STATE AND THE INDIAN CAPITALIST CLASS : POLITICS OF ECONOMIC LIBERALIZATION 1975 — 84

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This is to certify that this dissertation entitled : "STATE AND THE INDIAN CAPITALIST CLASS : POLITICS OF ECONOMIC LIBERALIZATION 1975-84", Submitted by Ms. Rajashree Chandra, in partial fulfilment of the requirements for the award of Master of Philosophy (M.Phil) degree of this University, has not been previously submitted for any degree of this or any other University and this is her own work.

We recommend this be placed before the examiners for evaluation

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PREFACE

The State is multidimensional phenomenon, the nature of which varies across time and space. Any attempt to understand the state must consider its changing forms, overtime and in a particular territorial context. Yet one thing which seems to be common to almost all modern states today is its all prevasivness in the everyday functioning of the society, in the public as well as private life. It is precisely this pervasivness which makes its nature hard to grasp. There is nothing more central to social and political theory and yet nothing more contested.

The attempt of this dissertation is to understand the nature of the Indian state, The depth of state intervention in social and economic life, and the changing forms of all these over time. This has been examined with respect to the Indian capitalist class through an investigation of the policy of "Liberalization" and the logic governing it, in the period 1975-84.

The Indian capitalist class has been taken to mean the big industrial and commercial bourgeoisie. This might appear as a simplification. However, it is not to hold that capitalism has not made inroads in agriculture. Capitalist relations do exist in the agrarian sector, but here the capitalist farmer tends to coalesce with landlords and other feudal/semi-feudal classes to operate as a single group with shared economic interests. The articulation of interests is not at the level of capitalist classes in the rural & urban sectors.On the contrary it is at the level of the urban sector versus the rural sector.Thus we have Sharad Joshi's thesis that the principle clevage in Indian politics is between Bharat versus India,the countryside versus the city and such like.Though both the big bourgeoisie and the rich peasants operate,to a large extent,through the same all-India class coalition,they co-exist in an uneasy and conflictual alliance.Often,at a more political level these conflicting interests form the basis of the formation of regional parties which erode the authority of the centre.

It is for this reason that the application of the term capitalist class has been limited to the industrial bourgeosie.It is also not to underemphasize the influence that the rural oligarchy exercises,or the limits it sets to state action.A study of this co-relation is extremely important,but since it is beyond the scope of this research,it would be referred to only in as much it influences the co-relation of the state with the capitalist class.

This capitalist class do not as a class belong to any one regional group,or more appropriately,do not treat any demarcated national region for favoured treatment and who both for its market and for the source of capital operate at an all-India level. They are, in a sense, the pan-Indian bourgeoisie.Here they are differentiated from the regional bourgeoisie whose capital operates regionally.

R.K.Hazari's work on corporate private sector provides emprical evidence for the view that there exists an appreciable concentration of industrial and financial capital in the form of, what is known as, the large business houses(LBHs) which control a significant part of the total private capital.The private industrial pyramid remains concentrated at the top in the monopoly houses.(The Indian monopoly capital is not monopoly capital in the sense of the nature and character of monopoly capital of Western Europe or of U.S.A ;a large state sector makes it less potent a force.)These houses operate through the device of a number of legally separate units which, inspite of their independence in day to day operations,remain subject to varying degree of control by the LBHs.

The important positon of the capitalist class in the overall corporate structure in terms of asssets held, paid-up capital employed,number of people employed,value added etc. makes it class which is able to wield a sufficient degree of power and influence policy matters greatly.Does the state act and legislate on behalf of the capitalist class ? Does the logic of liberalization lie in the capitalist class operating as an effective demand group ? or does it reflect autonomous political decisions ?If so why has liberalization been counter productive ? These are some of the question that I have attempted to pose in the post-Emergency period.Emergency marks a break in the hitherto uninteruppted congress dominance in the post-independent period.I use the term 'break'not to suggest a periodization of post-independence politics into pre-Emergency and post-Emergenncy; but only because the proclamation precipitated, in a dramatized manner, all the undercurrents which were evidently not apparent earlier, which gave the impression of a stable, uninterrupted dominance. The significance of Emergency lies in the fact that it institutionalized authoritatriarism for the first time since independence and because it marked the accleration of liberalization in an overt manner and under official patronage.

Chapter I examines the features of development of capitalism in India. Section II of chapter I outlines the framework of analysis and the paradigm used. Section II traces the genesis of Indian capitalism and the Indian capitalist class in the pre-independence period. Capitalist development in India is shown to be a variant of the 'second path' of capitalist development or as exhibiting some features of 'late capitalism'. Here its specific dimensions, lent to it by the colonial rule, is dealt with. Section III very synoptically examines the features of the Indian State in the immediate years of post independence-the features of its apparatus, the constraints of coalition politics and a backward economy and the relationship it entered into with the capitalist class. It also examines how the capitalist class which had not emerged as the dominant and hegemonic class, used the state power to supplement its efforts in building capitalism. Some specific policy implementions and the lack of it have been taken to illustrate the phenomenon of state capitalism in India. Chapter II deal with the deepening of the political and economic crisis in the post-mid-60s. It examines the consequence of the rise of rich peasantry after the Green Revolution. the mounting pressures of regionalist tendencies; the loss of congress dominance in the 1967 elections and the subsequent attempts of Mrs Gandhi to strengthen her electrol base by claiming radical credentials, nationalizing banks, abolishing privy purses and related measures; and finally her victory in 1971. Post 1971 period is seen in terms of failure of the congress government to perform on all fronts and a loss of legitimacy to govern. The proclamation of Emergency has been seen as resulting from an overdetermination of all these factors which had been at play from the mid 60s itself. Section 2 of chapter II undertakes an examination of specific liberalization measures and how they together with authoritarian measures were adopted to countermand the crisis of the political, as well as of the mixed economy framework. It also examines how the delicate balance of the dominant classes was restored and how that re-inforced the causes which measurres of liberalization had sought to offset.

Chapter III deals with Janata phase which had reflected a change in the social basis of those who governed . It examines how and why the intial socialist postures were shelved and how the same class basis of social policies were reiterated. This is related to the basic structures of the Indian political and economic system which constrain the movement of a regime in a given direction no matter what the social bases of government authorities are. The argument here is that once a regime opts for functioning within the capitalist framework, it becomes logical to make concessions to that system ; and any talk of social restructuring remains at the level of mere policy proclamations. The capitalist class continued to prosper despite the strong rural lobby in the government. The policy of liberalization still remained a resort to pull the economy forward

Chapter IV deals with the last phase of Mrs.Gandhi. It examines how the coming back of the congress in power reflects the crisis of the system which lies in the exhaustion of alternatives and a choice of sub-optimal options. The goals of self reliance and of the public sector occupying the commanding heights of the economy were explicitly downgraded; A much greater role for the private corporate sector and foreign capital and aid was incorporated. India had the worst ever balance of payment crisis in 1981. This chapter examines how the logic of an export led-growth and liberal domestic policies does not quite help the economy to take off. It extracts high political costs, distorts the economic structure, fails to push the economy to a higher level of equlibrum and re-inforces the causes which it was expected to eliminate .

Each of these three phases promised to be distinct from the previous one. Thus while Emergency phase presented a phase of institutionalized authoritarianism, the Janata phase represented the coming together of parties, coalitions, people, different ideologies which was the obverse of what the Emergency was. It promised decentralization of power and a reversal of all that Emergency stood for. Mrs.Gandhi's last phase promised to work and put the system back on its foot which had been mishandled during the Janata rule. The logic of each regime reached a limit point and set of a reaction in the opposite direction.

The interesting feature in these three phases is, however, exactly the opposite of what the three regimes promised. Neither could depart from the other in its mode of functioning and governance beyond a certain point.

Chapter V concludes these trends and offers some comments on questions regarding the autonomy of the Indian state vis-a-vis the capitalist class and vis-a-vis the structures of Indian political and economic system.

Iam deeply grateful to Professor Bhambari who guided me and encouraged me all along and whose comments have helped me omit, at least some of those, what he'd call, 'sixers'. I would like to thank Dr.Prabhat Patnaik, Dr.Sudipta Kaviraj and Dr.S.K.Goyal, whose works provided me with useful insights and information.

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I have enjoyed working on this subject inspite of the difficulties I encountered every now and then, especially as regards a lot of concepts, data and ideas related strictly to field of Indian Economy; it was a relatively unfamiliar terrain. If some arguments are loose or have gaps, I alone am responsible - for that and for all the other errors in this dissertation.

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CHAPATER I

Development of Capitalism in India

I

Political economy encompasses ,within it,two powerful paradigms - very broadly, the liberal and the marxist. Classical liberal tradition conceptualizes the state primarily in non-economic categories and yet ingeneously incorprates the market within its framework : the state plays an active role in the interest of capital accumulation but is an impartial arbitor between different group and classes.The state remains outside the economy and intervenes only to correct the limitations of the private sectors.The key source of power - private ownership of the means of production - is ostensibly depoliticized.[1] The notion which had been a central part of marxist scholarship,partcularly during the Second International and which had marked a point of departure for the neo-marxist scholarship,is that a capitalist state is primarily moved by capitalist class forces and that the defence of these classes/forces becomes virtually its only purpose.This 'instrumentalist' tradition within marxism owed much to the extraordinary development of the Captialism in Europe during that time .

There are atleast two strands in Marx's account regarding the relationship between classes and the state, which are not explicitly distinguished by Marx himself.The first strand and the dominant one is that- the state and its bureaucracy are class instruments which have emerged to co-ordinate a divided society in the interest of the ruling class.The second position stresses that the state power need not be directly linked to the interests, or be under the unambigious control, of the dominant class in the short term .By this account the state retains a degree of power independent and is relatively autonomous of the configuration of class forces. This notion is particularly elaborated in the 'Eighteenth Brumaire of Louis Bonaparte'[2] where he suggests that the state attains a certain autonomy arising from the balance of class forces.

There are largely revised positions within both the traditions. Thus there are themes of 'Welfare state'and 'Corporatism',wihin the liberal democratic paradigm and the notions of the'relative autonomy of state ' within the Marxist.

In recent years ,within the marxist trdition,there has been a distinct move in the concept of 'Totality' from an expressivist[4] notion around a mode of production to a more complex concept often overdetermined structure.[5] Classical marxism had a definite conception of a necessary structure of society .A society dominated by the structure of a particular mode of production consisted of an economic,a political - legal and cultural (ideological) level such that the economy played a primary role,that of 'determination in the last instance.'"...The totality of these relations of production constitutes the economic structure of society ,the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness the transformation ofthe whole immense superstructure".[8] Barring some streams of interpretation which do read this paasage suggestion of a discrepancy between the foundation and the superstructure ,especially with regard to Marx's reference to 'sooner or later',which does not quite admit of a regular correspondence ,the mainstream Marxian analysis intially was quite content to use a single ordering principle which provided with a structural map of the whole social form. But in the entire history of Marxism there has been a parallel tendency towards a more complex picture of social totality - a 'deceentred totality'i.e without an essentialist centre in the economy .Marx himself after 1848-49 talks of two paths of Captalist development and makes an explicit destinction between the 'first way' and the 'second way'or the classical and the belated form of capitalism. In the 'first way' as in Britan and France, the capitalist transformation of the production relations i.e of the economic was accompanied by a financially related transformation of other, non-economic structures also particularly the structures of the political and cultural level. In late Capitalism , as in Germany, the relationship between the economic and political seems to be more assymetric and disjunct.

In both France and England bourgeois revolution had as their basis a class of free and independent peasants and the class of small and middle-scale commoditiy producers ; they were born wihin the internal economy of the body of small producers. Whereas in this case feudal and landed property and serfdom either disintergrated in the process of economic development or were structurally and categorically wiped out in the bourgeois revolutions, in Prussia and Japan ,the classes of free and independent peasants and petty commodity producers were underdeveloped and various aspects of pre-capitalist landed property survived .

In the 'second path' of development it was the merchant who became the idustrialist .This involved the subordination of the petty producers and direct producers to the merchant capitalist and fusion of several modes of exploitation -

a/ The pre-captalist i.e the feudal mode of extraction of absolute rent through extra economic coercion.

b/ The mercantile financial mode of exploitation through "profit upon alienation "i.e in the act of buying and selling.

c/ the Capitalist mode of exploitation through profit on production of surplus.[8]

Both Japan and Prussia retained and sanctioned parasitic land proprietorship of semi feudal characters and a large number of tenants with short and insecure tenancies, mainly share cropping arrangements.[9] Marx writing on late Captalism says "...The merchant establishes direct sway over production. However much this serves historically as a stepping stone ...it cannot by itself contribute to the overthrow of the old mode of production,but tends rather to preserve and retain it as a precondition".[10]

In the advanced capitalist countries, the economically ascending middle - class developed,at an early stage,a new rational world outlook,which opposed the medieval obscurantism of the feudal age.In countries exhibiting characteristics of late capitalism the Weberian notion of a capitalist society structured around the principle of rationality never took shape.The logic governing the political,economic,legal and cultural lack coeherence .They do not exhibit a single ordering principle - whether the principle of rationality or of economic determinism".[11]

It is thus ; in the context of historical specificities of every society, the complexity of every social formation ,each of which have their own logic of development ,that assigning a causality to the economic or, for that matter ,using any mono causal explanation because inadequate.

II

This seems to provide us with a frmework that can be used as a point of departure for the study of the Indian context. Indian capitalism rose and advanced along the conservative'second path' of development .India ,however,is not a classic representation of the case as Germany and Japan are.India is a specific variant where modes of production,exploitation ,extraction , all have yet another dimension to it - the fact that India was a colony.

That Indian capitalism had developed along the second path is demonstrated ,in the first place by the fact that the genesis of modern Indian Captalist class was basically mercantile and seprated from production.The growth of Indian merchant and usurer capital (mainly owing to the absence of British monopoly in trading activities) was to a great extent due to its adaption to British exploitation of the country as a source of raw material and a market ."Indian Capital was at first partly an agent of British industrial capital and finally ,of British finance capital Indian merchant and usurer capital was used to exploit and preserve pre-capitalist forms of productions.It was a kind of pipeline bringing foreign capitalism to the semi-feudal village, and was closely bound up with feudal survivals in agriculture ,as well as with colonial capitalist enterprises" This class collaborating with British capital in developing the economic resources, exploring the potentialities of the Indian economy flourished as an intermediary .This mercantile class was mainly composed of several traditional business communities - Parsis and Gujratis in Gujrat,Saurashtra and Maharashtra;Banias or Marwaris from Rajasthan,,operating in U.P.,Bihar and Bengal;Kamatis in [13] Andhra and Chethis in TamilNadu .And at a certain stage ,the money accumulated by the merchants and moneylenders became an important condition and a pre-requisite for the appearance of Indian capitalist enterprises .It is from this trading class that the modern industrial capitalist class arose and acquired strength,but their role became atrophied , as they retained and continued their links with British Capital and with various pre-industrial ,mercantile - usurious traits".[14]

Though considerable industrial development had taken place in India, in comparison to most of the former colonial and semi - colonial countries , its continued operation in the sphere of circulation of capital (eg.money lending,trding,speculation) tended to obstruct the movement from the latter to the sphere of industrial production. The transformation of moneylenders merchants into production oriented capitalist enterpreneurs had been partial and incomplete,the plough back rate of surplus generated in the industrial sector remained low. A vigorous development on a broad scale failed to take place,rather at an early age capitalism in India gave rise to monopolistic tendencies and practise[15] resulting in furthur retardation and distortion of industrial and economic growth.

The rise of capitalism in India began in the late 19th Century and early 20th Century,at a time when capitalism in western Europe and north America was entering the monopoly stage. Influenced both by external and internal factors ,even the first big Indian capitalists emerging from the merchants and money lenders were ,to acertain extent ,obliged to adopt the economic and organiszation forms of British capitalism .Indian capitalist class borrowed from the British the form of the managing agency system which reflected the combination of mercantile ,financial activities and it was the "device by which a relatively small number of miscellaneous, independent operating companies engaged in a variety of producing and trading activities."[16]

This system gave a peculiar trait to Indian capitalism and industrial development .It helped to retain the control of productive organizations primarly in the hands of financiers . Thus there arose large financial combines with a very mixed composition .Because of the emergence of this peculiar type of organization, industry came to be dominated largely by financial considerations .The existence of large scope of non-productive gains provided a congenial atmosphere for such operation .

