedied through better income

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1. J.N. Bhagwati and T.N. Srinivasan, "Indian Development Strategy: Some Comments", <u>EPW</u>, Vol.19, Nov. 24, 1984, pp.2006-08.

2. A statement by 29 Indian economists that any new development strategy should be 'expansion of home-market', the statement being published in <u>Mainstream</u>, Oct. 26, 1985, pp.24-25 and <u>EPW</u>, Oct. 26, 1985, pp.1813-1816.

distribution policies.[1]

I.J. Ahluwalia, who was close advisor to the Prime Minister, Indira Gandhi, especially on the question of the new industrial policy, drew attention to the deceleration of Industrial growth that became apparent by the end of the third plan. She pointed to the defective policies that led to the development of an industrial environment that discouraged competition and provided no incentives for reducing costs or improving quality and raising efficiency.

Many commentators with diverse ideological and theoretical backgrounds have also held that the failure in agriculture due to lack of growth and failure of instituttional reforms, has been a major reason leading to a slowing of industrialisation (K.N. Raj 1976; Frankel, Mitra 1977; Patnaik, Ashok Rudra, 1967).

What was significant was that more liberal economists and advisors like L.K. Jha voiced their opinion strongly against, inefficiencies generated by a closed 'State controlled economy' and had now greater assess to the office of the Prime Minister. This group of new elite were in contrast with Nehru's band of seasoned left-leaning advisors.

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1. N. Chakravarty, "Aspects of India's Development Strategy for the 1980's", EPW, Vol.19, May 19-26, pp.845-52. The demand constraint position is advocated by K.N. Raj, P. Patnaik, D. Nayyar and among American economists, Lance Taylor.

An important factor that made policy makers lean towards liberal policies from 1980 onwards had to do with India's foreign policy vis-a-vis the western bloc the Soviet bloc as well as her own role as an independence post colonial state.

Already discussed in the previous chapters, the Indian leadership stood for self-reliance and self-sufficiency as the very objectives of India's development strategy. Foreign collaboration with the west was welcomed under restrictions and controls. Perhaps this could be associated with the psyche that prevailed among national representatives, of the need to preserve her sovereignty from any form of imperialism. This kind of anti-imperial thinking was in line with the thought pattern in most post-colonial societies which was reflected strongly in the formation of the NAM (Non Aligned Movement).

However, politics in the international arena was undergoing change with the thaw of the cold war situation. Especially since 1964, while other developing countries opened up to the west for aid, collaboration and import of foreign technology for achieving economic growth, India showed little interest in reverting from the path of Nehruvian Socialism towards the mid-60's. But such changes were extremely regulated and hence, rather inconspicuous. The result was that at this juncture, where the state showed signs of a need for change, India found herself lagging behind those countries with similar income per head.

According to a World Bank Report, India inspite of doubling her savings rate, failed to lift the trend of India's average annual growth rat GNP of approximately 3.5%.[1] India's record was definitely poor in comparison with developing countries like Brazil, South Korea, Taiwan, Indonesia, Malaysia, Mexico and Egypt, whose industrial growth rates ranged from 7% to 14% per year in the 1970's. In India, the share of the gross domestic product (GDP) derived from industry increased from 20% to only 26% between 1960 to 1982. By contrast, it increased frm 20% to 39% in Indonesia, from 29% to 38% in Mexico, from 21% to 31% in Turkey and from 24% to 34% in Egypt.

In 1950, South Korea had a per capita incme of $146, Taiwan at $224 and Brazil at $373. Weiner goes on to say that had India's GDP grown as rapidly from 1960 to 1980 as South Korea's it would have stood at $531 billion today rather that $150 billion - surpassing that of the U.K. and more than twice that of China's.

As a result of her own import substitution strategy,

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1. Rosen George, Industrial Growth in India, 1970-2000 A.D., pp.6-17.

India's exports in 1985 were just $9.7 billion as compared with South Korea's $ 24.4 billion, China's $ 22.2 billion, Hong Kong's $ 21.9 billion and Singapore's $ 21.8 billion.[1]

The success of NICs especially of Asian countries, had created a sharp sense of being left behind and a new genera-tin fo leaders were forced to think over the country's emphasis on socialism and import substitution.[2]

Since the mid-60's there had been mounting pressure from international corners for India to open up her Industries to the international market. This meant resorting to long-term borrowing from the west in terms of loans, import of foreign technology and encouragement of multi-national companies to invest in India, to step up her industrial growth. In 1981, India's growing crisis deepened especially in the wake of the second oil crisis. Under mounting pressure and on the advise of more liberal economists; some of whom had their practical training in international development institutions as the World Bank, the political regime negotiated with the IMF for a substaintial assistance of 5 billion SDRs on very soft conditions apart from normal financial prudence including a restraint on subsidies, by

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1. Ibid., pp.15-17.

2. I.J. Ahluwalia, op. cti., pp.63-65.

1984?[1]

However, these above mainly economic agreements do no explain why such a situation arose i.e. why the ruling power elite moved in this direction. The economic crisis and political crisis are not inseparable - rather they have an interrelated impact on a system.

The 1980 general elections gave a fresh mandate to the congress government. It signified two new situations.

1) A major come back of the previous regime after a short interlude and the general dillusionment with the failure of any form of opposition government to provide a strong alternative to the congress.

2) Charismatic leadership already recognised as carrying much weightage in indian politics, the Lok Sabha elections now became Indira Gandhi's elections: there was either disillusionment of the masses with the Congress or of another party coming to rule.[2] Indira Gandhi in the 1960s and 1970s till 1980, before she was assassinated, was being

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1. It is reported that a senior World Bank official flew into India at this time and advised the new government to dismantle the structures of economic control once end for all. It is not clear, however, how many of advisors oof the Indian government with World Bank connections were sympathetic to this approach.

2. Madhu Limaye, Decline of a Political System: Indian Politics at Crossroads, Wheeler Publishing, Allahabad, 1991.

voted in or out of power as most newspaper headlines would give, "she has succeeded or she has not".[1]

This had driven home the need to sustain the overwhelming mandate the Prime Minister received. The very forces that brought her to power could again vote her out of power. It is often argued that Mrs. Gandhi's political style was confrontationist. The emergency which is more remembered as Indira's authoritarian rule was a failure in responding to the rising opposition challenge of the J.P. movement. The experiences of the emergency and post emergency period called for a shift to a more accommodative and consensus based politics. Critical observers suggested that the Indira Gandhi who returned to power in 1980 was no more the firebrand Indira Gandhi of the 'Garibi Hatao' vintage. Her previous rhetoric on anti poverty programmes and Nehruvian socialism in term of economic policies was altered.^T15^T She began learning right words - not with the intention of replacing one document ideology by another. She became more pragmatic and began accommodating different interests to confront crisis.

But whose interests was she to accommodate? What were the forces acting on the state to move in a particular direction? Mitra and P. Patnaik argued that the present

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1. The Hindustan Times, April 6th, 1980.

trends were a result of state power resting in the hands of a coalition between the bourgeoisie and large landowners i.e. a "duopolistic arrangement between them (Mitra, 1977). This is close to the conventional CPI(M) lines and differs only in emphasis from the CPI formulation.