Thus development here did not go through the same stages as did early capitalist economies; certainintermediate stages of capitalist development were skipped .monopolies came to be without an a wide industrial base, which in India was weak and uncompetetive.[17]

Another feature of the colonial economy was the severity with which the agricultural base and the village economy of India was uprooted. Colonialism had affected agriculture very negatively. Agricultural productivity rose very slowly during the last part of colonialrule predominanitly due to extractive revenue demands and retrograde tenurial system[18] . The base of indigenous handicrafts industry was destroyed and this led to a breakdown of links between agriculture and industry.

By 1930 ,the business community of India was still very heterogenous and inspite of the creation of the Federation of

Indian Chambers of Commerce and Industry (FICCI) in 1927,they could hardly be called a capitalist class in any accepted sense of the term.Most of India's indegenous businessmen were still engaged in traditional occupation of the 'banias' trade and finance .This was true particularly of the largest Indian business community,that of the marwaris .It was only in western India ,particularly in Bombay and Ahmedabad among the Parsis and Gujratis ,that a strong industrial section had emerged .

It was only after the 1930s that the heterogenous character of the activities of the indegenous bourgeoisie began to be agglomerated into industries .They were found to intvest more into industry by the crisis in colonial economic structure ,which had led to the'Great Depression'and which at home restricted the opportunities for protecting their traditional fields of activity". From 1936 onwards the effects of structural transformations which had taken place during the first half of 1930s began to be felt. The space wrenched out by the Indian Capitalists was largely in the periodd of crisis for British imperialism like the two world wars .Fighting to keep its international rivals out,Britain made concessions to Indian capital[19] and from a policy of"discriminatory interventionism" in the interests of British capital.The shift was towards protection of the'Infant Industry '. By 1936 many Indian traders and financiers,including some ex-compradores ,had acquired a stake in indusrty ...A new set of industrialists with diversified activities had emerged"[20]. FICCI expanded and only now became more or less fully represntative of the whole spectrum of Indian business interests.There was little doubt that capitalists had become more of a class notwithstanding differences amongst them.They became more concious of their common interests which they soon realized was pitted against the logic of colonialism . This resulted in the strengthening of links with the Indian National Congress and their becoming a part of the National movement which became a vital factor in economic existence and expansion of the national bourgeoisie. The Indian capitalist class rather than attempting to remain and grow within the imperialist framework builtup a multi-pronged strategy precisely to undermine it , and in establishing an independent capitalist society however weak and prone it was to the dangers of potential neo-colonialism.

III

India's transition to capitalism can be characterized as what Gramsci called a 'Passive Revolution "[21]. In India it was characterized by the relative weakness of the bourgeoisie, in the post-independence period ,which left the institutional structures largely untransformed despite intial efforrts .A ' passive revolution',unlike in bourgeois revolutions in France and Britain[22] is not a revolution led by a hegemonic class ,which assumes the moral,intellectual and political leadership of the society.Because of this inability it abdicates its task to a state-bureaucratic agency which explains the fact why bourgeois reforms in India took place from above and not as necessitated by the internal developments of the country.

At Independence, we had a mixed picture of dominant social classes which had evolved from the mix of historical developments ,all of which did not compliment each other.There was the industrial bourgeoisie who had joined the national movement and for whom independence meant the removal of the fetters of foreign capital ;who in its Bombay plan ,drawn up in the 1930s,had already projected a path of development of capitalism in India where the Indian state would compliment its development,as the logic and the context of its own emergence demanded it; and who had a major base of power in their control of a significant share of the modern corporate sector of the economy. We then had a class of the landed elite who had retained a great deal of power in many parts of India and who had vast sections of the rural electorate under their economic ,as well as,extra - economic control. And finally the elite which commanded considerable power by virtue of their important role in the national movement and their position in the post independence governing Congress Party;and its governing apparatus ,the bureaucracy which remains a crucial variable in political development of new states and which bears the greatest strains of converting political and social demands into programs and actions.[22]

This multiple power base coupled with economic backward ness and the specific way in which this backwardness was rooted, presented certain inelastic conditions which the Congress could not easily reconstitute .The plurlasim and the backwardness, implict in the post independent Indian society ,set limits within which social design and institutions were to be circumscribed . "Congress had little clarity about the social design it espoused or the positive tasks of the political order against the traditional society ,once power was transfered .This was reflected in the peculiar ecumenism of its social programme : its equally cheerful acceptance both of hard socialist programmes and of hard bourgeois ones for a future social design"[24].

In the early years of independence ,two contradictory tendencies were already well advanced inside the Congress. On the one hand ,the Congress endorsed socialist principles of ownership and a 'socialist pattern of society'.On the other hand ,the Congress government pursued liberal economic policies and incentives to private investment. These contradictions were manifest in the very brand of Socialism that Nehru upheld "obviously most persons who believe socialist pattern of society must believe in the public sector growing all the time. But it does not necessarily mean that the private sector is eliminated even at later stage.In regard to the private and public sector,I think the criteria should be basically two - one is to have as much production as possible through all the means at our disposal,and the second is the prevention of accumulation of wealth and economic power in individual hands "[25].

The thrust of Nehruvian socialism ,obviously, lay not so much on social establishment of egalitarian society based on social ownership - though there was talk of disparities in income and wealth .and the need for prevention of concentration of economic power in the hands of a small number of persons - but in the hands of a small number of persons - but in the rapid growth of productive forces mainly ,but not exclusively, through the state sector. Political consolidation and growth in productivity were the immediate tasks set by the government to ensure political and economic stability in the intial years .This demanded that the existing alignment of the dominant classes be left undisturbed ,for the time being .It was to quieten factional voices as well as to consolidate its own power base that land reforms remained uneffected. As Atul Kohli puts it..."for every goal accomplished, others get neglected . And those accomplished and those neglected often reflect leadership priorities".[26] The choice of political stability and consolidation of rule neglected the concerns for land reforms for this would have meant attacking the local landed sections who were powerful in the state governments and the state level bureaucracy and who oftens operated as rural vote banks.

The Congress in compromising with the forces of conservatism believed that it was merely postponing social and economic restructuring .The underlying premise was that if two types of social organisations are placed side by side ,the less rational would decline inevitably .Ironically and almost inevitably ,this faction of the power block gradually became entrenched strengthening not merely conservative but at times reactionary forces ,thereby making the Nehru's dream of India as a 'modern','progressive' country more unattainable and remote.

The aborted release of productive forces from the agrarian sector placed the onus of increasing productivity ,largely on the industrial sector,where reliance, for a release of economic dynamism, on the private sector was quite substantial.

Rapid growth of productive forces was to be effected through state participation involving some state ownership and planning in support of private entreprises .This option of a mixed economy emerged as an alternative which was suited, it was believed, to the political and economic circumstances in India. The idea was that with the gradual dimunition of the private sector and the expansion of the public sector ,economic benefits would flow down to the poorer sections .

There was a curious optimism involved as regards benefits that would accrue to the masses in the process of 'development'.What is clear,however,is that what Nehru evisaged in his mixed - economy socialism was the gradual enhancement of state power without changing the ownership pattern .The Congress wished to organize economic development and industrialization along capitalist lines."But capitalist growth required a bourgeois configuration in power and because of the weakness of the Indian bourgeoisie it was dependent for its political survival on the support from semi-feudal landed groups. The logic of its economic growth was in conflict with the logic of its political stability. As it was illogical to ask for electoral support from the landed elements and simultaneously expropriate them, Congress policy on land reforms became increasingly contradictory...This created a hiatus between the policies that the Congress government ceremoniously adopted, and the government elite intended, and policy that was effectively pursued :which helped the development of capitalist relations only if they did not destroy semi-feudal interests or could arrange a painless transtion [27]".

In the last forty odd years the Indian state has been actively involved in building capitalism in India .Lenin while stressing the role of the State as the dispenser of brutal force in favour of accumulation also emphasized the role of the state strictly in the sphere of production, in the process of capital accumulation and called it 'state capitalism' .The term state capitalism ,however, is not purely a discriptive category which refers of state investments and state as a capitalist producer employing wage labour and extracting surplus .The decisive and determining element in it is also the relationship between the state and private capital, both of which develop in a partnership between the state and private capital. This partnership, notes Ralph Miliband, should be viewed as involving "two different, seperate forces ,linked to each other by many threads ,yet having its own seperate sphere of concern. The terms of (this) partnership...are not fixed but constantly shifting and affected by different circumstances...it is not at any rate a partnership in which the state may be taken necessarily to be the junior partner".[28]

The intervention and particiption by the state in the Indian economy was meant to serve, largely two purposes—

- to create conditions for the rapid development of the economy along a capitalist path ;and
- to prevent excessive concentration and monopoly of the economic power.

As to the first purpose of state participation ,namely to carry forward the economy along the capitalist path is well illustrated by -

a) pattern of state investment -emergent from Colonialism ,Indian Capitalism needed public support in many areas - e.g.,transport and Communication network linking various regions into one single market ;energy reserves ;basic inputs such as steel,cement and various minerals at support prices ;finance.The bulk of public investment was precisely in these areas.[29]

b) The major acts of nationalization, of our transport (1953) Imperial Bank (1955) and Life Insurance (1956) were undertaken not as a result of ideological posturing but to ensure extensive credit structure and to provide greater liquidity to the private sector is each case.[30]

c) Capitalism in India has been reinforced by the emergence of the state as a financial capitalist. A major industrial financing institution ,ICICI,(The Industrial Credit and Refinance Corporation) having a large representation of large business houses and ; the Industrial Refinancing Corporation,which was set by channeling PL480 funds for medium term loans.Both ensured that there would be no dearth not only of rupee finance but also of foreign credit in India.

d) Despite the fact that public investment vis-a-vis Private investment has been on the rise in the post 2nd five year plan it is not really indicative of a growth in public public sector's economic power .The index of industrial profits of public limited companies rose from 100 in 1955-56 to 185.5 in 1962-63 and the corrosponding index for private limited companies from 100 to 303.8: As late as 1963 almost 9/10 of domestic product (NDP)was still accounted by the private sector and the share of government rose only 4% over a period of 15 years - i.e.from 1948-63.[31]

The share of government in NDP is a much surer sign of control over the economy,and the government share is less than 'Commanding'.

e) Public expenditure is the post independence period has come to be increasingly financed through foreign aid and assistance.external assistance as a percentage of total plan outlays in the public sector has been on the rise.

1951 - 56	1956 - 61	1961 - 66	1966-1967	1967 - 68
Ist Plan	2nd Plan	3rd Plan		
9.6	22.5	28.5	36.9	44.9

There is no doubt that Nehru had offset some of the overt imperialist pressures - e.g World Bank's effort to coerce the government of India to accomodate oil and fertilizer MNCs, pressures to collaborate in the steel industry particularly in Bokaro, etc. Indegenous industralization was discouraged and infrastructural, agricultural investments were advised by the World Bank. It was only on account of the intial resilience of the national Consensus that these pressure were offset: However with time, as the crude anti-industrialization policy of the World Bank, which was offset because of Soviet assistance, was replaced by more sophisticated postures, domestic policy became more susceptible to imperialist pressures. The number of collaborations marked a steep rise from 284 in 1948-55 to as many as 796 such agreements during the period 1956-60 and the annual figure went up to 300-400 during the 60s.[32]

As to the second purpose of state intervention, namely, to prevent excessive concentration of monopoly economic power-In the post independence period it was the ambition of Nehru's regime to work through the monopoly constraints which had already developed in the Colonial period, in order that it allowed them political freedom of manoevre and room for economic development. At independence however, it was thought pragmatic to use the resources and the base of monopoly houses to further development in India .They could not be expropriated for the simple reason that the new state could not carry on the task of industrialization alone..Monopoly power grew and so did their control of the economy .The constraints they posed on political and economic decision making and decision implementation grew more rigid .Soon even the political will got diluted ;the freedom to manoeuvre was never attained .Monopoly power was never adequately curbed .State intervention in India had very little negative effect on 'growth of concentration and monopoly practices. (Table 2 & 3)

(i) According to estimates[33] the share of the assets of the 20 large business houses(LBH) in the overall corporate sector assests has increased from 20.05% to 23.22% in 1966-71;as against the private corporate sector the share of the same LBHs rose from 26.14% to 32.90%.Since then the share has most likely gone up even further.

(ii) In 1960-61, the total[34] number of companies having a paid-up capital of less than Rs.5 lakh constituted 86% of the total number of companies at work during that year,but their share in the total paid-up capital was only 14.6% whereas companies having a paid-up capital of Rs.50 Lakhs and above constituted only 1.6% of the total number of companies but claimed 53% of the total paid-up capital.

(iii) Many of the small companies ,besides ,are owned by the monopoly groups[36],through intercorporate investments .In India big capital has expanded to a large extent through the modality of intercorprate investment in smaller capital .

Control through Intercorporate investments by 22 business houses

	1961-62	1967-68	1972-73
1. Total number of companies	635	702	694
2. Number of companies controlled through investments	270	352	410
3. Row(2) as a% of Row(1)	42.5%	50.14%	59.08%

Source : As quoted by Ranjit Sau[37]

The phenomenal growth of the Private Corporate sector and the increasing share of foreign Capital have been illustrated as indicators of the nature of state participation and the logic that it follows .It obviously has little to do with socialism. The roots lay in the internal contradiction of an indigenous capitalist development .In the face of failure to implement land reforms and reconstitute agrarian relations ,agricltural growth remains constrained .This put severe strains on the expansion of home market for industrial goods .The link between agriculture and industry never got complementarily linked up. Both depended heavily on large scale state intiative and continued investments by the state .It was a vicious circle where owing to slow agricultural and industrial growth and owing to the incapacity of both these sectors to generate capital,the whole process of capital formation became extremely slow .There was no investible surplus with the state.This necessitated the need for dependence on foreign capital .It has been argued that industrial stagnation and the structural regression of the economy can be largely attributed to the failure of the public sector to expand sufficiently fast in real terms.The roots of the crisis of public investment lies in the earlier planning effort and in the structure of the Indian Society.In India the public sector originated in efforts of the state to overcome industrial backwardness without upsetting the feudal social structures in agriculture . At the same time it very objectively helped to expand the base of the industrial bourgeoisie .These contradictory efforts but brakes on the economy and led to the failure of the planning efforts.

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Planning process in India is not an outcome of a definite theoretical posture .The Indian plans are above all empirical;they are intended to provide the answer to some urgent problems and to satisfy a certain hope and need[38] . And this meant that Indian plans (and other methods of state capitalism) are the result of necessity of group pressure .The fundamental cause of this situation is the capitalist nature of the Indian society which gives a lot of intitative to private capital.Nothing in the plans is made absolute or compulsory ; the government and the administration may adopt measures very different from those suggested by the original plan without violating any legal obligations.

At the time of inception of the first plan the new regime possessed a greater legitimacy and a greater freedom of maneouvre, in term of social forces, than it does today .Kohli notes that "new regimes generally possess a greater capacity to redefine old goals and to implement new ones than do establish regimes. This is because regime change momentarily frees the State from established social entanglements and offers the leaders an opportunity to redefine coalitions, alliances, goals and policies".[39]

In India ,the newly won Legitimacy and energies where not channelled for such redefinition. The sole criterion of productivity was sought to be attained without a reconstitition of social structures .Increased productivity it was believed would trickle down and mitigate Indian poverty. The newly found energies were wasted in the consolidation of the Congress rule and settling of politico economic conflicts. Social alignments were so arranged that momentarily the warring interests, of the landlords and the capitalist class ,were recociled in order to be able to register their support for the congress rule .A maintenance of this uneasy coalitional support base has since then made increasing demands on the resources of the state and has extracted high political costs.

1. See,R.M.Mac Iver,'The Modern State,'1926.p.297.

2. Karl Marx,'The Eighteenth Brumaire of Louis Bonaparte,'1963

3. If liberal capitalism operatesd through individualism and rigorous seperation of the economic,political and ideological spheres, corporatism entails the opposite. State evolves as the only institution capable of securing centralized order through hierachical control of organized economic actors.

4. The Hegelian notion of totality .for an application see Georg Lukacs,'History & class Conciousness',1974 .

5. Concept developed by Althusser. Refer Althusser & Balibar, 'Reading capital,'1976,for an espousal of notion of structural causality. pp 187-190

6. Marx,' A Contribution to the Critique of Political Economy,' P.21

7. For a brief account of this debate see Barry Hindess & Paul Hirst, ' Marx's Capital & Capitalism today' Ch.3,

8. for a detailed account see Ranjeet Dasgupta , 'Problems of Economic Transition,'1970.

9 See Takahashi , 'The Transition from feudalism to Capitalism,' p.55,

10. Marx ' Capital ' Vol III, Moscow ,p.329

11. For a critique of marxist methodology ,as being economically deterministic, see Rajni Kothari, 'Towards Intervention,'Seminar, Jan'82 .P 25.

12. Levkovsky, 'Capitalism in India : Basic trends in its Development,' 1970,p.225.

13. For details see ,V.I.Parlov ,'The Indians Capitalist class', PPH, 1966 .

14. See ,Levkovsky ,op Cit ,p 230

15. See Aditya Mukherjee, Indian Captilist class :aspects of its economic ,political & ideological development in the Colonial period,1927-47,in S.Bhattacharya & Romila Thapar, 'Situating Indian History,' P.257

16. Wilfred Mallenbaum , ' Prospects for Indian Development,' 1962 ,P.155

17. e.g. Associated Cement Companies (1936) & Sugar Syndicate. By 1946 the Dalmia Jain group had controlling interests in chemicals, plants, paper mills, plywood, spare parts, factories, railways, electricty, Vegetable ghee, publishing concerns, banks insurance companies, investment companies, sugar mills, jute, cotton & flour mills, airlines, Cement, Coal, food stuffs Collieries - as extreme example but by no means exceptional.

18. For details see George Blyn, 'Agricultural trends in India 1891-1947,' 1966

19. See Prabhat Patnaik, 'Imperialism & the growth of Indian Capitalism,' in Owen and Scuttclife, 'Studies in theories of Imperialism', 1972

20. Claude Markowitz, ' Indian Business and Nationalist politics from 1931 - 1939 : the political attitude of the indegeneous capitalist class in relation to the crisis of the Colonial economy & to the rise of the Congress party', 1978 p.247 also a study by Gokhale Institute in 1951 clearly shows that by 1944 Indian private capital controlled about 62% of the larger industrial units employing 1000 or more workers, & about 58% of the labour force in such factories . The corresponding figures for British Private Capital were 27% + 32% as quoted by A.Mukherjee op.Cit. p.245

21 Antomo Granisci, ' Prison Notebooks; 1971

22 As during the French revolution when 'Jacobinism ', permeated every structure of the society, & so to speak, became the 'Common sense' of the French society.

23. See C.P. Bhambri, 'Bureaucracy Politics in India,' 1971

24. S.Kaviraj, op.Cit p. 230

25. Jawaharlal Nehru, speeches, 1957-63, p.139

26. Atul Kohli, ' The state & poverty in India,' 1987, p 63

27. S.kaviraj, ' Economic Development & political Systems,' Paper presented at Vienna Colloquim on Contemporary India, Nath pai Memorial session, 1984. p 8.

28. Ralph Miliband, ' State power and capitalist Democracy' paper presented to the Seminar on Marx, Schumpeter & Keynes on Capitalism, New Delhi, Jan 27 - 30 1984, p 3

29 for an exact breakup of public investment sectorwise see

Government of India,Planning Commission Third five year plan, 1960 ,Appendix B

30. According to a statement of minister of state for finance, the LIC's total investment as a whole stood at Rs.212 crores on March 31 1969,of this sum Rs.77 crores was invested in the first ten business houses in the country .The Statesman (cal) May 16,1969.

31. India 1966,Publication Division,Ministry of Information & Broadcasting ,GOI ,1966. p. 50.

32. As quoted by Sanjay Baru, ' Self Reliance & Dependance in Indian Economic development ,'Social screntist ,Nov. 1983

33 N.K.Chandra ,' Monopoly legislation & policy in India ,'EPW, August 1977, p. 1412

34. By definiton falls under the 'Small scale unit' Category

35. N.K. Chandra ,op Cit.

36 "It has been reported that J.K. Helene Curtis,a small scale, unit is by the Sanghani group ; Small units like Dental products of India or Vipro Pharmia Products belong to Shaw Wallace,Indians National Diesel Co.is owned by Mahindra,etc" quoted from Pranab Bardhan 'Political economy of development in India,' pp 43,44

37 Ranjit Sau ,'India's Economic Development ', 1974

38. For details ,see Sukhumoy Chakravarty,'Development Planning : The Indian experience ,' 1987

39. Atul Kohli ,op Cit p.29

Chapter II

The Emergency Phase - 1975-77

I

One of the feature that has had considerble influence on Indian politics in the post independence phase has been the transformation of the Congress party .From a democratically maintained coalition under the leadership of the capitalists,the landlords it has become a highly centralized political machine, often revolving around a single individual . In this context the 1969 split in the Congress is particularly significant because the tendencies towards centralization and concentration of power became pronounced thereafter, culminating in the Emergency and institutionalized authoritarianism .

The trends towards centralization and authoritarianism had been historically at work right from the first general elections. These authoritarian moves in the initial years were however sporadic in nature and were generally responses to challenges posed by the people's movements. They were responses to crisis situations posed by the autonomy demands of the states, which needed to be effectively eroded by the centre.

The border war with China and in 1962 and the Indo-Pakistan war of 1965 necessitatied a drastic re-allocation of internal resousces and, in a way,became the immediate cause for the slowly maturing contradictions of capitalist development in India to assume the shape of a severe crisis, all at once. It was the deepening of this crisis, which was reflected, both in the political and economic structures, that led to the erstwhile sporadic manifestation of centralizating trends being transformed into a systemic condition. From occasional manifestations during the Nehru period, the trend towards centralization crystallized into a near permanent reoponse during the Indira Gandhi period. Although psychological and personality traits , factional affiliations,elite social and political background do play a part in creating certain propensities,[2] the trend towards centralization was much more a response to the crisis situation,which was almost and invetiable articulation of the fundamental contradiction of the Indian poltical economey. It was bound to appear even in the absence of defence mobilization and drought which had merely contributed towards deepening its amplitude.

The growth in agriculture had exhausted itself by the late fifties , "the thrust having come largely from the expansion of cultivated area rather than from improvement in yield . With in the limits of the then prevailing mode of production, the economy was ,therefore, doomed to a food crisis which was only dramatized by the drought".[3]

Since Independence much of the state investment had preferentially gone into industry and particularly into heavy capital intensive industry. Because of the over investment in industry, without attempting to develop concomittant inputs and market demand from the agricultural sector, both the industrial sector and the agrarian sector ran into serious problems. In agriculture it resulted in a widespread food crisis and in industry in a stagnating production, widespread under utilization of installed productive capacity and low or purely speculative investment since mid sixties.

The food crisis come to have serious political implications. It began a bad cost push inflation through rising grain prices. Food scarcity drove the Shastri government to seek American food aid. Support from the western and giving sources and international aid giving agencies were made conditional on serious alterations in government policy on the economy. It advocated an increase in defence expenditure to offset Chinese aggression; it supported an alteration in agricultural policy for greater priority to agriculture than public sector heavy industries. Development investment should, by implication, be left to the private sector. And since agricultural development programmes would imply a diversion of investments to that sector, industrial development programmes would be more dependent on foreign capital. The fourth plan incorporated a much greater role of foreign aid. The rupee was devalued, import licensing policies were relaxed and the "new agrarian strategy had an extremely high component of foreign exchange .

The political effects of World Bank proposals marked a clear departure and often in contradiction to the inter-connected aims of Nehruvian policy making : of an agrarian change, development of heavy industries, leading role of public sector and decreasing reliance on foreign capital.

The beginning of chronic crisis of indian industry and of the Indian economy may be identified with the absolute decline of industrial production in 1966 and less than 1% growth in 1967.

Ranjit Sau remarks that "an absolute decline in overall industrial production occurred only in one year,and that also by a small amount-less than 1% . But the growth rate slackened appreciably much before that... It slowed down abdruptly in 1963 and then after a brief upturn finally tumbled down in 1966,not be recover again till 1970".[4] (Table 4)

The New agrarian strategy(NAS) was adopted in the 60s to develop abundant raw materials and food supplies, to increase the size of the home market and demand for industrial goods. Expansion of home market through growth of capitalism in agriculture, it was believed , would offset the industrial stagnation,particularly evident since 1963/64. The NAS soon gave birth to a powerful class of rich peasents posing a challenge to big industrialists themselves. The rural rich was demanding greater power to resources for the states. It got reflected in the formation of State Planning Boards, increasing regional tendencies and claims for preferential treatment to 'Sons of the soils'and above all in the overall shift in the terms of trade in favour of agriculture since mid - 60s.[5] There was a marked rise in federalizing forces. Congress did extremely badly in the elections of 1967 in terms of seats. Its central majority was drastically reduced. It lost control over eight of state governments.

This was the crisis of the ruling social coalition. The logic of coalition was imposed on the state from the beginning by the inequalities of the colonial economy.The inadequacy of the capitalist sector to gradually homogenize its class base.From the late 60s the group of rich farmers became more articulate and assertive in the ruling coalition."Coalition politics imposes a logic on all parties within it.All actors in the coalition attempt to win,not only with its partners against the outsiders,but also at the same time win in a way that it enhances its power against its partners.If the internal distribution of benefits does not appear to be in their advantage,groups or actors can quit the coalition.But every 'threat'of this kind is also an 'offer'allowing itself to be brought back by higher and better bargains ".[6] This has been the typical strategy of the entrant class of rich farmers.Their political moves in supporting parties opposed to the Congress was meant to serve a notice on the ruling class regarding its strength and electrol power.They have asked first for governments support prices to be remunerative,gradually questioning the direction of government policies as being partial towards industries.The rise of rich peasantry provoked the need for re-defining rules for credit allocation,thus sharpening antagonism between them and the big business.

In a series of anti monopoly measures,Nationalization of banks in 1969,abolition of privy purses,the rhetoric of socialism was invoked to force a split in the Congress.These measures were not merely dictated by the circumstances of the entrant class of rich peasants who had strong electrol bases. "It also provided the occasion for an intervention by the prime-minister aimed at endorsing some elements of the radical programmes in order to project a populist image in the ongoing battle with the 'reactionary' syndicate (represented by Nijalingappa,Desai,Patil

& Kamraj) for public support".[7] Mrs.Gandhi became the personal embodiment of a new direction in economic policy and popularity of her image led to an immediate tactical victory for her.

These measures being against immediate economic interests of the big business earned the opposition of important sections of big capital .However, the delicate balance of the coalition was maintained more carefully than it appears at the first sight.This phase of radicalism wasn't really an indicator of a change in the ideological orientation of the Congress party.It was a tactical move which at once registered the support of the rich peasantry and stabilized her electrol base.The 1971 general election was a political gamble by Mrs.Gandhi so that she could defeat both her opponents in the conservative grand alliance and her competitors on the communist left through a direct appeal that promised radical economic reforms through parliamentary methods.

The new intent of policies,for all their complicated regulations and procedures was still ambiguous. The nationalization did not really disburse credit.[8] The lions share was cornered by large business houses.The licensing policy too seemed to encourage economic concentration by directing larger firms to invest in massive projects involving outlay of Rs 5 crores or more."[9]

It soon became obvious that what Mrs.Gandhi attmpted was not to effect a restructuring of the production relation.Her attempts reflected the sole need to restore the Congress dominance. It involved a considerable compromise with the segmented character of Indian society.The changes around 1967 were welcomed by political scientists as a shift from monopolistic to competetive strcture.[10] Actually it was a watershed of a different kind. The fundamental relations in Indian politics were altered. "The state lost its superordinant poSition ... The relationship which constituted the 'historic bloc' were re-negotiated.Driven by the need for survival,the state elite began to seek alliances with pre-capitatist forms on a larger scale, and lost its ability to dictate to them,and instead began to register passively the trace of the resurgent forces in social order".[11]

Indira Gandhi's new political process though prevented any challenge to her personal power contributed to a major political crisis.The shift in focus from'state building'to'regime buliding'[12] sowed the seed of disintegration.The congress increasingly sought ' bonapartist'[13] solutions,of ad hoc arbitrary medation between conflicting interests - "a solution which give the political elite more power, but weakens the political order against other instances of the social form".[14] In such a situation it is not the government which gets undermined but the state.

Increasing centralization based on the logic of strong centre and weak state led to the weakening of institutions and institutional norms and to an alarming increase in factional instability.[15] This was accompanied by one of the severest economic crisis in India since independence. The cumulative impact of the financial consequences of the Bangladesh was in 1971,the sharp drop in food production brought about by two successive droughts,the international oil crisis which grew out of the Arab-

Israeli war of 1973 triggered off a wave of acute inflation,widespread food shortages,crisis of production in various industries and growing unemployment and burden of heavy taxation in the post war period. All this led to,on one hand, widespread deprivation of the masses and on the other hand ensured both the big bourgeosie and landlords large surpluses.

This was the crisis of the mixed economy framework."This is not a temporary or a cyclical crisis but one affecting the very viability of a mixed economy.A situation,it seems,inevitably arises when economic growth cannot proceed further within the framework of such an economy without creating inflationary pressure as would threaten the stability of the rule of bourgeois and landlord classes"[16]. Patnaik and Rao say that since the ruling classes depend crucially on the support of the petty bourgeois and in particular the professional and salariat (this being a legacy of the colonial period when the state machine its salariat was fairly gigantic)the inflationary presures have to be curbed as it hits this articulate segment rather critically and threatens a withdrawl of their support."The state in the interests of the ruling class (thus) attempts to control inflation by cutting back its investment and retarding the pace of economic expansion.The slowing down of public investment has to be further seen partly a result of the prevailing agrarian relation which hinder the release of productive forces in agriculture and as a result of the share of the rise in prices claimed by the monopolists and landlords which causes a shrink in the investible surplus with the state. Such a retardation in turn throws workers out of the jobs and also elements of urban middle-class - exactly that segment whose support it wanted to register .The crisis of a mixed economy lies precisely in the predicament that both a continuation or a discontinuation of economic expansion entails serious problems for the economy and for the ruling classes.

It is at this juncture that a'free play of market forces' model is restored to and an appropriate political framework with more rigid discplining of the working class and less democractic models of functioning is set up .This partially explains the back slidings on the anti-monopoly and land reforms planks of radical programme ,the deadlock which the policy of takeover of wholesale trading in good foodgrains came to and the increasingly repressive measures adopted to deal with the discontented aspirations of the massess.The hopes generated by Mrs. Gandhi's populist rhetoric suddenly collapsed,manifested itself in spontaneous outbreak of violence, strikes,protests first in Gujrat and then in Bihar.Gradually and cumulatively the inchoate nature of regional explosions were galvanized into the 'JP movement 'which threatned to translate all these regional protests into an anti congress alliance.

The J P movement represented in a fundamental sense,the crisis of legitimacy of the congress[17] .The 1971 mid term poll represented the ruling elites new themes to break new ground for seeking legitimacy . In this it had achieved success .But this success was seen by Mrs.Gandhi as no more than an endorsement by the people in favour of the continuation of the Congress rule.It was interpreted as the reiteration by the electorate of the indepensability of the Congress.The actions of the government consequently came to be viewed by the people not as those of a just and fair political order,which had been promised in the 'Garibi Hatao'slogan, but as an advancement of a specific power group.