Pranab Bardhan[1] gives a clearer neo-Marxist explanation in analysing fiscal ineffiencies in terms of the country's ruling class elites. He pointed to a document coalition of three proprietary classes: Industrial capitalists, rich farmers and professional bureaucrats, who, while having competing interests, have each benefited from government policy and welcomed state subsides. For instance, business groups welcomed the protective industrial concerning system rich farmers made use of ferments price support program and from subsidised inputs. Bureaucrats were geared to political power in terms of an elaborate system of patronage. They have expropriated resources in the form of subsidies. For economic growth, Bardhan holds that the State needs to he "freed" from political processes of distributive demands, rent-seeking and patronage disbursement, a feature he finds in the Korean model.

Thus, he sees democracy politics and not industrial policy as such like Ahluwalia to explain the ongoing econom-

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1. P. Bardhan, Political Economy of India, Chapter 3.

ic crisis. While Ahluwalia's agreement regarding the mismanagement of the economy centered around the problem of inefficient use of resources as a result of insulation from market forces, Bardhan views the problem as a result of inter-elite accommodation.

In a more recent critique of Bardhan, Weiner has pointed out that forms has focussed upon 'interests' rather than ideology. For instance, the Congress socialists under Nehru could not bring in cooperative farming. Rajni Kothari in a seminar (1976) argued that this let to breakdown of the broad consensus written Indian politics, beginning with the Congress split, that contributed to economic decline as the system failed to function as before were defeated by the proponents of peasant farming. The socialists were more successful in getting their industrial policies approved partly because thay had the support of the middle classes and the bureaucracy. Hence while agricultural policy faced an early reversal, Mrs. Gandhi moved left in the 1960ss and early 1970s on industrial policy as seen in the MRTP Act 1969. The bureaucrats welcomed the expansion of state power as it expanded their own control. Politicians too could extract illegal payments from the business community for facilitating licenses and subsidies etc. thus a symbolic relationship developed among party politicians, bureaucrats and buisiness, due to paradoxically socialist policies.

Thus the industrial strategy created economic and political groups with interests in the preservation of these policies and ideologies (Weiner, 1989).

Frankel's ideas in some ways close to that of Shetty and Patnaik, though there are differences. Her main theme is the disjuncture between socialist rhetoric and the practicalities of the mode of accommodative politics by the late 1960s created problems. She portrays Mrs. Gandhi's government as being trapped by conflicting forces pulling towards the right and the left, and as an administration which has to make gestures towards a "socialist programme" but which has lacked the organisational means to implement them, due to dependence on forges opposed to socialist reform.

The result was half-baked policies which contributed to kthe stagnation of the economy and created internal in government and acute disarray. Thus, political exigencies make the state a very imperfect instrument of the interests of the economically dominant classes.[1]

In contrast to the views of Shetty and others which perhaps overemphasised the extent of development in India of classes like those of the mature stage of capitalism, is a view point that sees India as on "intermediate regime" based on the ideas of Kalecki. First suggested in 1973 by K.N.

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1. F.R. Frankel, India's Political Economy, pp242-257.

Raj, the term is used to suggest the type of governements. In developing countries for instance, the government could be described as one in which the middle class (lower) and the rich peasantry could be indentified as performing the role of the ruling class. This situation arises when the lower middle class is numerically preponderant, the state is extensively involved in economic activity and the availability of credits from socialist countries. After its link with this coalition has attempted to gain the support of the intermediate classes as seen in plicies suppportive of the rich farm lobbu and urban petty bourgeoisic.

Summing up the economic reasons and the political arguments expressed by authors representing different streamlines of thought, the broad reasons for the slowing of industrial growth were in the main, two fold (a) By the mid 1960s the basic incompatibility between the operations of an open democratic systgem the goals of socio-economic reform and fast economic growth had begum to creat problems seen at many levels. This appeared in a slightly different form in Brazil in the 1950s and early 1960s under a populist democracy in India. (b) This problem was accentuated by a move away from socialist objectives which in fact had already begun before Nehru's death in 1964 and was completed during the brief tenure of L.B. Shastri. But he lacked any independent political base to pursue non-socialistic policies.

This process continued under Mrs. Gandhi until her move towards in the right in 1980.

However, what one can observe is that, despite a move towards liberal industrial policies; an elaboration of the objective and policies pursued by the state in the last end the present decade will show that disparities remains between the theoretical relationale behind the New Economic Policy and its actual implementation. This is because the very same classes and groups that formed the ruling pltical elite who ideologically moulded the Indian State continue to dominate the Indian political scene. It was their interest that the regime in power had to accommodate. Indira Gandhi was therefore, tactful enough to maintain constraints in introducting major changes in the way of liberalisation.

Rajiv Gandhi went in for speedy reforms and came to be better known for his new economic policies. In contrast to Indira Gandhi's peacemeal legislation, the new regime that come to power in 1984, right from the beginning announced its interests of making a new break from the fast rhetoric and policies, in both the political and economic arena. However, the fact that critics attributed his downfall in 1989 party to these sudden changes, reflect that taking the class representative basis of the new strategy, these reforms were yet to acquire a populist dimension. Later a discussion of the New Industrial Policy of 1991 will show that Rajiv's policies were continued with by the subsequent regimes. Probably, by this time a shift from controls to insinuator4s as major instruments of development and an enlarged role for private domestic and foreign investment was in the making.

The above formidable political obstacles in the way of liberalisation and the rationale of the New Economic Policy shall be brought out in the next Chapter through an incisive analysis of the broad policies undertaken by the Indira Gandhi and Rajiv Gandhi governments in 1980s. This will be followed by an outline of policy changes introduced by the Narasimha Rao government in 1991 coupled by the brief interlude of the Janata Dal government under Prime Minister V.P. Singh.

CHAPTER IV

INDUSTRIAL POLICY IN THE 1980S: A NEW BEGINNING

As a new initiative towards providing an alternative to policies introduced through a package of state controls, Indira Gandhi recommended the setting up of the ECONOMIC ADMINISTRATIVE REFORMS COMMITTEE chaired by her economic advisor and a liberalist, L.K. Jha.[1] The Committee was to look into a whole range of administrative policies and practices in the economic field. But even before the recommendations of the Committee came to be debated upon, Mrs. Gandhi in her capacity as the Prime Minister had taken certain crucial decisions to revitalise the economy.

When one looks into the question of liberalization of industrial policies in the Indian context, what could be observed, and as mentioned in earlier chapters; re-thinking on policy changes did not come as a totally new 'innovation' exclusive of the previous decade. Prior to changes introduced in the 1980s, various appraisals were now and then made of the working of controls over industry and export-adequate system of functioning. The first appraisal was made way back in 1964 that led to the appointment of the Swaminathan Committee but this was limited to licensing

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1. Paul Brass, Politics in India Since Independence, Cambridge Univ. Press, 1991, Ch.3, p.148.

procedures and not of the policy itself. Later, liberal economic policies were attempted more openly under Shashtri but they hardly produced any results. In fact, many felt they had widened inequalities especially in the countryside.[1]

The Fourth Five Year Plan was a period marked by problems which had been building up inflation,. sharp increase in deficit financing, rise in oil prices and poor production, heightened by severe drought between 1966-68. However between 1966 and 1969, Mrs. Gandhi was not firmly in control of her party and faced active opposition from the syndicate. Hence any policy decision that she took, aimed at enhancing the role of the State and furthering the process of centralisation to achieve political stability. Therefore any step towards relaxation of public control at the centre or initiating any form of liberal policies for that matter, was out of the question.

It was only in the wake of growing conditions of political and economic crisis, that in 1969, a major review was undertaken of the existing policies. There was a widespread feeling by this time, that the implementation of the Industrial Licensing Policy Act of 1951 had not served its original purpose. Referring back to the R.K. Hazari

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1. F.R. Frankel, op. cit., Ch.2.

Report in 1966 which in general broad terms, held that licensing has led to unhealthy practices of leading business houses in trying to monopolise licenses thus preventing entry of new entrepreneurs and negligence in following up progress in implementation of licensing regulations by the state, contributed to malpractices and other maladies; This together with the Subimal Dutt Committee Report (1969) led to the passing of the MRTP Act in 1969*[1]. Thus in the late 1960's, there was an attempt to rigorously apply licensing procedure and to prevent rise of monopolies. However, no attempt as such was made to relax the actual working of the licensing mechanism nor to review administrative practices, in general.[2]

There were attempts at liberalising the licensing system in 1970's. The massive victory of the Congress in the Lok Sabha elections of 1971, gave Indira Gandhi ample space to introduce changes. The Fifth Five Year Plan (1974-79) provided for modifications within the framework of the existing development strategy. It laid down a new policy which allowed greater freedom to the private sector; though it was subject to limitations; within the framework of the original policy resolution of 1956. Except for fields

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* Monopolies and Restrictive Trade Practices Act.

2. Shirokov, Marathe, B.R. Chenoy, Reports of the Planning Commission, 1968, I.J. Ahluwalia, 1989.

reserved under the 1956 resolution for the public sector, the larger industrial houses were expected now to participate in the 'core' sector and government would provide them help in doing so. New industries requiring investment of Rs.1 crore or less would not require any license to be set up. Further changes were made in 1975. Expansion of installed capacity was now also allowed.[1]

The question which then arises is now much is really new about the new economic policies? Is there nothing in our past behaviour and belief that is still relevant in the economic sphere? If so, then how much of the old needs to be re-emphasized and better imnplemented? Coming back to policy changes initiated by Indira Gandhi in 1980, the main thrust of the New Economic Policy becomes more clear and especially in comparison to the previous policy trends.[2]

The return of the Congress party under Mrs. Gandhi in 1980 led to the reiteration by the new government of an Industrial Policy Resolution on the basis of the 1956 Policy Resolution in July 1980. It stressed on revitalisation of public sector industries, economic federation and development of backward areas, regulating excesses capacity and

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1. I.J. Ahluwalia, Industrial Growth in India: Stagnation since Mid-60's, Ch.2

2. I.G. Patel, "New Economic Policies: A Historical Perspective", EPW, Jan. 4-11, 1992, p.41.

provision for automatic expansion of productive capacity, industrial sickness, export-oriented industries etc. The resolution acknowledged the failure of public sector enterprises to perform well and suggested correctives. The fact that the basic framework of the 1956 resolution was still retained, the new one (1980) was not a major departure from the past. The difference however was that the failure of PSE's was now being openly recognised. According to Achin Vinaik, India is a developing country having a number of economic and sociological features characteristic of the Third World nations. However by the 1980's, in terms of its fundamental economic structure and growth dynamism, India has come closer to the weaker of advanced capitalist countries. Indian economy has therefore reached a stage of capitalist maturity where the array of public controls must give way to private capital and the state must seek to play a supportive rather than a preponderant role. What was important about the changes in 1980 was that fact that a phase of liberalisation of industrial policy towards the private sector had begun which was to later gather momentum.

The year 1982 was declared the year of productivity in order to make an added effort to revive industrial activity from the throes of recession, labour unrest, inefficient management etc. and to eliminate infrastructural bottlenecks in the way of a sound industrial policy.[1] The major points of the debate in this context were taken up by a combination of bureaucrats, specialists and advisors expressing both leftists as well as liberal opinion. According to I.G. Patel, even leftist academic opinions at this stage in India were in agreement with the need to make policy changes. The differences lay centrally on the degree of liberalisation and the rationale behind the new policies. Their recommendations were brought out through several committees. Four most relevant documents of the past decade were the reports of the Alexander Commission, the Dagh Commission and more important, the L.K. Jha Commission and the Arjun Sengupta Commission.[2]

A proposal to amend the MRTP (1969) came in a big way, primarily under the pressure of right-wing parties and pro-business lobby. Those concerned with industrial licensing had to change their tune. Instead of penalising industries for producing more than their licensed capacity, they now proclaimed that those who do so well get their licensed capacity enhanced to a still higher level - even to this

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1. Atul Kohli, "Politics of Economic Liberalisation", <u>World Development Report</u>, p.211.

2. Because most of these reports are not public documents complete citations cannot be provided. The contexts of these reports are generally made known via newspapers.

policy some exceptions were made.[1] At the same time, this kind of de-regulation gave the state an opportunity to draw private sector investments and utilise their resource capacity. Large industrial houses and FERA*[2] companies were allowed to establish units in areas not specifically reserved for the PSE's etc. The whole idea was to stimulate industrial production in the core sector and industries with export potential and IS (Import Substitution), use of foreign technology and modernisation. This showed that a great deal of liberalism was introduced in adopting export-oriented pattern of growth in place of an import substitution strategy. Protagonists supporting this change in strategy, advocate that had the policy makers paid more attention to comparative advantages in running an industry where economies of scale exist, and less to an attempt to produce everything regardless of its cost, it would have fared better.

By 1984, India went in for external borrowing on a large scale against IMF conditionalities which showed that globalisation of the Indian economy was suggested by economists as part and parcel of India's liberalisation programme.

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1. L.K. Jha, "In Search of a New Economic Policy", Illustrated Weekly of India, April 1986.

* Foreign Exchange Regulation Act.

In general, through the industrial policy changes made in 1982 and going by the objectives of the Sixth Five Year Plan, Mrs. Gandhi merely brought a liberalisation of capacity expansion with the hope that big industrial houses and FERA companies would respond favourably and industrial production rise.

It was Rajiv Gandhi who brought in what came to be described as the New Economic Policy (K.N. Raj, 1986) the main thrust of this `policy mix' can be deduced by considering the 1985-86 budget, major industrial policy initiatives, and briefly, policy towards foreign trade and import of technology and foreign investment.

RAJIV GANDHI (1984-89) - ISSUE OF INDUSTRIAL POLICY MOVES TO THE CENRE OF THE POLITICAL STAGE

The speed with which Prime Minister Rajiv Gandhi moved toward economic liberalisation came as a surprise. His background as a pilot, his close association with school friends who have been managers in multinational corporations, his personal fascination with computers and the fact that he was not brought up in the socialist intellectual milieu that shaped the youth of both his mother and grandfather, are all important elements in his personal outlook.