The blatant disregard of election promises turned out to be a short sighted strategy of the government for it "laid bare the face of the socio-economic groups which wield power in the macrostructure , the face that otherwise remains concealed behind the anonymity of the 'government' and keeps the issue of legitmation away from the wider public and within the confines of political bureaucratic arena".[18]

An attempt was made to arrest the gathering storm of people's protest by the policy of severe repression against the parties and organistion of the left forces.Government came down with a heavy hand on the all-India Railway strike which represented the climax of workers unrest and strikes.JP movement and its call for total revolution ,rallied millions of people under one banner in the struggle against growing authoritasianism.

Mrs.Gandhi's centralized pyramid of power ,once subjected to this stress,ironically contributed to its further development .on June 26,1975,Prime minister Indira Gandhi declared a state of Emergency ,ostensibly on the pretext of a threat to her govrenment from the right opposition (which had been trying to disqualify her from office through the courts on charges of violation of the electrol laws).

II

There are two radically different explantions offered for the imposition of emergency . One way of looking at it is that the reasons for Emergency were purely contingent.It was attributed to the personal unwillingness of Mrs.Gandhi to give up power and in the manner of functioning of the government -its unresponsiveness to popular demeands ,its inability to handle the public sector economically ,corruption ,inlation,the increasingly less scrupulous behaviour of the political leaders and soforth .

Another way would be,to look at these factors as immediate, something which is not explanatory by itself but which reflect the the logic of the structures of Indian political economy.These immediate events were not the real causes but were manifestation of a deep structural crisis - the crisis of the logic of coalitional,'bonapartist'politics of Indira Gandhi; the crisis of the capitalist path of development with its colonial legacy in a mixed economy framework and the structural incompatibility of a centralized party in a federal system - all of which created severe problems of conflict management .

Such a treatment of the Emergency is evidently one that fits Gramsci's model of explanations .He writes - "In studying a structure ,it is necessary to distinguish organic movements (relatively permanent) from movements which may be termed "Cunjunctural" (and which appear as occasional immediate and almost accidental).Conjunctural phenomena too depend on organic movements to be sure...but they give rise to political criticism of a minor day to day character,which has as its subject top poltical leaders and personalities with direct government responsibilities .Organic phenomenon on the other hand gives rise to socio historical criticism ,whose subject is a wider social grouping -beyond the public figures and beyond the top leaders.When historical period comes to be studied the great importance of this distinction because clear...".[19]

Emergency no doubt marked a break in Indian politics ;but it is important not to view the pre emergency as one that reflected different tendencies,different norms. Rather it should be seen as a phase at the end of a continuum which began,in a marked manner,in the mid sixties .Emergency showed the weakness of the Indian state ,the strength and legitimacy of which had been undetermined to strengthen factions and individuals

Bourgeois democracy works on a specific equilibrium of legitimation and coercion. To the extent legitimation works, coercion becomes redundant. Recourse to coercive means does not make for a strong state -for if such was the case the measures of centralization and authoritarianism ,in the early 70s would not have been counter productive -but is a response of a state that perceives its weakness.

Not unexpectedlly, the declaration of Emergency was accompanied by populist slogans - remniscent of Indira Gandhi's 'Garibi Hatao programme of a few year earlier-in the proclamation of a 20-point Programme of development. The Emergency promised everything to everybody ,setting itself entirely incompatible objectives .To the bourgeoisie it offered a better climate of industrial discpline and industrial development; to the middle class ,lower prices and better administration and to the poor removal of poverty. Assessment of Emergency as regards its proclamation must turn to the basic question - were there any long term re-distribution of economic benefits in that interlude.

We have already noted that in the post Green Revolution period there was a tendency for the rich farmers interests to be continually articulated through the Congress,and that this and the need for the stability of Congress had led to a marginalization of the big bourgeois interests; some sections of which had sought to articulate their interests through the Swatantra party in the 1967 and 1969 election. Despite the deliberate mishandling of the purpose of Bank nationalization, MRTP acts and licensing commission by the government uncertainity still prevailed as no fortnight policy on orientation in favour of the big bourgeoise seemed forthcoming .Our study of the period of Emergency would be vis-a-vis this class and how the delicate balance of the coalition was restored by a reaffirmation by the government of its renewed interst in the interests of the capitalist class. Further measures for combating recession accompanied with the paucity of investible surplus had willy nilly resulted in reliance being placed on private enterprises to deliever goods .This was at once an attempt by the government to replace the mixed economy framework with a freer play of market forces and a more open economy, for given the constraints of class politics the mixed economy framework tended to retard growth,and to and at the same time,register the support of the big bourgeoisie

A cursory look at Mrs.Gandhi's 20 points would reveal that in contrast to her of 'Garibi Hatao' the appeal of the 20 points was infact directed primarily at the viable strata, in the population, in industry as well as in agriculture, while the masses were asked to work harder with lesser claims (cut in bonus etc.). It was not fortuitous that Mrs. Gandhi considered it necessary to make a special broadcast, the very first after declaration of Emergency (July Ist) and before the 20 points were outlined, to give an assurance that further nationalization of industries was ruled out and that economic controls would be relaxed, as they actually were in the next 79 months of the emergency.

FICCI hailed the new economic programme of the Emergency. In a letter to Indira Gandhi in 1975 President of FICCI Harish Mahindra wrote "We very much appreciate that this programe gives a broad direction to economic effort in the near future. From our side we are anxious to see that the programme yeilds quick results so that production and distribution in agricultrue and industries are improved and not only employment is maintained but larger employment opportunities are generated all around".[20]

The Emergency gave the industrialist what had all along eluded them - industrial peace. Indira Gandhi's new accleration of bourgeois crisis management through emergency rule bore its most immediate concrete economic benefits to the industrialists. The number of man -days lost through strikes declined drastically by 83%[21] as compared to Jan-Apr 1975. As compared to strikes, which had been declared illegal the observe had happened with lock outs and lay offs. "Within a month of the proclamation of Emergency and the decision not to have strikes and lock outs ,nearly 20,000 employees have either been retrenched or laid off by various MNCs business houses".[22] Nearly 4.8 lakh workers were laid off between 3rd week of June 1975 end of the year.[23] It was thus evident that the 'discpline'enforced since June'75, which has made strikes virtually impossible had not imposed anything like a comparable restraint on the employers. The image of an improved industrial relations and increased employment opportunities which was being fostered was just a legitimation rhetoric. One estimate based on employment exchange data indicated a 28% rise in employment which was already 18.7m in 1971.[24] Money wages had been frozen or sometimes reduced ;coupled with inflation the real wage income declined even further. Mininmum annual bonuses were cut from 8% to 4%[25] .

This 'improvement of industrial relations'from the point of view of capital,is however only one aspect of the marked improvement of political economic climate for business .Few months after the declaration of Emergency FER had noted "Certainly,Mrs Gandhi would seem to have won the first round in her efforts to ensure the support of big industrialists.....Industrialists and investors have welcomed her intiative ...under India's new slogan of 'Produce more' the big family companies such as Tatas,Birlas,Mafatlal and Thapar will be allowed to resume thir expansion".[26]

Minister for Industries and civil supplies , T.A. Pai declared that the principle aim of policy is to achieve result in production,to that end to sweep aside all ideological inhibition and traditional hang ups about controls, regulations , fixed priorities etc. Pai projected the concept of the 'national sector units'...that the public sector units should throw open their share holding to the public at large and should not remain exclusively government owned;that the public sector wants should be thrown open to the rough and tumble of market forces[27].

Every crisis brought about a spate of tax concession and fiscal inducements to the upper income brackets and the corporate industrial sector .Inducement to saving and investment,export promotion , import substitution ,protection of languishing industries and so on have been put forward as the rationale for such concessions.Reduction of effective rates of taxation,tax holiday,developmental rebate,accelerated depriciation,exemptions, relaxation of licensing limits , subsidies etc. have been instruments through which such inducement manifest themselves.The '75-77 period produced a new crop of incentives.

1. The first and the only budget of the Emergency regime was highly revealing of the new orientation of the ruling establishment[28]. Based on the Wanchoo Committee recomendations the marginal rate of personal income tax affecting upper income groups had been scaled down from 92.5% to 66%.The budget extended the tax holiday for another five years. Investment in equity shares of new companies engaged in priority industries were exempted from taxation.

During '76-77 the wealth tax was furthur reduced. An investment allowance of 25% of the cost of acquisition of plant and machinery for priority industry had been given,

2. Reform in licensing policy was another of the major inducements to revive output and investment in the private sector.On Nov 22,1975 EPW reported"...this 'reform'has been put through in stages .First 15 export -oriented engineering industry were allowed automatic expansion of capacity to the extent of 25% of licensed capacity... Interestingly virtually all the 15 industries singled out are marked by low average capacity intialization[29] ... The second step in the reform was the official announcement on Oct 25 granting blanket exemption from licensing to 21 industries in the medium sector and allowing uninvited expansion beyond the licensed capacity to foreign companies and large monopoly houses in 30 other important industries

for regularizing unauthorized capacity installed by monopoly houses and foreign companies had been liberalized .What is now left of the licensing System?"[30].

These measure ,without yeilding any notable results have a tendency to further distort the structure of industry and the composition of industrial output .An accent on returns on capital and a dismantling of controls on investment and output tend to weight the structure of production in favour of non essential goods and services. To sustain long-term growth of investment and employment. What is needed is the obverse i.e a weightage on means of mass consumption. On oct 25,1975 FICCI had come out with an open demand for adjustment inexecise duties without making a "semantic dichotomy"between luxury and necessities. This demand was backed by union Government and the Concept of essential consumption was extended (T.V.as instrument of mass communication and education -concept of a 'Janta'fridge)- the profile of common man itself was changed.The profit margins in this sector remained untouched, for a slack in demand was accompained by a cut in excise duties.

3. The budget for 1976-77 and the series of measure for the unshackling of industrial enterprise were welcomed with an equal degree of enthusiasm by foreign investors also.Business delegation from France,Germany,Great Britan,and USA lobbied for a liberalization of Foreign Exchange Regulation act (FERA) of 1973 and amendment of other measures governing foreign investment and trade. A "New Deal"was offered to foreign capital "Such measures as the investment allowance scheme, reduction in capital gains tax,reductions in the rates of taxation at the upper income and wealth brackets,rationalization of taxation on foreign companies,norms for non-resident Indian investment in India and liberalization of trade policies were listed as being the most emcouraging for profitable business ,both Indian and foreign Also specially noted were changes in the operating condition for foregn business in India, such as reduction in tax on royalities earned by foreign companies including exemption from surtax in some cases".[31]

Under the earlier stipulations of FERA,foreign capital was permitted to have 74% equity in its hands provided -

a/ it is in priority areas,

b/ uses sophisticated techniques

c/ exports more than 60% of its output

under the new guidences of FERA it can retain 74% of its equity in its hands if

a/ if 75% of the output is covered by all or any of these stipulations.
or
can retain majority shareholding provided

a/ 60% of output is covered by all three stipulations

b/ exports 10%
or
c/exports 40% of production with fulfilling any other requirements.[32]

The application of the term "priority sector" had been largely arbitrary .Collaborations were in areas like tomato paste apple concentrates, gramophone records, leather shoes etc.The novel feature of foreign collaboration is to develope captive units bound to supply a good part of its output to the collaborating country - as was the arrangement with Iran as regards its tie up with the iron-ore project at Kudremukh. Iran was to provide 630m$ for this project; in turn India was obliged to supply 120m tonnes of iron ore over 20 years.

While earlier despite the ambivalent position vis-a-vis foreign capital,there was a marked tendency to disallow foreign collaborations in case of internal availability ,in the post Emergency period the logic was reversed and foreign collaborations were welcomed to increase the competitiveness of domestic goods, to boost up exports, and to utilize excess capacity through export promotions. Owing largely to the industrial recession in the early 70s and the increase in India's import bills because of rise in Oil and wheat prices,it was almost imperative that exports be subsantially increased to finance imports and for servicing external debts .India thus joined the rush for an export led growth .The further liberalzation of foreign trade and incentives to export industries under Emergency rule only accelerated this trend.

The philosophy of larger and larger exports to finance growing and liberalized imports tends ,almost always,to be self defeating.It perpetuates a growing dependence without easing the trade deficit. S.K.Goyal in his study of 133 foreign subsidiaries found a net deficit in foreign exchange of Rs.98.43 Crores for 1975-76 alone[33]. The supposedly fast growth of exports had been fostered by a regime of wide ranging incentives ,the cost of which has now become colossal both for the budget and the general economy .

To take the question of incentives ,the Commerce Ministry's report lists the large number of measures intended to promote exports[34]. Import replenshment licenses,cash compensatory support, reduction or abolition of export duties ,duty drawbacks,supply of major inputs both imported as well as domestic ,credit facilities at concessional rates ,blanket foreign exchange facilities for visit abroad, relaxation of industrial licensing for prospective export units,exemption from the requirement to reduce foreign equity holding for export -oriented units under the FERA, relaxation of norms and procéducers for export contracts on deferred payment basis etc.The budget for 75-76 alone had provided Rs.171.77 crores for market development and export promotion measures;duty drawbacks during the year amounted to Rs.102 crores making a total of Rs.274 crores ;Grants and subsidies in the two budgets amounted Rs.550 crores .It is obvious that the rise in exports that had taken place had been at a high cost and was an increasing burden on the exchequer

These Liberalization measures essentially represent astep in the direction of freer play of market forces to bring about a spurt in investment activity from the private sectors who efforts hitherto had been dampened because of the network of controls. There was an impressive upsurge during 1975-76.[35] However the effects of this boom soon tapered off reflecting serious shortcomings and the unsuitabilty of this growth strategy.[36] Industrial output between Sept'75 and Sept 76 declined to 6.2%. This was coupled by the phenomenon of sickness of mills on whose accounts commercial banks incurred a loss of around 1000 crores. A production boom strategy coupled with a decline in earnings of the wage workers(due to wage and bonus cuts)resulted in a paucity of demand and sharp rise of stocks especially steel and Coal (steelstock worth Rs.400 crores).The price index which had fallen by 5.6% during Mar '76 to Nov ' 75 shot up again between Mar 76 to Nov76 by 10.8% .This price rise cannot be attributed to any "wage push" factors as wages were declining .Nor could it be attributed to a step up of productive investment outlay of the government .Instead it was the logic of a private sector led boom. Growth in 75-76 is to be explained partly in terms of favourable monsoon and partly by deliberate holding of stock in the public sector units-a stepping up of production without market clearance .Government purchases of food stocks and industrial stocks put resources in the hands of landlord and this resulted in a private sector led boom .This was further pronounced because in non agricultural sector private resources were bolstered by large subsidies. Patanik and Rao explain that under these conditions a boosting of public investment would strengthen this private sector boom by incresing demand for industrial goods at monopoly prices and thereby putting even more resources into private hands. Besides it simultaneously generates inflationary pressure .Thus "the level to which public investment can be raised without generating serious inflation is quite restricted. In other words, public investment can not rise much because the private sector -led boom,which has assumed substantial proprtions owing to government policies ,takes the wind out of the government sails".[37]

A major element of this prevalent economics is, while supporting big capital productivity to invest in export, to attack and cut back 'unproductive'social welfare expenditure .The draft Fifth plan had contained a 'National programme for minimum needs' designed to provide a minimum level of social consumption, elementary education ,rural health,nutrtion,housesites for landless,slum improvement and so forth "among the more conspicuous changes now effected in the final version of the Fifth plan is the omissin of National Programme of minimum needs of rise in prices ...".[38] These measures have been a part of the drive to cut down 'unproductive' state expenditures and put resources at the disposal of capitalists who will use it for 'productive investment'. Projects or programmes yeilding benefits over a period as all well as those that contribute to an improvement in the quality of life such as education, health - are postponed if not abandoned. "While this may be a smart thing to do in terms of demand management it clearly has the effect of perpetuating patterns of production and demand in their existing moulds. It protects, in other words the prevailing power structure in society from having to yeild place or accept unpalatable adjustments".[39]

Economic measures led to greater concentration of capital.The share of companies having a paid up capital of Rs. 5 lakhs or less in the total paid up capital of all non-Government companies declined -

1950-51	1960-61	1975-76
25%	15%	5%

It is true that capital costs have increased in the past years but even the share of comjpanies having a paid up of capital of up to 25 lakhs was only 10% in 1975-76.