On assumption of the office of the Prime Minister, under peculiar circumstances well-known to everyone, some of his speeches on the nature of his administrative functioning significantly emphasized on the need for a radical change in the Industrial Policy Resolution 1956. Though, he reiterated that the broad guidelines would not be altered,[1] further in effect, he declared that his government is committed to making the economy more competitive both internally and internationally.

The triumphal elections of December 1984 provided the opportunity for a far-ranging strategy for modernisation that was immediately seized upon by Rajiv Gandhi and his purposeful finance minister V.P. Singh. The bill presented in the Lok Sabha for the budget 1985-86, in March 1985, was couched with a kind of a language that avoided breaking openly with the past but bore marks of a new change.

"The formulation of the budget is an annual exercise but to be meaningful it has to be set in a longer time frame. Our fiscal system has served us well. However over the years, objective conditions have changed, calling for new responses...." "...we have to initiate a process of reform which will be completed in a phased manner in a time

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1. Eddie Girdner, "Economic Liberalisation in India: The New Electronic Policy", Asian Survey, Vol.XI, May 1992, pp.1189-1199.

bound frame...."[1]

Two features characterised the budget. First, efforts were made to simply rationalise and reduce tax rates as a major stimulant for economic efficiency and greater production. Lowering of rates both on personal income and company profits, attracted maximum attention. On income tax, the number of slabs was reduced from 8 to 4 and the exemption limit raised from Rs.15,000 to Rs.18,000. With the abolition of the surcharge (12.5%), the maximum marginal rate as brought down from 61.87% to 50%. Henceforth, a milion assessees would be exempted. Taxation of business profits was simplified and reduced, and the tax rate was brought down from 55% to 50% for widely held companies and from 65% to 55% for narrowly held ones.[2]

Secondly, economic policy was to move away from physical controls to fiscal and monetary regulations, for which it needed to rely on a consistent system of customs and excise duties. A series of interrelated reforms were therefore launched: (1) classification of duties - tariff and excise - on the basis of a scientific; (2) international structure of law tariffs for imports; and (3) a modified

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1. Speech of Honourable Finance Minister V.P. Singh, while presenting the Central Government's Union Budget for 1985-86, Part B, Para 71.

2. GOI Budget Document, 1986.

system of value-added tax called MODVAT to replacing the ever-changing ad hoc set of excise taxes.

The budget on the whole received a warm welcome from the urban middle and business class. It stood for a new turn in relationship between Indian private capital and state elite.

Other important policy changes that followed were: the role of the Planning Commission was decisively diminished, however without pronouncements, by the creation of a new ministry of programme implementation. The "New Fiscal Policy" announced in November 1985 was very significant, it replaced import quotas with tariffs and laid out long-term patterns of taxation assuring the corporate sector that no negative surprises were looming on the horizon.[1]

It was the Abid Hussain Committee Report of 1984 (EPW, 1986) that came to constitute the cornerstone and philosophy underlying the New Economic Policy.

Though the Congress never officially set aside the Industrial Policy Resolution 1956, yet a new role was definitely envisaged for the state in the field of industry and the economy as a whole. The report held that a "quantum jump" in exports was the only way to avoid the crisis which

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1. Hindustan Times, Dec. 12th, 1985.

had overtaken many Latin American states. Industrial production at home had so far been inefficient, protected with high cost of production and little inducement for export.

The Committee argued that the earlier policy of Import Substitution needed to be replaced by a more open, efficient competitive system. Both barriers to entry of new firms as well as to importsneeded to be removed. Restrictions on industrial capacity relaxed and access to capital imports and new technology should be liberalised. Export promotion and 'efficient' import substitution were now visualised as two sides of the same coin, as based upon the principle of dynamic comparative advantage.

Hence a series of wideranging measures concerning foreign trade, industrial licensing, taxation/subsidies were recommended as a total package which would bring in economic liberalisation resulting in higher level of industrial growth.[1]

These changes so recommended were not announced by Rajiv Gandhi in one package but through separate policies, though in quick succession. After the presentation of the Union Budget 1985-86, industrial policy changes spread over 1985-88 specially in the textile, electronics and drug

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1. Hussain Committe Report, Ministry of Commerce, GOI, 1984.

industry. Recommendations for alterations in the export-import policy, was given as well.

To order to introduce efficiency in the mill sector, a new textile policy was announced without much discussion or debate in parliament. Several public sector units, in this industry were declared `sick' and thrown open to private capital. Besides removal of restrictions intended to make mills more competitive versus the powerloom and handloom sectors.[1]

What was markedly significant about the new shift in economic policies was the government's new approach to the question of science and technology. Rajiv Gandhi saw a strong scientific base borrowed from the West as "a tool for the removal of poverty, by means of improved production and better quality." (<u>The Statesman</u>, Nov. 23, 1985). Accordingly, if India was to move into the 21st century it must catch up with highly industrialised nations, in terms of modernisation. In this context one of the selected areas in which the application of modern upto date science and technology was sharply demonstrated was the hi-tech electronics and telecommunications sector. The state in India had successfully gained a large degree of autonomy from the telecommunications and electronics industry which was part of the

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1. L.C. Jain, "A Critical Review of the New Textile Policy", <u>The Economic Times</u>, 26 Sept. 1985.

core sector reserved exclusively by the Industrial Resolution Policy 1956 for development by the public sector. This was consistent with the national consensus of self-reliance and participation in an essentially capitalist economy.

Moreover proponents of import liberalisation and great reliance upon the private sector argued that excessive regulations had inhibited growth and prevented Indian entrepreneurs from availing themselves of new opportunities in the international hi-tech electronics industry. Import of foreign technology was therefore necessary if India is to modernise.[1]

The Seventh Five Year Plan that came up in 1985 clearly indicated the new thrust of the present regim.e

Regarding industry the plan had three major objectives:

(a) A shift from massive investment by government in facilities to modernising and improving output in existing capacity;

(b) This meant less investment in the Public Sector Enterprises (PSE). Introduction of high technology 'sunrise' industries which would transform India's economy; and

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1. Surajmal Agarwala, "Electronics in India: Past Strategies and Future Possibilities", World Development, 13:3, 1985, p.280

(c) Acceleration of mass consumer goods industries so as to ensure cheap and plentiful goods internally and foreign exchange earnings. Hence the central focus of growth shifted from heavy industry to consumer durable goods and electronic industry. The plan pointed out that "state intervention will undergo a qualitative change that will emphasize its development role, greater interaction with industry and forge closer links between industry trade and finance." (Plan Document, 1985) However while the rhetoric on `self-reliance´ and `social justice´: the key words in the Congress ideology of planned development, was still maintained, its very connotation, as was pointedly emphasized, underwent change. It was to mean development of "a strong independent national economy, dealing extensively with the world, but dealing with it on equal terms."

Thus with a new direction to the pattern of industrial growth, the role of the state vis-a-vis private industry and foreign capital underwent change. Although its relationship with PSE remained the same, the latter had to roll back to terms of the degree of participation in industrial development what could be observed as a partial shift from the old justice model of growth evolved at the time of independence, to a elite consumer-oriented model of growth in the industrial sector.[1] Any political discourse on India's class patterns, the term 'middle class' refers to urban dwellers engaged in professions or are self-employed. Proponders of this model of growth saw in this stratum, the potential to effect on 'industrial take-off' which still had not been achieved in the last forty years of Nehruvian Socialism, where the state was responsible for industrial growth and development. Rajiv Gandhi's early economic policies provided concrete benefits to this middle class, in order to encourage its active participation in the process of industrialisation. Indian industries did experience an overall boom.

The reaction of both business and upper middle groups was euphoric. At the more diffuse level, business groups felt in tune with the government's new emphasis on technology and efficiency rather than on socialism. However at a more general level, Indian private capital was not keen on shredding the kind of protection the state provided for domestic industries against open competition. With growing centralisation, there was a tendency in business attention to shift towards leaders of the Congress party, cabinet ministers and the bureaucracy. Hence by now, Indian business interacted with the state elite through several formal

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1. Atul Kohli, op. cit., p.318.

and informal points of contact.[1] An export oriented strategy meant throwing domestic industries into the foray of competition which meant decline of monopoly of big consumers over government license.

Disappointment was expressed by groups of rural elites especially because of the new policy deviation from rhetoric on anti-poverty programmes, the Budget policies were regarded as being `pro-business' and `elitist'. Surprisingly an important source of opposition to the new policies had come from the rank and file of the Congress ruling party. Rajiv Gandhi had taken most economic decisions. With the help of a handful of advisors, therein ignoring the party organisation as a whole. The new textile mill policy in particular was opposed by certain old Congress members - besides, the speed with which he went about making alterations through a number of economic resolutions took time for his own party men to get used to the fact that what he attempted at was, a move away from the old development strategy of self-reliance and socialism.

Basic disillusionment with Rajiv's style of functioning grew and the image of a `pro-rich' leader that he acquired, eroded his support base which culminated into his defeat in

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1. The FICCI (Federation of Indian Chamber of Commerce and Industry) and ASSOCHAM (the Associated Chamber of Commerce and Industry in India).

the Haryana state elections in 1984 followed by a similar electoral defeat in other states like Assam, West Bengal, Tamil Nadu. This can best explain the tactfulness of Indira Gandhi maintained in introducing reforms, piecemeal and still securing a major political gain by her emphasis on rhetorics viz. Nehruvian socialism and her slogan of `Garibi Hatao'. However, Rajiv's declining popularity has not entirely been a product of his economic approach, but his attempt to liberalise the economy have not been politically neutral as reflected from the opposition he met with from groups in the popular section of society - peasants, rural poor, left intelligentsia and even from this own partymen.

What proved paradoxical was that the defeat of Rajiv Gandhi in the general elections (1989) and assumption of power, mainly by Congress dissidents did not add up to a deviation in the ideological preferences of the new party - the Janata Dal - that they formed, in terms of industrial policy changes with a growth rate to the tune of 10% in 1985-86. But to what extent were these `radical' changes popularly accepted?

Rajiv Gandhi did not for one thing find much difficulties in getting most policies implemented. The opposition in Parliament did not enjoy numerical strength though left parties reacted sharply to the Union budget 1985-86, terming it as `pro-rich'. Besides, he was surrounded with a cotorie of like-minded breed of advisors and politicians who were more of technocrats. Confidants like Arun Nehru and Arjun Singh had backgrounds as executives of multinational corporations. Economic advisors included individuals like Montek Singh Ahluwalia, Abid Hussain, Bimal Jalan, Man Mohan Singh. Individuals like L.K. Jha were closely associated with international financial institutions like World Bank and IMF.

During the short period that the V.P. Singh government was in power (November 1989 to November 1990), industrial and foreign investment policy became an area of nation-wide debate. In May 1990 when the regime introduced its budget, it initiated a new industrial and foreign investment policy which carried liberalisation to a higher place.

Its aim was described as "to serve the objective of employment generation, dispersal of industry in rural areas and to enhance the contribution of small-scale industries to export...."

The approach towards Industrial Policy was a continued policy of liberalisation, but with a difference. Industrial growth was to be accelerated through the small-scale medium sector to combat the problem of unemployment and regional disparities in growth. This could be taken as a legacy of the ideas expressed by the Janata Party Government (1977-80) earlier, on the same lines. The investment ceiling limit for small-scale and tiny industries was raised and the list of items reserved for small scale sector was enlarged to 836.

Central investment subsidies and other sided efforts were extended to development this sector. New small scale units were now freed from licensing controls and had easier access to imports of raw materials omponents, foreign technology and even foreign collaboration and investment. Small-scale industries were hence given encouragement to export and no licenses were needed by them to set up EOUs and significantly the `convertibility clause would not apply to them. The expansion and extension of existing small scale industries into backward areas rural regions were part of the same drive.[1]

This new emphasis could be seen in contrast to the earlier focus given an heavy industries and consumer industries (producing goods catering to an urban population) by the Congress governments, who were perceived as having strong links with big business.

However there is no doubt that even the new regime took major industrial initiatives only on the basis of the foun-

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1. Mainstream, 1990 (May-June-July).

dation laid down already by Rajiv Gandhi and this was true also in the case of the subsequent governments that came to power in the 1990's.

Against the background of the series of liberalisation decisions taken, in so far, in its first phase, major debates ensued on the results of such decisions. Arguments have been given for and against the feasibility of an industrial policy change.

The New Industrial Policy generated criticism mainly from the left oriented schools of thought in India. 'Liberalisation' of Indian industry has been attacked mainly on the grounds that it meant opening up of the economy to penetration by foreign capital, specially multi-national companies. Arun Ghosh points that to open up the Indian economy to external competition before removing the shackles on Indian industry is tragically misguided. For it is the inefficiency lurking in Indian industry which is the very reason for the current weak bargaining power of the Indian economy vis-a-vis the advanced countries. Loopholes, i.e. corruption, black marketeering tax evasion is what was deliberately overlooked by Rajiv Gandhi's advisors while trying to initiate an alternative to an uncompetitive and shettered economy. Other critics (Eddie J. Girdner) point out Indian enterprises lack the kind of 'Industrial culture' prevailing in the West that caters to maximisation of efficiency in production. Besides, they point out that the structure of the international hi-tech electronics industry is not suited to India's needs and capabilities.[1] The capital intensive nature of the electronics industry will tend to exacerbate the problems of unemployment and inequality and consequently will be unable to do little in way of relieving poverty. Figures will show that after a short industrial boom in 1985-86 the industrial growth rate remained more or less stagnated (see Appendix 1). Budgets deficits loomed large to the tune of some Rs.4 crores per annum (3.6% of GDP).[2]

What has been both significant and paradoxical that regulations were relaxed and exports were liberalised to tide over a brewing Balance of payment crisis by the 1980's as a result of 'deficiencies' in the Import Substitution policy of the state. India went in for large scale commercial borrowings of different types: export credits, IMF browwings, NRI deposits, rupee debt, loans for defence purchases and short-term debt to solve the balance of payment problem.[3] However by 1990, the balance of payment took on a more serious dimension, arising partly out of the Gulf

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1. EPW, Jan. 5th, 1985, pp.10-11.