According to the RBI study a larger increase in the total income than on total expenditure... pushed up the selected companies' gross profits... beyond the 1000 crore mark to 1034 crores. Similarly assets of large public limited companies in the private sector (each with a paid up capital of Rs.1000 crore or more) rose by 12.9% i.e. at a faster rate than the growth of industrial production - 10.6% in 1976-77. The economic reasons behind these measures were belied by performance. The figures above clearly indicate a rise in the share of assets of large business houses and MCNs without a corresponding output performance or export enhancement.

Economic analysis tends to reveal a structure of economic predicament which parallelled that of the political crisis. After 1969 split there had been a growing tendency towards by passing regular consultative political process and its replacement by a more bureaucratic and administrative manner of decision making. There was increase in arbitrariness and economic policy got increasingly more conservative. Unlike under normal conditions dysfunctionalities both on the economic and and social front continued unchecked.

Emergency was finally rèvoked and elections were announced.This however was not to suggest that the structural strains in the Indian society had eased or at that the structures had been reworked. The Janata politics was circumscribed within the same limits. Emergency was not meant to reverse the power relations or the internal weights in the dominant coalition. Trading of the economic and political crisis was not in terms of aiding the process of transformation of the social structure but as a problem of tightening up the law and order solution, of mounting resue operations by opening up the the economy, liberalizing policies and securing foreign loans and assistance. However as was revealed by the phase of Emergency, the economic and political dysfunctionalities, which are thrown up by the structural contradictions, and which are sought to be removed without upsetting the existent structures are not easy to countermand even by an authoritaian regime.

1. Manifested in the dismissal of non-Congress governments in PEPSU, Tranvancore-Cochin after the 1952 general elections; dismisal and the arrest of Sheikh Abdullah in 1952;dismissal of the elected communist government in Kerala in 1957.

2. For an account see, Mahendra Pratap Singh, 'Split in the Predominant Party;the Indian National Congress in1969',1981.

3. Ranjit Sau,'Growth and fluctulations in the Indian Economy" EPW, special member, Aug'73,page 1495.

4. Ibid p 1491

5. See, Ashok Mitra 'Terms of Trade and Class relations', 1977.

6. Sudipta Kaviraj ' Economic Development and political system' the Vienna Colloquum on Contemporary India , Nath Pai Memorial session, 1984 (Unpublished).

7. Francine Frankel, ''India's political Economy 1947-77' P.419.

8. For details see A.K. Bagchi ' Reinforcing and offsetting constraints in Indian Industry',in Bagchi & Bannerjee (eds) 'Change and Choice in Indian Industry',pp. 33-35

9. See, Francine Frankel Op Ct. p. 439

10. See Morris Jones,'Politics mainly Indian',1978, pp. 144-59

11. S. Kaviraj, ' On the crisis of political institutions in India', in Contributions to Indian Sociology, 1984 p. 233

12. Refer Stanley Kochanek'mrs.Gandhi's Pyramid: The New Congress -A political system re-appraised',in H. Hart,'Indira Gandhi's India',(ed) p.110.

13. Bonapartism refers to the state of autonomy of the state from the power bloc and the hegexnomic class or fraction in event of an equilbrium of these force amongst which institutionalized power (state) operates as an arbitor.

14 S. Kaviraj, op cit On the crisis of political institutions in India',p.237

15 For details see Francine Frankel op cit pp. 473-475.

16. Prabhat Patnaik and S.K. Rao ' Towards an explanation of Crisis in a Mixed underdeveloped Economy; EPW AN Feb'77 P.205

17. D.L. Seth,'Social basis of Politcal Crisis',1-9 Jan Seminar 1982

18. Ibid P. 30

19. Antonio Gramsci,'Prison Notebooks', 1971 P. 177

20. Correspondence and relvant documents 2 Aug'1975 P.13.

21. FER Jan 13, 1977,Cited in A.G.Frank,'On the Emergence of premanent Emergency,'EPW, Mar 12, 1977.p.465.

22. Business Standard Aug 29, 1975 cited in EPW Sept 6, 1975

23. EPW March 27, 1976,in A.G.Frank,op.cit,p.467

24. Cited in A.G. Frank,Ibid p.467

25. FER, Feb 20, 1976,Ibid

26. FER Aug 22, 1975,Ibid

27. EPW Sept 13, 1975 P1451

28. Cited in MJK Thavraj, 'Has the Indian Industry turned the Corner', Social Scientist, Jan-Feb'77 165

29. The logic being that an increased capacity means on increased share in the allotment of inputs. More often than not the increase in capacity is not related to an increase in production

30. EPW Nov 22, 1975,p.1909-10

31. EPW Dec 4 1976 P.1884

32. Ibid

33. S.K. Goyal,'Some aspects of the operations of MNCs in India,'IIPA,1980.

34. 'Dark side of Exports', EPW May, 15 1976 P. 713

35. Real national income increased by more than 5.5% in 1975-76 total agricultural output increased by 8% rise in individual output between March 75 to March,1976 was 10.9%. Compared to the preceeding 12 months

36. Data regarding the beginning of decline in growth rates compiled from Patnaik and Rao, 'Beginning of the end of stagflation', Social Scientist Jan-Feb'77. PP

37. Ibid, P.131

38. EPW October 16, 1976 P.1614-2

39. K. S. Krishnamurthi, 'Inflation social, not monetary phenomenon', Address at the 59th Annual Conference of the Indian Economic Association, December, 1976 P. 34

40. P.K. Ahuja, 'Policy on Concentration of Economic Power in the Industrial Sector', in J N Mongia(ed), 'India's economic policies', 1984 P.333.

41. RBI Bulletin, July 1978, cited in EPW November 18, 1978

CHAPTER III

The Janata Interlude 1977-79

In a complex society where power has been so widely dispeersed, the conduct of polities and the penetration of influence down from the top, taken place most effectively by means of comprises and through the process of an ongoing dialogue. The abandonment of this principle, in an institutionized fashion between 1975-77, caused serious problems. The inconsistent handling of states and the heterogenity of regional interests had begun to assert itself. "The party had become incapable of serving as the polity's central integrating institution. It no longer maintained a steady flow of patronages, information and pressure between levels in the system. It was no [1] longer capable of generating rational changes of tactics."

The outcome of the 1977 general elections represents a watershed in the history of post-independence Indian politics. The choice which confronted the Indian masses was not a complex one. The elections was about the emergency. In that sense it was more of a referendum than an election. It represented the near unanimous verdict against institutionized authoritarianism and against abrogation of civil rights. The extent to which the hopes placed in the Janata rule marked a departure from the earlier congress regimes is a question which requires analysis. The composite elements of Janata Party were conceptualized as having a different social basis and a different ideological orientation. Hence it becomes important to make a distinction between the social basis and class basis of a party.[2] Social basis can be guaged from the sections of people supporting and voting for the party, background of members, from the issues taken up and the kind of slogans raised by the party leadership for mass consumption. Class basis, however is different and can be judged on the basis of analysis of whose interest are ultimately served.

The Janata party by and large reintroduced the ideological primacy of the informal, small scale traditional sector. Its proclamation marked a shift from the primacy of industrial modernisation which had been the central issue of the earlier administration. The Nehruvin stretegy of heavy industrialisation was replaced, in policy proclamation atleast, by a vaguely Gandhian "back to the village" model. The alternative they proposed was "treading the path of Gandhian socialism based on political and economic decentralisation".[3] The model oddly enough was the Japanese path to capatilism, albiet with a Gandhian flavour. "In most countries the development of both agricular and labour intensive industries which M. K. Gandhi had advocated came first and this policy had paid them handsome dividends. Japan provides the most prominant examples..."[4]

On the basis of these policies articulations the Janata Government was seen in terms a different class interest. A closer scrutiny however reveals a basic continuity both in terms of the class basis and in its unability to reverse the tendencies in

Indian politics; on the contrary it ended up accentuating them. Although the various segments of the Janata articulatied different social basis it ended up reinforcing the bourgeois landlords interests.

The Janata was in social terms, a very similar coalition, only the dominance of the representation of rural interest made it more sympathetic to a sort of rural argument. There were however also strong and relatively old fashioned business interests quite strongly represented the Janata Party. "The nature of the Janata party in power at the centre was unlike anyother party. It was not only a conglomerate of erstwhile parties with different programmes...but was also an outcome of a rabid coming together of disparate opposition groups of the ruling class."[5] It was not a merger based on ideological considerations. It was an anti Indira, anti emergency wave which united them. Without going into the details of their merger it would suffice to point here that most of the parties continued to represent within the Janata coalition, interests of the sections ruling class which they represented earlier, viz Jana Sangh of the commercial petty - bourgeoisie (traders) or feudal landlords in certain regions; erstwhile Swatantra of the conservative sections of the bourgeoisie. The Bhartiya Lok Dal (BLD), Bhartiya Kranti Dal (BKD) and Lok Dal of landlords and Kulkas in three or four states of the northern India; ideologically the least demarcated from the Congress was Congress (o), which like Indira's congress represented the interest of the entire ruling class; and finally the socialist party which never really had any close identity with any class except to represent a vague combination of petty bourgeoisie and peasent interests.The logic of each of these groups was in conflict with the rest and under these circumstances the only result, which seemed expected, was a stalemate in policy terms.The gamut of interests represented made the Janata no different from their congress in terms of class interest pursued. The dilemma of how of reconciling the conflicting interest of the dominant propertied classes , as earlier formed the focus of Janata politics. The emergent political configuration was quite similar to the picture after the 1966-67 elections. Though the Janata party was formed as a result of a merger of several opposition party,it was not able to organise and unite the entire power bloc under a unified political leadership. There was an exacerbation of contradictions within the party, each demanding a greater share of power both in the new government and party. The big bourgeoisie encountered serious challanges from the agricultural bourgeoisie, particularly the rich peasent faction led by Charan Singh in North India. The Janata government thus had to resort to the earlier pattern of consensus building by granting greater concessions and subsidies to different classes, and the old pattern of power sharing was restored.

A bid was made to restore the pre-emergency autonomy of political institutions .The big bourgeoisie which had exercised its dominance through an increasingly centralised state faced serious challenges from section of the rich peasents , the commercial and the regional bourgeoisie and their participation at the central level. For example, the middle caste rich peasent persistently demanded a reservation of middle castes on the lines of scheduled caste and tribe. Simultaneously and almost concomitantly there was a strengthening federalizing forces which articulated itself as demands for greater state autonomy in the CPI (M) as well as in the ruling class led state governments. The different constituents of the Janata conglomenate were in the dominance in different states in as uneasy alliance with other constituents. And in "the absence of a viable compromise formula, their different social basis and mass support forced them to horse-trade within the Janata to so tilt the policies that their mass supports could be sustained."[6] The federal process thus became more fluid and more open to bargaining than during the earlier Congress regime .The absence of coherance and authority at the centre was further aggravated by the sharp rise of militant movements by the working class and the assertion of people's power in both organized and unorganized ways.

In such a conflict-ridden Janata party and government the rural rich under Charan Singh made a bid for power.Charan Singh split the Janata party and struck an alliance with several other parties to form a government.It was the first time that the agricultural bourgeiosie was at the helm of the government.[7] These trends particularly upset the big bourgeoisie .

The deliberation of FICCI during the Janata era provide ample proof of serious the challenge faced by the big capital.B P Poddar in his Presidential address to FICCI in 1978 expressed his anxiety over the "undesirable and dangerous pressures that are mounting in our body politic".He particularly expressed dissatisfaction over the "Special pleadings for one section or another" by which he meant the rich peasants bid for greater control over state power through policy of reservation of backward classes mainly middle cast-rich peasants.The balance of class forces was in a stalemate within the Janata party framework with big bourgeoisie cramped and forced to give leeway .

The outcome of 1977 elections had caught the big bourgeoisie flat footed for sometime . The reforging of links and association with the new establishment was begun at once however the process proved to be a complex one .Their principle anxiety was that of safeguarding the "gains of emergency".In negotiating a right deal the problem was aggravated by the absence of coherence in the Janata party and absence of a ruling ideology. In the face of its uncertain prospects - spelt out by the statment of goalsand objectives in the draft plan which intended to pursue its policy of curbing the large- scale sector and simultaneously boosting small industry to achieve economic decentralization and greater employment - the big business in India began to feel restricted. Aditya Birla,an articulate memeber of the Birla House confessed in an interview:" although we are reconciled to the government policy on large houses,we feel frustrated as we can do much more. Small and big industry are complimentary,growth of the former being dependent on the growth of the latter".[8] Very broadly the Janta development strategy consisted of supposedly four major shifts from non agricultural activity to agricultral ; from large scale industry to village and small scale industry; from urban centres to rural areas ;from the non poor to the poor.

The business leaders started off very carefully making the right gestures towards proclaimed policy preferences and slogans. They accepted priority for agricultural and small scale sectors going as far as to take up some projects of rural development and making funds available to them.[9] However this was simultaneously coupled with indicators on their part that priority to agricultural and small scale sector meant a commitment of certain funds for these sectors but leaving the rest of the field open for private initiative.Proposals also called for an enlargement of avenues for resource raising for mopping up savings by the private sector to meet its part of the responsibilty. Hence there were repeated calls for a fair fiscal and price incentives .

The balance of class forces being in a stalemate such a reconciled and 'cooperative'response of the bourgeoisie towards the Janata development strategy was perhaps crucial for their longer term interests.The big bourgeiosie exercising influence and operating through the centre has always been wary of registering its support towards policies which in the long run would imply greater leverage to the regional bourgeoisie which,of course,gives rise to federalizing tendencies.A centralized state remains a prime necessity for their unhindered growth. However in circumstances where the regionally based classes have political alliances and representatives at the centre,the industrial bourgeoisie may not be averse to partially meeting demands which centre around redistribution of benefits so long as their own return - maximising pursuits are not seriously encroached upon and so long as it stops short of demands regarding curbs on the centre's power."Non - monopoly capital or different landed interests may come from parties or formations that are'oppositional'but function within unified\ all-India-class-preference". What resulted was thus shift of the terms of trade in favour of (market oriented) agriculture[11] without affecting the profit rates of monopoly capital.[12]

The adhocism in implementation of policy objectives and the confusion that prevailed in the Janata Party over policy issues led to the earlier loud proclamations regarding decentralisation of economic power and putting curbs on the industrial houses soon being shelved aside. In fact there is little to suggest that there was any consensus over an issue, even in the earlier stages. As reported in EPW - "there is a loud talk of promoting small and rural industries. It is proposed to discourage capital intensity in the production process. But the finance minister has floated the scheme of merger of sick units with healthy units and exercises are going on to relax application of industrial regulation act, MRTP, FERA so as to promote the proposed mergers.[13]

The industrial and trading bourgeoisie had reasons to be satisfied with the policies of the Janata Government. The business sector which has been extremely wary of janata's attitude to the big houses was considerably relieved because the expected onslaught against them was much milder then expected.

The small scale ideology was adopted by the government to effect a dispersal of the limits of industrialisation and to put curbs on the concentration of power. This did not mark a departure from the intentions of the past, for they were affirmation of universal goals and date back to the Industrial Policy Resolution of 1956. The new industrial policy's stress on decentralisation of economic power thus can not be evaluated solely in terms of its affirmation to favour the village and small industries but in the manner and degree of implementation.