2. Arun Ghosh, "Indian Development Strategy", EPW, 2234, Sept. 28, 1991.

3. "India's External Debt", EPW, June 5, 1993, pp.1151.

crisis which consequently raised the price of oil and more so out of mismanagement of the economy over a period of time. This led to increasing devaluation of the rupee and a serious resource crunch reflected in the high level of budgetary deficit. This in turn gave rise to an inflationary situation and the government under Rajiv Gandhi and later under V.P. Singh had to go in for a hike in prices of essential goods. This naturally evoked dissent from all sections of the Indian mass. Commercial borrowings in the form of multilateral and bilateral aid was continually resorted to, having high rates of interest, which grew up 316% i.e. more than 4 times during this period.[1] The result was that external debt was piling since the 1980's. Revised statistics put out by the government showed the country's external debt to be significantly larger than indicated by earlier estimates. In terms of US dollars, India's external indebtedness rose from $ 41.2 billion in 1986 to $ 55.4 billion in 1988 and from $ 53.9 billion by the end of March 1989 to $ 67.58 billion at the end of March 1992 (Table III, see Appendix). Debts rose by 178% i.e. little less than 3 times in the six years 11984-85 to 1990-91.

Critics pointed out that instead of mobilising internal resources from the economy by taxing those who could pay and

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1. Ibid., p.26.

tapping the black economy, successive governments and especially Rajiv Gandhi's government had found it easier to use a 'softer option' - external borrowing which was allegedly referred to as giving in to the dictates of the IMF-World Bank combine[1] and leading to a kind of economic dependency and 'loss of self-reliance' as in case of later American countries, once having been entrapped in the vicious cycle of Debt Trap.

By the late 1980's, there was a breakdown of the earlier political consensus that enabled Rajiv Gandhi to initiate the New Economic Policy. Within the ruling party itself there were inconsistencies in stand taken by different sections of Congressmen. Several among the ranks and file felt that Rajiv Gandhi's pro-big industry and pro-foreign capitalist stand with the absence of maintaining the previous rhetoric on 'Socialism' and 'distributive justice' would have a negative impact on vote-banks.[2]

This breakdown was also reflected in the re-alignment of political forces and also in the quick succession of short-lived and minority government of India has faced in the early 1990's. The result was that half-hearted

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1. EPW, Jan. 5th, 1985, pp.10-11.

2. Robert L. Hardgrave and Stanley A. Kochenak, India, Government and Politics in a Developing Nation, Fourth edn. (New York: Hardcourt Brace Jovanich), pp.121-123.

liberalisation measures and lack of a clear cut direction in economic policy characterised this first phase of industrial policy changes - for these changes did not add up yet to a dramatic change. A liberal model of development has replaced the mixed economy model premised on state controls and import substitution. The legal and bureaucratic framework of a highly interventionist state remains intact, so do the numerous public sector activities and government restrictions on private economic activity. Atul Kohli would say that the earlier initiatives were mere `reforms' had little to do with any intention to provide an alternative economic policy. The new leadership found themselves in a position of considerable state autonomy in 1984-85 and merely utilised power to push through a few reforms.

Nevertheless, policy reforms did aim at enhancing competitiveness and at broadening the scope of individuals and corporate initiative within the old framework.

When the P.V. Narasimha Rao government assumed office in 1991, the Balance of Payment situation because more critical than ever; external debts had mounted and stagnancy marked the growth rate of the Indian economy.[1] The new government had to find a solution to the mounting problems of economic crisis through (a) Macro-Stabilisation and (b)

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1. S.K. Verghese and W. Verghese, Charan Wadhwa, Prabhat Patnaik, Ajit Singh, Jayati Ghosh.

Structural Reforms. For this purpose, the new government in power turned immediately to the IMF and negotiated a loan worth $ 1 billion (initially).[1] Against the conditions of the lending institution, major reforms in trade policy were announced on the 5th of July which linked imports explicitly with exports for a variety of goods abolished export subsidies.

The Union budget for 1991-92 and a New Industrial Policy Resolution was announced on the same day 24th July 1991 in Parliament. The Budget was described as an attempt to cut deficit to 6.5% by slashing developmental and anti-poverty programmes, subsidies and raising only indirect taxes.

The Industrial Policy resolution marks a complete renunciation of the Nehruvian framework of development which had considerably eroded from the late 1970's but not formally abandoned so far; in spite of the ritual homage to Nehru that the stalement begins with. The autonomy of the state was pushed back not its role was considerably modified and confined to merely exercising control over entrepreneurs in terms of assistance in eliminating obstacles delays in the way of privatisation. The section of industrial licensing states, "the bedrock of any such package of measure be to

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1. Economic Times, Aug. 10th, 1991.

let entrepreneurs make decisions on the basis of their own commercial interests."

What remains to be seen is how far will the participatory role of the Indian state, that has evolved since the time of independence, undergo change to leave development of industry to the private entrepreneurs and market-forces.

CONCLUSION

CHANGING ROLE OF THE STATE IN INDUSTRIAL DEVELOPMENT

Summing up my arguments, I would like to take up the larger question, that is to what extent has the recent move toward liberalization made imperative, changes in state priorities. The state that was previously intended to be interventionist has definetly 'rolled back' giving more space to private enterprizes to penetrate into the more crucial areas of industrial development. Hence it is no longer the primary actor responsible for steering the wheels of the industrial growth in India. The state is now intended to play a rather 'complementary' role with the private sector sharing its responsibility.

However, authors like Ravi Batra (The Great Depression of the 1990s) would argue that one can be guarded against the fallacies of the view that increasing competition inthe private sector eclipses the role of state. Economsists and other intellectuals would agree that this view is basically ideological and quite unwarranted by standard economic theory.

There are fields which economist describe as public good or merit goods with externalities were state action is essential. Even as the country is moving towards a more market oriented economy, the reach of the state in industrial development ought to be extended in order to avoid pitfalls such as misuse of resources, regional disparities etc.

Certain crucial areas which still require enhanced state action are, in the package anti-poverty programmes, that is the targeted delivery of subsidised food and relief employment schemes for the poor and investments in human resource development, vis. in the fields of primary health care and education, where it is still doubtful that private enterprizes would be keen to enter because of the long gestation period involved in investing in such areas. State protection is still needed in expansion and maintenance of modern infrastructure that is power, irrigation, transport and communication and more so state intervention is necessary to protect the consumer wherever natural monopolies of private business is involved.

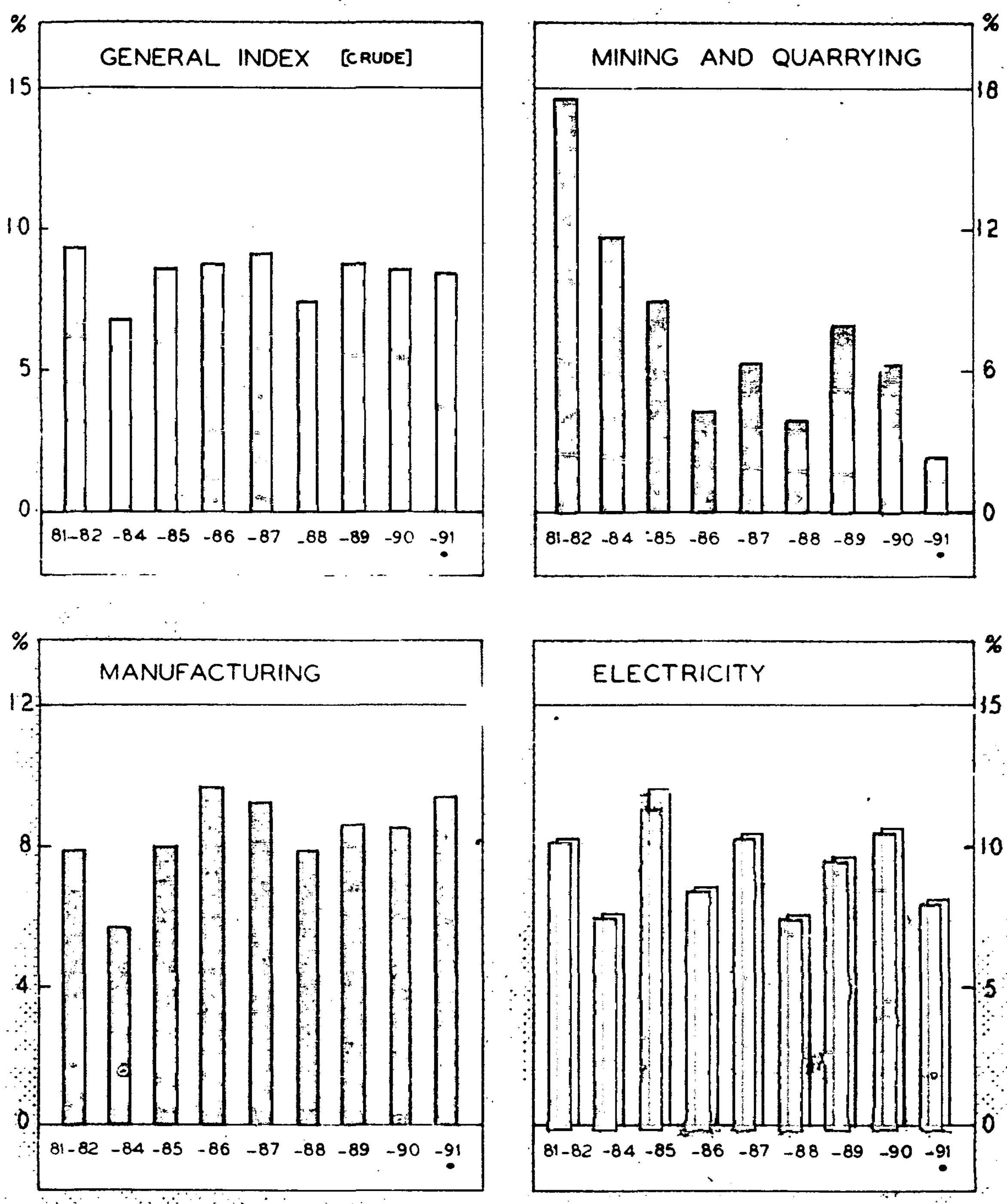
Critics in fact suggests reforms in functioning of the state itself in order to deliver the right goods. Finally, active state intervention still persists especially in taking decisions for negotiations in terms of external borrowings, promotion of exports and other crucial areas of industrial activity. This goes to show that such a policy of liberalization should evolved where state and private enterprises go hand in hand.

STATISTICAL APPENDICES

CHART 3.1

GROWTH RATES IN INDEX OF INDUSTRIAL PRODUCTION

1980-81=100



• TILL FEB.'91

CHART 9.1

FOREIGN TRADE

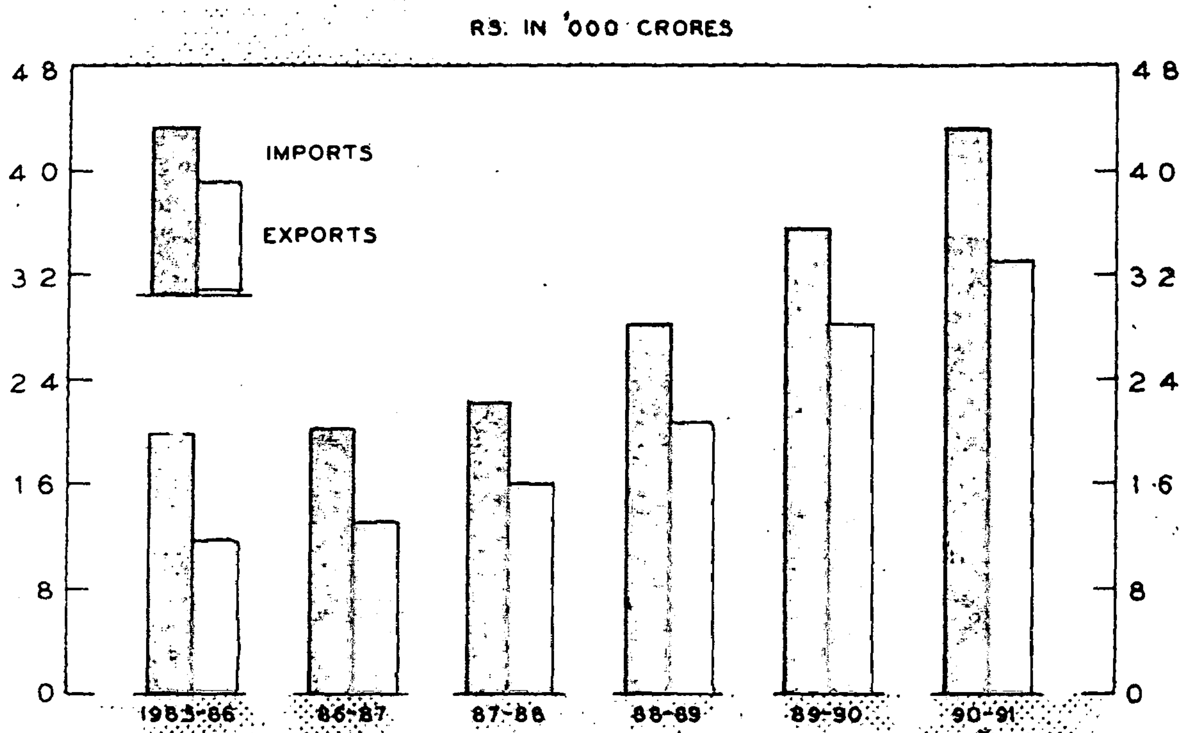
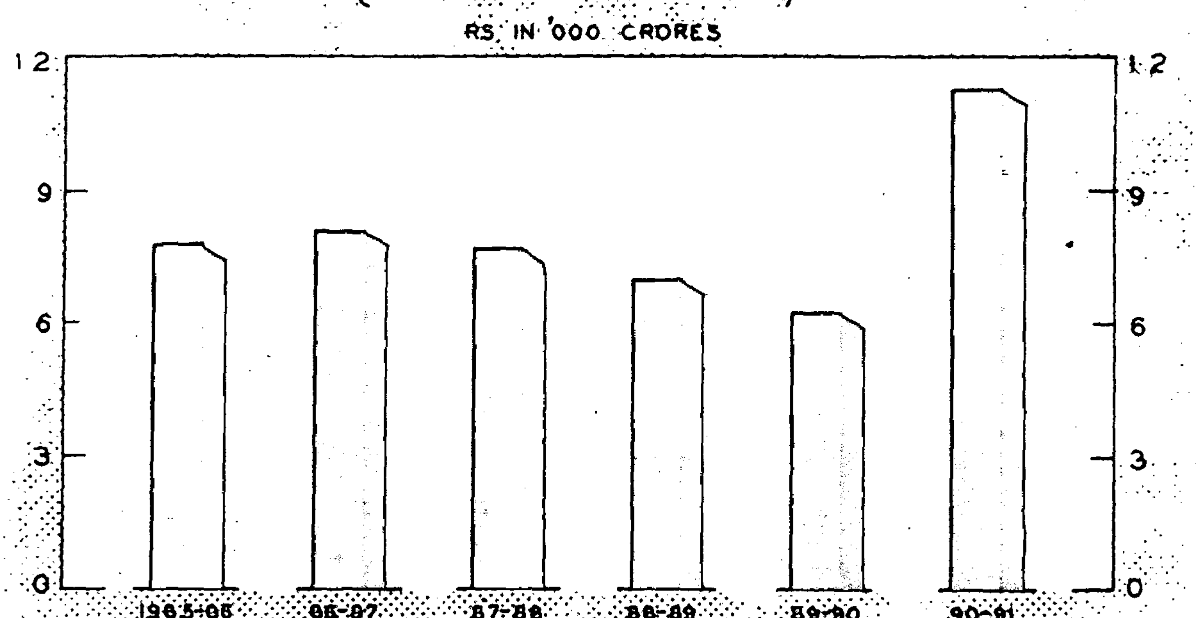