1. If we take for example the case of reservation of products for small scale sector, the reserved products were largely in items like spare parts and components which ended up precarioulY tying up small units with the larger ones as ancilliaries. The problem lies in the fact that they, as ancilliaries become tied up for their needs of markets, technology, various inputs with various monopoly houses and MNCs. The small industry in this sense is not a small capital industry, but quite often comes under direct or indirect control of the monopoly houses. T. Thomas, the then Chairman of the Anglo Dutch Hindustan Lever, third in the list of profit making concerns said in the company's general meeting in 1979 that "Out of the 46.6 crores of material that we bought indegenously in 1977, almost a third came from small scale units. In many cases we helped either to set up the unit or to have its technology improved in order to meet our specifications."[14]

Some recent reports have suggested that as much as 40% of banks advances to small scale units are siphoned away to bigger industrial units. This is done in many ways by large industrial houses sponsering a host of small scale units to corner scarce raw materials or credit ; by diverting money for purposes other than those for which it is intended such as speculation in commodities, trading etc.; by indulging in re-lending activities through the medium of shroffs or local money lenders.[15] The same happened to the soft loan scheme introduced in 1976 to stem the spread of sickness in industry by providing finance at concessional terms of 7.5% interest rate (compare to IDBI normal rate of 11%) for modernizing. But as a result of joint lobbying by industries and the term financing institutions, the government agreed that even profit making units could be granted these loans. Further lobbying removed the stipulation which gave financial institution the option to convert a part of their loan into equity - i.e. the convertibility stipulation was done away with respect to "soft loans".[16]

The possibility of decentralisation of economic power gets further diminished in view of the further liberalisation of economic policies both with regard to the internal as well as the external regulations.

2. The approach to the large houses was so defined as to include a fairly wide range of activities as a result the LBH had a fairly wide field to operate and in many industries such as fertilizers, chemicals, drug intermediates, cements, paper substantial new investment necessitated large borrowings from public financial institutions.[17] "The result was that despite the MRTP Act and the declared policy of the government to curb the role of larger houses in the industrial economy, their control over assets rose sharply in absolute terms".[18] The counterpoise to large houses in fact, did not come in the form of effective restraint on their expansion.

3. The government appointed a study group on industrial

regulations and procedures to review the role of industries (development and regulation) act to investigate into the possibilities of moving over "to a system of licensing which would preserve the merits of the present system while discarding useless paper work and removing unncessary irritants to entreprenuers".[19] In brief the recommendations of study group were:

i) The exemption limit for industrial licensing may be raised from Rs.1 crore to Rs. 3 crores.

ii) The existing stipulation regarding the overall limit of investment of Rs. 5 crores may be deleted.

iii) The existing stipulation regarding the limits of import of raw materials and component may also be deleted.

iv) Other existing stipulations i.e. the item of manufacture should not relate to industries reserved for the public sector and small scale sector....should continue to apply.

Though the relaxation did not apply to either FERA/MRTP units it was possible for the LBHs to turn the logic in their favour simply by the logic of the MRTP/FERA units being vitally linked up with the non MRTP units, which as demonstrated earlier came under direct or indirect control of the monopoly houses.The non adherance and circumvention of liberalised licensing and control,abetted the process of capital concentration in the private sector .During 1978-79,profits of 421 large public limited companies rose by 21.9% as against 3% in 1977-78 (profits before tax) and profits after tax (PAT) by 33.5% against 3.1% . Because of such benefits along with massive borrowing power,the assets of large companies also grow at a faster rate. Assets increased at a rate of 9.9% in 1978-79 as against 8.3% in 1977-78.Gross fixed assets of the large companies formed 78.7% of total gross assets of medium and large companies in 1977-78. These increase in profits and assets have obviously come as a result of pushing up the profits margins all around .

4. There was an increasing reliance during the Janata phase on indirect taxes much against the people's hopes of the tax structure being made progressive and additional amount of Rs.5000 million was indirectly taxed as compared to an increase of Rs.250 million in direct taxes. Direct taxes on agriculture had found 7.8% the total tax of central and state government in 1960 - 66 ; it went down to 1.8% in 1976-77.

The tax revenue has recorded considerable increase during the planning period and yet the proceeds from direct taxes are not even 4% of the national income. "Over the past 3 decades revenue from indirect taxes at current prices has become 25 fold, whereas reveue from direct taxes could rise only 10 fold. Consequently the ratio of direct to indirect taxes, which was 40:60 in 1950-51, declined to 14:86 in 1986-87. This is the significant change in India's tax structure which indicates that the Indian tax structure has become increasingly unjust over the years.[21]

5. On the policy front, the trend towards liberalisation of imports and foreign exchange controls which was intiated as early as in 1966 in the aftermath of the devolution of the rupee,which gathered momenentum in the days of Emergency, continued in the Janata phase unambiguously and overtly.In 1979 a policy statement for the Janata Government stated that there was going to be considerable degree of flexibility in dealing with foreign

collaboration and investment proposal. This was part of the growing bureaucratic logic of scientific and technological management of affairs which tended, logically enough, to greater reliance on foreign sources and preference for foreign collaboration arrangement for getting things in done in the name of efficiency, reliability and making exports competitive.

In 1978 alone over thousand foreign collaborations were sanctioned by the government. These collaborations very often had been in areas where Indian capability and expertise had been available. For example the setting up of new fertilizer plants with foreign collaboration - "In case of these arrangement it is the indegeneous expertise and capability, with proven merit in setting up a line of large sized public sector plants in the past and with capability admitted by even the World Bank in the setting up of some bank - aided plants, which is being ousted and whose role is being downgraded".[22]

The controversial Siemens/Bharat Heavy Electricals Limited deal[23] too had implications contrary to the national interest. According to one agreement clause Siemens would not grant BHEL the exclusive rights manufacture and sell in India but would grant additional to manufacturing and selling rights to seimens India and its associates.Thus Seimens India can compete with BHEL for the same product where the former will have a clear advantage simply owing to the fact that it does not have to pay royalty or other charges to Siemens."Meanwhile BHEL would be bound hand and foot and will not be allowed to enter into collaboration with third parties".[24] Moreover the royality goods amount to 1.8% of product or systems where Siemens technology is in use but 1.8% of the entire turnover of BHEL embracing all technologies indegenous as well as foreign.

The share of foreign companies in the sale of private sector have maintained an almost steady increase from 1957-58 and accounted for over 30% of the sales of private corporate sector. On account of the protected market and low cost of production the foreign capital is capable of earning handsome profits in India. According to one survey the 30 biggest MNCs operating in India in 1977 made profits of rupees 1530 millions on a share capital of Rs.1370 million. The net profit reach Rs.460 million but it is generally accepted that the real profits are higher.[25] A survey of operation of 594 private sector industries conducted by RBI for the period 1977-78 to 1980-81 shows that the aggregate average annual payment in foreign echange amounted to Rs. 69.9 crores.[26] The terms of payment were drawn up so as to squeeze out the maximum payment under one head or other.[27]

The big bourgeoisie's attitude to foreign capital stood greatly revised from their earlier preference for import substitution and a protected domestic market. At a joint session of Indo-US Joint Business Council FICCI pointed out that the question of protection of Indian capital in the Indian market arose only in new areas of investments and not where they were already established. In a statement issued at the end of the Joint Council meeting, FICCI called upon the government of India to join the US and other industrialised industries in making an "irreversible commitment to the principles of free trade" - despite the rising protectionist tendencies in the US and other industrialised countries in the face of a high trade deficit and weakening dollar.[28]

6. The Janata government further liberalised policy with regard to Indian companies embarking on joint ventures abroad. This no doubt is in pursuance of the view held by the previous government that joint ventures enable the country to export its intermediate technology. Despite large subsidies granted by the Government for export promotions, which increased from Rs.54 crores in 1971-72 to Rs.414 crores in 1978-79, India share in world exports dwindled from 1.2% in 1960 to 0.71% in 1970 to 0.54% in 1978.[29]

A growth strategy which leans heavily on a private sector MNC aided led growth besides has to content with a lop sided production criterion which by pass regulations as regards capacity, licenses, reservation for small scale industry and so forth. Production catering for top 10% of the market was in excess of plant output. This was the case with tractors, beer, cigarettes, biscuits linoleum baby food, leather, footwears, synthetic detergent, toothpaste, razor blades, refrigrators, house hold appliances and other in 1979-80. During the same year many products of mass consumption fell short of plant targets - sugar, oil, textile, paper, electricity etc.[30] This is primarily because a number of private sector units have engaged in simultaneous excess capacity utilization as well as under - utilization of capacity depending on the profit potential. For instance, Hindsutan Lever (affiliate of uni lever) had excess capacity utilisation in case of 8 licenses while it under-utilized five.

These MNCs besides have also flouted and evaded, Indian industrial regulations by entering into production in industries and of items which are either reserved for the small scale sector or for which they require permission which has been sometimes sanctioned unmindful of restrictive clauses. For instance, a letter of intent was issued to Colgate Palmolive India for setting up of a menthol unit in Kashmir. This was the second company after Pine chemicals to be given such a permission though the item is reserved for small industry.[31]

In cases of circumvention of FERA regulations, the RBI fail to take appropriate action promptly, especially in those cases where large MNCs were involved, even in cases where the RBI directives were very explicity violated. More than 100 foreign companies did not dilute their foreign equity within the two years period provided by the RBI for the purpose.[32]

In terms of performance and the attitude of the government, the MNCs and the large business houses fared as well as in the Congress regimes. The forced departure of Coca Cola and IBM did not mean anything, for it that reflects any policy preference then in the same breath Cadbury was allowed to come in and set up a cider and apple juice plant. The continued non-adherance to MRTP Act and FERA regulations made a non issue of the Janata policy proclamation of the post election period. It is not simply a malfunctioning at the level of implementation that one questions the objectives and aims of the Janata regime but at the level of bureaucracy but of the incompleteness of the package of regulation and the developmental effort,an uncompleteness which was deliberate or else we would not have credit ear-marked for small scale sector being utilized by LBHs, or they producing goods reserved for the small scale sector which had been allowed post facto. We have evidently been witnessing the limits of a "mixed economy" framework since the late 60's. It is not enough clearly to supply cheap inputs, or to make reservations to the small scale sector, to encourage growth, to effect a decentralisation of economic power."If the market for which private producers produces is marked by sharp inequalities of wealth income and hence consumption pattern, then controls or no controls commodities tend to flow towards the "free" market and govenment may need to make the defacto in to dejure and look to other avenues for encouraging growth".[33]

The coming to the power of a non congress coalition did not make any departures, in terms of offering a better development strategy.Because once the position of operating from within an essentially capitalist framework is adopted,it also becomes reasonable to make concessions to the system and to yeild to its compultions in the name of pragmatic considerations. That is why the approach to decentralisation of economic power was reduced to ritualistic pronouncements and symbolic gestures.This is not to say that there were no attempts made - some land to the landless were given,some measures to relate industry to the needs of the economy were taken.But all these were done to the extent that they could be accommodated with the class interest of the ruling coalition. If a growth strategy aims to augument a redistribution which simultaneously is reconciled with a high growth rate and which will be essentially accommodated within the limits set by the existing structure then what results is a status quo both in the terms of policies and in terms of the co-relation of class forces.

The two parties Congress and Janata represented contending factions of the same broad class alliance that has ruled India since independence.The different was that the congress was a broad umbrella through which the rival politics and economic interests were at ticulated sometimes in the coalescence and at times in the in opposition. The Janata on the other hand was not a similar party as the congress even though ganut of class interests represented was similar. Every composite party did not merely seak to enhance the economic power of its class base ; each of them had very concrete political interest in the sense of ensuring a political future of the party concerned. Each of the elements of Janata coalition saw their future outside the party coalition too and to that extent the policies smacked of political opportunism adhocism and incoherence. The cleavages were much sharper because the intra class contradictions had become more intensified and institutionalised.

1. James Manor, 'Anomie in Indian Poltics',EPW AN May'83 p.727

2. See, Georges Kristoffel Lieten, 'Janata as a Continuity of the System; Social Scientist; Dec 1980 P.14

3 Statement of economic policy, adopted by the working committe of the Janta Party on Dec.14,1977 P.1

4 Ibid

5 Javeed Alam, 'Class, political & national Dimension of state autonomy movements in India', Social scientist Aug.'82 P.20.

6 Ibid, P.21

7 See Ho Kwon Ping, 'Revolt of the landless peasants,' FER, Jan.12,1979 P.53.

8 As quoted by Arvind Bhandari; Janata sqeezes gently, "FER Dec.22,1978 P.44.

9 See Balraj Mehta, 'India's Political Economy ' 1980, p.22-24.

10. Javeed Alam Op cit P.26

11 The point to be noted here is that whereas the new agricultural strategy may not have given a higher rate of agricultural growth, It was eminently successful in creating comfortable market surplus in agriculture

12 'Imporance of being', EPW, 26 April ,1980 p.768,769

13 B M, "Industrial Policy Confusions" EPW July 16,1977 p.1127

14 EPW 30 June, 1979

15 EPW 16 June, 1979

16 EPW 27 Jan. 1979

17 These were Industries which were marked as more capital intensive and were therefore permitted an 'appropriate debt equity ratio', for other less capitalintensive units the LBHs had to use internally generated resources.

18 Sharad S. Marathe 'Regulation & Development' 1985, p.107

19 G V Ramakrishan, Chairman , Report of the study group on industrial regulation & proccedures ,N.Delhi GOI Feb 1978, p.10

20 'Imporance of being', EPW, 26 April ,1980 p.768,769

21 Mishra & Puri, 'Indian Economy', 1988 p.988

22 B M , 'R & D :farewell to self reliance ',pp 2030-2031

23 For details see Ramamurthi 'Stop BHEL's dangerous truck with Siemens,Nov.1978

24 Ibid p.28

25 S.K.Goyal, 'Monopoly capital & public policy',1979

26 RBI,Foreign Collaborations in India Industry Forth Survey report (Bombay 1985)pp 54-5

27 See Mishra & Puri,Op Cit P.885

28 EPW , 'Public Postures & private purposes'23 sept.1978 p.1616

29 Leiten,Op Cit p.30

30 The corporate studies group revealed that in 1978-79 in only 24.5% of the licences held by Indian & foreign Controlled units was there,a capacity utilization of 75% or more

31 Cited in Arvind Bhandari , 'Janta Sqeezes gentely' FER Dec 22,1978. p. 44

32 Sudeep Chaudhuri ,'FERA : appearnce & reality ' EPW April 21, 1979.

33 EPW,Oct 14,1979 editorial

CHAPTER IV

The Last Phase of Indira Gandhi 1980-84

The January 1980 elections did not leave any trace of ambigunty in offering parliamentary authority to the Congress (I) and to leader, Indira Gandhi. Clearly the Janata phase was over and the mandate was given in favour of in assured order and determined developmental action. The Janata Party constituted the way it was could not act is a manner different from that in which it acted. The various class forces that had assembled within the Janata, its contradictory pulls in different directions, coupled with personal ambitions and politics dictated mostly by calculations of a highly personalised nature led to a total collapse of hopes that had been generated by 'different' and 'radical' policy proclamations.There was confusion and an acute mishandling on all fronts - economy, polity, law and order foreign relations; the Janata rule not only demonstrated that given the status quo in the dominant coalition not only could it not depart from the congress model of factional manupulation and personalized politics of the congress but was also greatly incapable of running the government.

The coming back of Mrs.Gandhi in power demonstrated the extent to which Indira Gandhi dominated Indian politics.It reflected the crisis of a system -in the absence of a viable alternative to her and her evident indepensensability. "It re-confirmed the structural crisis of Indian politics...the options of bourgeois politics semed to be exhausted between the two packages offered by the Janata and the Congress - between incoherence and repression. Each package seemed to reach a limit point after a time and set off a reaction towards its opposite strategy.

Oscillation in electrol fortunes seemed simply to reflect this exhaustion of alternatives ." The promise of a strong and stable government commanded a populist appeal ,but did not convey any new sense of direction. In fact there was a conciously designed attempt to recall the virtue of old policy approaches of the Emergency years. There were few election promises in terms of concrete programme and policy orientation ;if anything the disintegeration of her predeccessors ,its non -workability was the greeted asset to the Congress (I) Compaign .A government endowed with unity and purpose and a 'government that works were the two main images with the compaign was sought to be built .