CHART 9.2

FOREIGN EXCHANGE RESERVES

(INCLUDING GOLD & SDRs)



* PROVISIONAL

6.1 FOREIGN EXCHANGE RESERVES

(Rs. Crores)

End of	Reserves			Transactions with IMF		
	Gold*	SDRs (in millions of SDRs)	Foreign Exchange***	Drawings	Repurchases#	Outstanding Repurchase Obligations
1	2	3	4	5	6	7
1950-51	117.8	—	911.4	—	—	47.6
1951-52	117.8	—	746.6	—	—	47.6
1952-53	117.8	—	763.3	—	—	47.6
1953-54	117.8	—	792.2	—	17.3	30.4
1954-55	117.8	—	774.1	—	17.2	13.1
1955-56	117.8	—	784.6	—	7.1	6.0
1956-57	117.8	—	563.3	60.7	6.0	60.7
1957-58	117.8	—	303.4	34.5	—	95.2
1958-59	117.8	—	261.1	—	—	95.2
1959-60	117.8	—	245.1	—	23.8	71.4
1960-61	117.8	—	185.8	—	10.7	60.7
1961-62	117.8	—	179.5	119.1	60.7	119.1
1962-63	117.8	—	177.3	11.9	—	131.0
1963-64	117.8	—	188.0	—	23.8	107.1
1964-65	133.8	—	115.9	47.6	47.6	107.1
1965-66	115.9	—	182.1	65.5	35.7	136.9
1966-67	182.5	—	295.9	89.3	43.1	313.1
1967-68	182.5	—	356.1	67.5	43.1	337.5
1968-69	182.5	—	391.2	—	58.5	279.0
1969-70	182.5	122.7	546.4	—	125.3	153.8
1970-71	182.5	148.9	438.1	—	153.8	—
1971-72	182.5	247.7	480.4	—	—	—
1972-73	182.5	246.5	478.9	—	—	—
1973-74	182.5	244.9	580.8	62.0	—	58.8
1974-75	182.5	234.9	610.5	484.7	—	557.3
1975-76	182.5	202.8	1491.7	207.1	—	804.0
1976-77	187.8	187.4	2863.0	—	302.8	492.1
1977-78	193.1	161.6	4499.8	—	248.6	210.0
1978-79	219.5	364.9	5219.9	—	206.9	—
1979-80	224.7	529.1	5163.7	—	55.1$	—
1980-81	225.6	490.5	4822.1	274.4@	5.1$	267.7
1981-82	225.6	425.1	3354.5	636.8@@	—	901.0
1982-83	225.6	270.2	4265.3	1892.8@@	—	2867.0
1983-84	225.6	216.4	5497.9	1413.7@@	72.1(A)	4443.7
1984-85	245.8	146.5	6816.8	218.8@@	155.9(B)	4887.7
1985-86	274.3	115.1	7384.4	—	253.0(C)	5285.0
1986-87	274.3	139.4	7645.2	—	672.2(D)	5548.1
1987-88	274.3	69.7	7287.1	—	1208.9(E)	4731.6
1988-89	274.3	79.5	6604.6	—	1574.3(F)	3696.0

TABLE 3: GROWTH RATES ACHIEVED IN SUCCESSIVE PLANS

Period (1)	Net Domestic Product at 1970-71 Prices in the Base Year (Rs. billion) (2)	Growth Rate Per Cent Per Annum (3)
1951-56	167.98	3.58
1956-61	199.69	4.14
1961-66	243.60	2.36
1969-74	307.78	4.12
1974-79	362.69	3.36
1979-80	465.93	5.31¦
1980-85	440.94	-5.36¦4.43
1985-90	576.54	5.66¦

Source: Central Statistical Organisation.

TABLE 4: SELECTED INDICATORS 1950-51 TO 1988-89

	1950-51	1960-61	1970-71	1983-84	1985-86	1988-89
	1	2	3	4	5	6
GDP at Factor Cost:						
- Current Prices	8,979	15,254	39,208	185,991	2341.159	348,896
- 1980-81 Prices (Rs. Crores)	42,871	62,904	90,426	1441,310	157,348	1188,481
Centre's Budget:						
Deficit(Rs. Crores)	-(33)[2]	-(17)	2.85	1,417	4,937	7,947
Foreign Trade:						
- Exports	606	642	1,535	9,771	10,845	20,295 (PR)
- Imports	608	1,122	1,634	15,831	19,658	28,194 (PR)

Source: Central Statistical Organisation.

TABLE 5: INDIA'S EXTERNAL DEBT

	US $ Million				
	End March				End Sept.
	1989	1990	1991	1992	
1. IMF	2,365	1,493	2,628	3,451	4,183
2. Commercial Borrowing	8,176 (15.2)	9,335 (15.9)	10,209 (16.1)	11,700 (17.3)	12,271 (17.2)
3. Long-Term Debt	50,013	53,149	57,390	61,710	64,961
4. Short-Term Debt	3,892	5,485	6,006	5,868	6,149
a) Deposits (upto one year maturity)	2,586	3,232	3,572	2,489	2,480
b) FCC(B&O) Deposits (Upto one year maturity)	0	0	167	357	1,707
Total Debt (3+4)	53,905	58,634	63,396	67,578	71,110

Source: Economic Survey, 1990-91, GOI Publication.

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