The first important policy declaration presented by President Reddy on Jan.24 before a joint session of both houses of parliament proposed to tackle with "determination and speed." The deteriorating law and order situtaion and major economic problems. In order to do so it was proposed to revitalize the old 20-point plan of the 1975-77 Emergency.[2] The level of specification and the choice of goods did not mark any improvement over Janata party .And under conditions of the prevailing ad hoc arrangements and short-term,pragmatic devices, which the political authority incresingly tended to adopt to deal with immediate problems ,it was clear enough that only the vested interests with assets and bargaining power will be in a position to assert and advance their position.

It was to be expected that spokesman of private industry and trade would welcome with relief Indra Gandhi's victory .There was a ring of genuine expectation -not because the Janata regime had functioned contrary to their interests; but because of the Janata government's inability to reconcile the interests and preferences of the groups within the ruling class, because of the relative shifts in its internal balance, politics had become more conducive to movements-both regional and mass.In such a situation business interests remained insecure and craved for a more unambigious governance and more stable conditions -politically and administratively.

Within days of the installation of the new government FICCI came out with ,what was called,"a miniumum programme of economic action.The striking feature of the FICCI document was not the presentation of conventional demands .They were there in full measure . A reduction in coporate tax to atleast 50% for all the companies and in personal income tax to 60% inclusive of compulsory deposits,had been demanded.[3] There was also the usual demand for minimizing controls and regulations,to liberalize industrial licensing policies .In his address to a meeting organized by Gujrat Chamber of Commerce and Industry ,the FICCI President called for the re-orientation of the sixth Plan and the sectrol outlays proposed in it. "Behind this general demand is presumably the specific suggestion for dilution of the accent on expanding employment and towards that end,encouraging small scale labour intensive industries and technologies,which used to be a constant refrain of the Janata and Lok Dal government' industrial policy pronouncement".[4] However the document goes beyond the conventional framework within wihich the claims of business interests had been urged. It presented a case and call for a radicalchange in the economic philosophy and policy -however weak they might have been in their intent and implementation. The proposition is that the very concept of 'concentration of economic power' and of the puplic sector 'Occupying the commanding heights of the economy' should be abandoned for the promotion of 'competetive efficiency' and 'dynamism'. It cannot be anybody's case that concentration of economic power has been actually prevented or that the puplic secter has gained the commanding heights of the economy in areal sense in the post independence era of planned development.

But these concepts have been a part and parcel of mass sentiments, political articulation and planned objectives. FICCI came out openly and confidently to talk of the redundancy of these concept the need to discard them. What FICCI desired thus was not adjustments and concessions within the then economic frame but its complete recasting. This together with strict labour discipline, and 'wages linked to productivty' would put the economy in a new gear. The business interests have been encouraged to articulate their rather 'frank' charter of demands in the wake of the return of the Congress in power. A significant aspect of hopeful prospects for business interests was the stress being laid on the big industry as the only solution to production and employment problems. Tentative remarks were made in favour of making a break with the sterile debate on priority between agriculture and industry,and small scale and large scale industry. Perspective on agriculture too did not seem to make a signficant departure from Charan Singh's philosophy except that prionty shifted to the industrial sector.The agriculture minster talked of a new and second phase of agricultural development which would not merely stop at import subsitution in food grains but will make India a "Grain power",[5] as a big exporter of agricultural commodities. This was wholly in conformity with the new agricultural strategy launched in the mid 60s when the emphasis had shifted from land reforms and broadening of the social base of agricultural production to technological improvement which would benifit the relative small but viable strature of farming capable of producing for the market.

On the question of foreign capital and the role of MNCS, the Vice-President of India made a forceful case for close co-operation of indian business interests with MNCS in wider global market. "We have noticed of late in India a certain distrust of MNCs and indeed it was apprehended at one time that like Coca-Cola and IBM and some others, the MNCs one by one will have to quit. At present there is certain remission in that apprehension."[6] Besides the need to collaborate with the MNCs for export to penetrate the world market was stressed.

All this taken together constitutes a policy package which seeks to combine and reconcile the need of the economy to pick up, the aroused ambitions of Indian business interests with the new and 'second phase' of agricultural development.

The first budget presented was forthright in its attempts to

liberalize the economy and the role it had envisaged for the private sector."Venkataraman (finance minister) elaborated on his theme by pointing out that he had left the beaten track of earblier finance minsters who only imposed heavy taxes or increased interest rates to arrest inflation and find resources for planned development . He had opted for a course which would leave the surplus in the economy to the enterprenuers to produce more and to the consumers to buy more... He explicitly and pointedly asked the private enterprenuers to plan their
7 investments for'quick returns'and leave building large and capital intensive industries to the public sector for the time being."[7] Official policy had thus geared itsself to a relaxation of irksome controls and regulations to give a boost to private incentive. All these ideas have their implications for a major overhaul of policy and regulatory mechanisms. There was a marked and decisive swing towards a more liberal regime where the private sector would thrive under official patronage. Some of the major liberalization measures of the new industrial policy statement have been bereifly dealt with below.

1. It was stated that existing capacities ,even though much beyond licensed capacities, will be recognised, or that automatic increase in capacity to the extent of almost 50% in a five year period will be permitted. The fact that in many such cases approval under MRTP act will be required wasn't stressed. Licensing regulations had been adopted following the logic that it would prevent a distrotion of national priorities and product monopoly and that it would provide protection to certain small

scale-units in other words to avoid a conflict between private and social costs and benefits.[8] The Dutt committee report on industrial licensing had given adequate examples of the adverse effects that the creation of such capacites was having in a number of industries. It had pointed out how capacities had been created in items which were banned and how these capacities had later been regularized. It had also been pointed out that how many a time excess capacities had been created on the assurance that the large business groups could manage to get the matter regularized. If as much as 50% of increase in capacity without scrutiny was being permitted even an official stand on the aforementioned objectives were being abandoned.

As indicated by the S.K. Goyal a very large proportion of cases of excess capacity belongs to the companies connected with foreign companies the larger houses, and medium scale firms (which do not come under MRTP norms and which are indirectly controlled by larger houses) these stood to benefit greatly.

2. Modifications were introduced in the convertibility clause stipulated by the financial institutions. The earlier stipulation that 20% of the institutional loan must be converted into equity in case of loans exceeding Rs.50 lakhs - in order that the financial institutions both have a say in the management and a share in the prosperity - was raised to Rs.1 crore. Further as in the Janata period under the existing 'soft loan scheme' no convertability clause was inserted. Also while exercising the right of convertibility the financial institutional were directed that they should not come to hold more than 70% of the share capital of the existing concerns. The justification

being their bogey of ' back door nationalisation ' being raised by the LBHs as a result of the convertibility clause.[9] In a statement, the finanace minister disclosed that "it has been repeatedly represented by industry that the regions of convetibility clause are inhibiting investment...the government hopes that these policy changes will remove the present inhibitation and encourage fresh investment in the modernisation of industry".[10]

3. With a view to providing fillip to production in industries of high national priority and/or those meant exclusively for export, the government introduced an amendment in the MRTP Act whereby it could notify industry or services to which the clause pertaining to the grant of government approval or permission in cases related to the expansion, installation of new machinery and establishment of new undertaking, shall not apply. (a) In october, 1982 all 100% export oriented industries established in a free trade zone were exempted. (b) In may 1983 the government notified that companies registered under the MRTPAct are eligible to set up, without the approval of the government, new capacities in industries of high national priority or industries with import substitution potential or those using sophisticated technology. However the companies were required to fulfill certain conditions to avail the exemptions.[11]

Evidence suggest that 100% export oriented units were allowed to market a substantial proportion of their output domestically and verification of the actual usage was waved in many cases. With liberalised licensing and reduction of direct taxes, it is the profitability of producing for the domestic market rather than for export which receive the boosts.

4. This leads us to the question of subsidies which have shown a phenomenal rise of from just Rs.26 crores in 1950-51 to Rs.1489 crores in the budget estimates for 1979-80.Growth in subsidies has been particularly spectalular in the post 70's. As a percentage to total expenditure they have gone up from 1.7% in 1970-71 to 8.4% 14 in 1979-80.[13] To 12.4% in 1983-84[14] of which food, subsidies account for approximately 65% of export subsidies represent about 25% .With all the subsidized inputs and credit to the private corporate sector,the rate of gross fixed capital formation has,if anything,declined in that sector over the last two decades - from 3.0% of GDP at 1970-71 prices in1961-62 to less than 2 percent in 1981-82.[15] In the agricultural sector also there is some evidence of slow down in private investment.[16] As for the large amount disbursed as export subsidies it has been noted that Indian exporters do not necessarily reduce their prices when provided with cost reducing incentives as subsidies; they simply add to their profit margins. It thus amounts to a reduction in cost without forcing a reduction in prices. This added to the fact that export units which avail of export subsidies, more often then not, find it profitable to sell in the domestic market rather than export. Thus hardly any positive relation results between export performance and subsidies or incentives offered to such units.[17] Liberalisation measures have neither induced an increase in fixed capital formation in the private sector nor have they given a push to the economy. Capital goods industries

which registered a consistant and considerable growth from 9.8% per annum in the first plan to 13.1% in the second plan to a phenomenal 19.6% in the third plan, fell to 2.6% between 1965-75 and a mere 5.1% in the sixth plan period. As shown by Shetty clearly the growth in many such industries of crucial importance was similarly stunted.[18] In contrast the elite oriented consumption goods sector seems to have benefitted most from the package of liberalisation. Thus while the output of coal increased by 2.1% in 1976-77 that of tooth paste by 55.7% and beer by 66.2%. The liberalisation measure undertaken by the government have, to a very large extent, resulted in distorting the "output structure" where non priority sectors with quick and large profit margins seem to have benefitted most. The share of private social surplus lended to increase persistently over time, partly through budgetary concessions of all kinds. The most glaring example was the actual decline in the related weight of direct taxes to an extent where the proportion of income and corporate tax (gross) to GNP at factor cost remained virtually stagnant between 1965-66 and 1983-84, inching from the miniscale 2.6% to 2.4%.[19]

Budget, under state capitalism, becomes an important instrument of determining the distribution of social product betwen classes. Determination of price, budgetary provision like taxes,subsidies, transfers all determine the social distribution. "Pressures by different classes to tilt distribution in their favour make the budget and arena of class struggle,and in this struggle the propertied classes in control of the state appartus obviously enjoy a decisive edge."[20]

5. The relevence for a discussion of a'dependent'or a self reliant economy has to centre around the character of production and trade relation in a world economy governed and determined by the capitalist mode of production. An economy can be called self reliant or economically independent if its development process is not dominated by another economy or external economic agents i.e when the interdependence of the national economy with the other is not asymmetric and unequal. Despite a decline in net food imports and diversification[21] in products, India's dependence on the external world is on the increase. There are discouraging signs of the declining share of India in world trade, world industrial production, Industrial exports.[22] Techonological dependence has extracted high financial costs; besides there are myriads of other problems as regards. the transfer of inappropriate and often outdated technology, inhibition of local scientific and technological development etc.[23]

On Nov.9, 1981, the board of excutive directors of the IMF approved a loan of 5 billion SDR, equivalent to approximately Rs.5000 crores to the Government of India under a scheme of extending financial facilty. The proposed credit arrangment was extended to support a structural adjustment programme which aims to strengthen the balance of payment position through sabstantial enhancement of domestic saving and investment, reforms in industrial and trade areas and careful demand management of policies which would ensure the maintanance of domestic financial stability.[24]

The IMF programme period was three years ending in

June 1984 but the ramifications of its conditionality extended beyond the short or medium term and was bound to have long term consquences. It is the usual practice of the IMF andother aid agencies to lay down certain conditions for the client economy during the programme period, which range from being mandatory to being effected with varying degree of compulsion. "A deficit in the balance of payments can be adjusted in several ways. One alternative is to cut down imports andto push up exports. The IMF calls for just the opposite viz greater libenalization of imports, in the name of efficieney, modernization and long term growth Ofcourse it advises export promotion at the same time."[25]

The policy of import liberalization had made slow beginnings in the after math of the devaluation of the ruppee in 1966 and gathened momentum in the days of Emergency. The policy of import-substitution had gradually been replaced by the strategy of export led growth, which relied heavily on the import component in exports in the hope of making Indian goods more competative in the international markets, thereby stepping up exports and reducing the gap in the balance of payment . What had obviously been overlooked was the fact that the world market had itself been passing through a recession, as a result of which the western European and US markets were increasingly becoming more protected. We thus ended up buying more than we sold. Between 76-77 and 79-80 import bills went up by as much as 80% (contributed to largely by higher import costs of petroleum).[26]

Early 80's faced a severe balance of payment crisis. Other longer-standing elements included a stagnant home market, increasing burden of petroleum prices, dependence on foreign technolgy and finance. In the draft 6th 5 year plan, consequently, there was a nots of caution - " there cannot be a question of adopting anything like a free trade policy.... A considerable restraint on import is inevetable, whether it is imposed through tariffs or import restrictions or both ".[27] The 6th plan strategy of import restraint was only a monenatry pause which broke down under the pressure of the IMF and the old trend of import liberalization.was not only restored but also accelerated. Import pushed growth was the most noteworthy feature of the IMF structural adjustment programme for India .The IMF memorandum announced -"The Import policy during the programme period will be (governed by) the need to provide a growing volume of imports to support increased public and private investment, rapid growth and improved economic effeciency .To these ends, the authorities intend to carry forward the progress towards import liberalization achieved in late 1970s especially with regard to raw materials and intermediate capital goods...policies concerning foreign collaboration, involving outright purchase of technology, royalty payments and foreign participation in Indian companies are being applied much more liberally and flexibly than in the past and further evolution in this direction is expected during this programme period...Some liberalization measures were introduced in the import policy for 1981-82 and authorities indicate that the import policy for 1982-83 and 83-84 will contain significant liberalization steps".[28]

The reversal of the sixth plan import policy following IMF proposals marked a significant departure from the earlier proclamations. In fact the IMF did not propose any alteration in the aggregate investment target for 1980-85. It did not project more exports than the 6th plan did .Whereas the projected increase for exports was by 17% imports were projected to be increased by 30% .[29] The expected rise in balance of payment was largely to be met by an additional inflow of aid foreign capital and IMF loan. It is interesting to see the conditionalities attached to the IMF loan and the structural adjustment programme in the backdrop of the international economic scenario. Andre Gunder Frank[30] notes that one of the ways that the impact of 1973-75 (International) recession was reduced and one of the ways in which the recovery from 1975-79 was fuelled was precisely through loaning out to the Third world countries by the World Bank ,IMF and aid agencies. They increased their demand for industrial goods, particularly for capital goods, from the west at a time when there was little investment and demand for loan capital in the west itself. The banks, therefore, were glad to loan this money to those who said they need it to cover their balance of payment deficits. A.G. frank goes on to say that during 1979-82 recession, in 1980 and 1981 production and trade in the industrialized countries was slack and in 1982 they declined absolutely .For the 3rd world the result was that the quantity of their exports to the first world went down because the industrialized coountries' demand for third world products went down. In addition to that ,the recession in the west generated pressures for more protectionism so that in addition to that, there were furthur artificial reduction of western imports of southern exports.At the same time the prices of southern exports went down because of decline in demand ,so that the 3rd world terms of trade i.e relation between the prices of what they sell to what they buy also went down. For 1981-82 the loss has been estimated to about $100 billons.This was vastly increased their balance of payment deficits.[31]

The IMF report on India noted that steps taken from the second half of the 1970s have facilitated a liberalization of import policy and have facilitated easier acess for foreign Capital in India .An IMF team visiting India in early 1983,supervising India's track record at implementing the "structral adjustment " programme is reported to have said that it was "quite happy with the government's moving in the track setby the fund..."[32] given the IMF 'structural adjustment 'programme and the government's own disposition, the policy towards foreign capital was greatly liberalized . Since 1980 there was a marked increase in foreign collaboraion agreements approval by the government .From an earlier peak of 359 in 1974,these incresed to 526 in 1980.Since then this trend has been accentuated ,with the number of foreign collaboration agreements moving from 389 in 1981,up to 590 in 1982,further increasing to 673 in 1983 and and jumping to an all time high of 740 in 1984.[33]

A study of these foreign collaborations reveals interesting results .Thus a large number of agreements were concluded for the manufacture of products which were nonessential or which could be produced with the help of local technology .These items included vacuum flasks,toothpaste, cosmetics, ice- cream,biscuits,dry batteries,ready made garments etc. Not only were collaborations granted for these products,they were often in multiple numbers and were renewed on expiry, Besides,the government also permitted multiple collaborations i.e repetetive import of the same or similar technology .This resulted in respective payments without adding to the stock of technical knowledge in the country

countries (In raw materials,spare parts,design,specifications and even terms of measurement) into the Indian Industry even for very similar products, or within the same firm. This multiplicity led to large inventory,accumulation and uneconomic locking of working capital.It also hindered standardization and variety reduction which are so essential for raising industrial productivity.[34]

Another feature has been the violation of the FERA regulations and RBI directives by the MNCs .The logic of exemptions granted under FERA have been extended by the MNCs and their Indian counterparts to skirt the FERA regulations to a very large extent. The goverment announced ,in 1982 ,a number of concessions to the MRTP and FERA companies.The FERA companies were allowed equity higher than th 40% stipulated under FERA if they participate in core sector,employ sophisticated technology or help in export promotion .It was thus made possible for them to avoid all FERA restriction if they chose to expand on lines preffered by and profitable to it under the all pervasive stipulation that it is using sophisticated technology and helping exports or performing either of these functions .The FERA regulations,which had been rendered,totaly redundant ,were liberalized largely to provide opportunities for fresh foreign capital and qualify majority foreign equity. The essential point about liberalization is that it represents a move towards greater accommodation with metropolitan capital in a situation of economic crisis.Foreign capital was increasingly accommodated in an attempt to break out of the shackles of the constricted home market by boosting up exports,undertaking joint ventures abroad. At the same time the import component of the exports was never attempted to be brought down.It was in the vain hope that the economy would be bailed out of the present crisis once it takes off.And liberalized terms and regulations were precisely to be inputs into this take off stage.

The actual operations of MNCs have disproved the assumption[35] of the government policy.Deepak Nayyar has argued that while the policy of import liberalization has led to a steep rise in the import intensity of exports between 1977-78-1984-85,the growth in exports was sluggish for instance the average import content of Indian exports rose from 13.7% in 1977-78 to 23.5% in 1984-85,However the average annual rate of growth in export earnings was only 11% during 1977-78 to 1984-85 as compared to a much better average annual rate of growth of 20.3% during 1970-71 to 1977-78.Thus contrary to the claims being made by the government, industry and trade circles,import liberazation has done little for export performance on the other hand as import content of exports increase,the proporation of net foreign exchange in the gross value of exports declined .The trade deficit for 1983-84 was Rs.5870.8 as compared to trade balance of Rs.316.2 crores during 1976-77 and a deficit of 3374.3 in 1979-80

YEAR	BALANCE OF TRADE	INVISIBLES (NET)	BALANCE OF PAYMENT
1974-75	-977.2	216.6	-760.6
1975-76	-566.5	510.2	- 56.3
1976-77	+316.2	824.0	1145.5
1977-78	-107.5	1422.1	1319.9
1978-79	-1842.6	1571.4	-244.8
1979-80	-3374.3	2603.2	-765.9
1980-81	-5967.2	3748.7	-2218.6
1981-82	-6121.0	3303.1	-2817.9
1982-83	-5776.1	3030.0	-2746.1
1983-84	5870.8	3176.7	-2694.1

source : Economic Survey ,1974-75 (Table 6.2,p 96-97),1977-78 (table 6.2 p 596-97),1987-88 (Table 602 p.66-67)

The overall increase in exports during 1982-83 and 1983-84 was 8.8% though exports managed to pay for only 61% of the total imports in 1983-84. In fact ,report EPW,"the country's balance of payment and trade position [was] more precarious than even this figure suggests for if the ruppee trade with East Europe is excludes then it would cover only about 55% (or less) of the imports.[36]

The process of debt repayment entailed further pressures on India to depart from the intial endeavour towards selfreliance.At this stage infact,it is perhaps altogether inapproriate to refer to "self reliance" as any longer constituting a national goal.The substantial political autonomy that the Indian state had vis-a-vis the advanced capitalist countries is gradullay being eroded and a non-aligned foreign policy may not necessarily mean,its ability to exercise its political options. The Indian state is long way off from intial resilience towards foreign capital on the contrary,it has became more vulnerable to larger historical forces ,viz international capitalism."It has become so less out of design and more out of loss of grip,control ,even comprehension of what is unfolding and what lies ahead ".[37]

The transition to "liberalization" has to be seen, to a large extent,in terms of the qualified support extended by the monopoly bourgeosie to it, and of the phenomenon of stagnation in the post-mid sixities that induced the monopoly bourgosie to extend such support. A stagnating economy and a constricted home market drew the big bourgosie out to enter the international market from its home base and by exploiting new avenues like luxury consumption for which a pent up demand had built up in the economy over the years.For both these ventures it needed a lifting up of controls in the sluggish market .Centralization of capital which was being aided by controls in the first decade of post-independence phase was now hindering its expansion and the bourgeoisie began lobbying for selective liberalization measures which would at once protect its entrenched position and at the same time open up fresh avenues for it.The more enthusiastic supporters of,what Prabhat Patnaik calls 'World Bank style liberalization',"are likely to be found among a number of new houses which are on the rise and which aspire to break the existing monopoly positions in the domestic market with the help of metropolition capital.Alongside them are a new group of Indian capitalists many of whom are non-resident but many residents with large assets abroad."[38]

The concept of the Public sector occupying`the commanding heights 'of the economy was explicity downgraded in the last phase of Mrs.Gandhi. Although the size of the public sector has grown,fixed capital formation in the public sector at 1970-71 prices grew at an annual rate of 11.3% in the period 1950-51 to 1965-66 but dropped to less than half ,5.5% in the period 1966-67 to 1981-82.[39] Logically it began to be argued that the resoures with the government being less and with sectors like administration and defence gaining priority,the scope for private sector should be further enlarged .The balance of payment difficulty and trade liberalization measures gave a further impetus to this policy trend.

1980-84 represents Indira Gandhi's second opportunity to establish a viable bourgeosie liberal state both in regard to its legitimacy and its functionality .The adminstrative ineffeciency of the Janata regime had voted Indira Gandhi into power in 1980.With the failure of the Janata expirement the pendulum swung in search for an even more unitary and centralized government,one whose only promise was that it would work;which would provide a firm and unified administration,a regime of law,order and security for the citizens.This called for a further strengthening of the regime and a stiffening of laws.Recourse to stronger measures do not solve problems,because they are not problems of administrations or of a mere slackening of the law and order situation;It is a crisis of the basic structure of the social form, which puts the economy and the policy on a path which defy adhoc,pragmatic,short term solutions and reappear in more intense and protracted form.This needless to say ,is not because anybody willed it so but because the development strategy that we have sdopted ,given the structure of class relations, would of course be anarchic and unplanned .The solution to it is often sought in more authoritarian and centralized governance ,as in the 1975 less explicity in 1977 and once again in 1980,which outweights the economic gains ,leading to a tendency to call for liberlization again.

1. S.Kaviraj,'Indira Gandhi & Indian Politics ,'EPW,Sept 20-27 1986 p.1706

2 See 'The statesman,Calcutta Jan.24,1980

3 B M, 'FICCI's blueprint,'EPW ,Jan 26,1980 p.135

4 'High Expectations,EPW, Jan 12,1980 p.48

5 B M,Emerging policy prespectives,EPW,AN feb 2,1980, p 196

6 As quoted in EPW ,Ibid , p.195

7 B M, 'New vistas for Privat sector ,'EPW July 26,1980 p.1251

8 for a summary of the report see H.K.Paranjape , ' New statement on Industrial policy ,'EPW Sept 20,1980,p.1595

9 See 'Convertibility Clause made painless,'EPW,Jul 5,1980 p.1128

10 Ibid

11 Mishra & Puri , ' Indian Economy,' 1988 p.781

12 EPW,July 5,1980 p.1149

13 Ibid

14 Economic Survey ,1986-87,p.61

15. Pranab Bardhan,' The Political Economy of development in India , ' 1984,p.64

16 Ibid ,See,Chapter 2

17 See ,Sunanda Sen,"from Import subsitution to export promotion :policy planning in India's foreign trade sector "EPW,AN 82

18 S.L.Shetty ,' Structural retrogression in the Indian Economy since the mid sixties," EPW,SN 1978

19 Prabhat Patnaik,' Political Economy of liberalization' Social Scientist,July 1985 p.11

20 Ibid

21 See V.L.Kelkar, 'India & the World economy :Search for self reliance,' EPW,AN feb 1980 pp 245-258

22 S.J.Patel,' Planned development,the choices ahead ;quoted by Kelkar,Ibid p 251

23 See Amiya Bagchi , ' Choice of technological development in underdeveloped countries;A critique of non-neo-classical orthodoxy', 1980; and also
K.M.Chenoy,'Industrial Policy & multinationals in India ,' Social Scientist Mar'85.

24 The IMF memorandum,CPI(M)publication1981, p 3.

25 Ranjit Sau,'Structural adjustment in the Indian economy:IMF model of import pushed growth,'EPW,AN May'83,p.779.

26 Economic Survey,1982-83 p.135

27 Sixth Five year Plan,p.84

28 IMF memorandum, pp 26,27.as quoted in Ranjit Sau, op Cit, pp 7 783-84.

29 Ibid

30 A.G.frank, ' Diffuse the Debt Bomb? when apparent situtaions become real problems,'EPW,July 7,1984.

31 Ibid,p.1039

32 Financial Express,Apr 14,1983

33 New Age,17 feb,1985,quoted in K.M.Chenoy,op cit,pp 21-22.

34 See,Mishra & Puri,Op Cit,pp 884,885.

35 Deepak Nayyar, 'India's export performance 1970-85: underlying factors & constraints;EPW,AN May 1987.

36 EPW ,July 4,1984, p.1010

37 Rajni Kothari, ' a fragmentad nation,'Seminar,Jan'83 p.281.

38 'Prabhat Patnaik, 'Political economy of liberalization',op Cit p.13.

39 Pranab Bardhan, ' The political economy of development in India ,1984,p.23.

CHAPTER 5

Issues Regarding the Autonomy of the Indian State

'State autonomy' as a concept describes a relationship - the state's relationship with society - whereby state autorities can insulate themselves from social demands in general ,but specifically from the demands of propertied classes , and utilize state power to restructure social relations and develop productive resources. Within most post -Colonial societies ,given the distortions in the economy and society following Colonialism, these goals very broadly represent the direction in which an antonomous' state would pursue its activities. Of course in contrast to communist states ,state autonomy in class societies, where resources and means of production are very widely privately held , is always a 'relative' matter. An autonomous state contrasts with a non-autonomous one where state actions are largely controlled by social forces.Pattern of leadership,ideology ,organisation of state power,control over productive forces are some of the varibales that affect the state's capacity to act autonomously. and as these variables are not given factors in a society ,and as they vary in degree and form,and as the terms and aspects of the relationship of the states are not fixed over time ,and as they vary so does state autonomy .

There are three points which define the crucial siginificance of a relatively autonomous state is post -

colonial societies . Two of these can be drawn from Hamza Alavi's formulation on post-colonial societies .

"The bourgeois revolution in the colony, in so far as that consists of the establishment of a bourgeois state and the attendent legal and institutional framework, is an event which takes place with the imposition of colonial rule by the metropolitan bourgeosie...It might be said that the 'superstructure' in the colony is 'over-developed' in relation to the 'structure' in the colony, for its basis lies in the metropolitan structure itself, from which it is later separated at the time of independence....The post -colonial society. Inherits that over-developed apparatus of the state and its institutionalized practices through which the operations of indegenous classes are regulated and controlled."[1]

Much about this formulation illuminates the historical basis of the situation in India. In India, irrespective of the exigencies of delayed induatrialization, the civil society was already dominated by a relatively overdeveloped state at the time of independence. Faced with the refugee problem and other problems of partition, the assimlation of princely states, and a border war with Pakistan, the new government met with heavy demands. And since the existent bureaucracy was felt to be indispensable it was left largely intact and unchanged from the pre-independence period .

A second complementary point can also be drawn from Alavi which asserts the centrality of the state because the state is deeply rooted in the immediate process of production and becomes an important part of the economic base - "the apparatus of the state assumes a new and a relatively autonomous economic role. The state in post - colonial society directly appropriates a large part of the economic surplus and deploys it a bureaucratically directed economic activity".[2] There is little doubt that over the last four decades the state has accumulated vast powers of direct ownership and control in the economy, in a mixed -economy[3] framework ,the purpose behind which was to promote national economic development and the attainment of socially desirable goals.

There is a third feature ,which has been drawn from Poulantzas[4] formulation on political power and social classes. He poses the question, as regards the manner of functioning of the state differently. Instead of asking who influences important decisions and determines policy which is the most effective demands group or what is the social character of the state and the background of those in the state apparatus . - Poulantzas analyzes the structural components of the capitalist state which lead it to protect the long term framework of capitalist production ,even if this means severe conflict with some segments of the capitalist class.[5] He suggests that the infuence which the capitalists are able to exercise over policy via their role in the political arena is 'not the important side of the matter'. Rather ,the functions which the state is compelled to perform by virtue of the exigencies of the capitalist system itself,dictate that the policies of the state will conform to the intersts of capital . " With the viablity of the capitalist state and the preservation of capitalist relations of production being dependent upon a reasonably healthy economy, public officials are constrained to respond in many ways that fulfil the economy's structural requisites".[6]

These three aspects taken together help define the centrailty of state is post -colonial societies .This centrality, in turn ,is sufficient to suggest the importance of those who staff the state apparatus ,the members of the bureaucracy .They occupy a strategic position by virtue of the power vested in it to deploy the resources of the state and to effect policies.[7] Bureaucracies in the third world are so powerful because of the discrete functions concentrated inside it and because they are ,typically ,less accountable and socially more powerful than bureaucracies elsewhere.

The whole range of power and functions that the state assigns to itself , developmental , regulative , productive , entails a relatioship between the political and the economic which does not admit of a regular correspondence . The logic governing the political and the economic become disjunct such that it is not possible to reduce the order of events of either moment into the logical positions of explanandum and explanans. It is this non-correspondence which makes the state relatively autonomous. Thus any explanation of the diminishing autonomy of the Indian state has to go beyond the criterion of the economic forces becoming increasingly constraining .This is , however ,not to deny the fact but simply to assert the need to present a fuller picture of totality ,which is more complex that what the aforementioned assertion suggests.

Within the limits imposed by the relations between structures, the relative autonomy of the state will vary according to particular conjunctural relations and between the forces present and the concrete nature of its alignment .However it is always possible within the frame work of a particular periodization , to establish the direct relation of the state to the dominant classes political/economic interests, wether it functions as a factor of political organisation of these classes, or wether it takes direct charges of these interests.

This 'relative autonomy' proposition supplements the basic proposition regarding class-based public policies, explaining why the democratic state in a class structured society serves the interests of the class that controls the means of production. However it is important not to understand it in terms of the state acting at the 'behest of' or on 'behalf of' the dominant proprietary classes. It is crucial to understand the nature of the state itself as a capitalist, as the owner of the means of production operating in a society where the logic of it as an actor and the logic of the private proprietary classes seem to mesh. There are of course serious constraints posed by the imperatives of the dominant properietary classes but to focus on them exclusively is to ignore patterns of state intervention which reflect, at time, interests and goals which are purely political and which are not synonymous with interests and goals of the dominant classes. The depth of the contemporary crisis in India is caused by the inability of this syaytem of structure to provide scope for expansion of productive forces developed under its aegis. This appears to have been related to a kind of crisis of the ruling coalition. The most effective factor was the reaching of a natural limit in industrialization and agriculture, each re-instating the other and the simultaneous increased ambitions of the rural rich 'entrant' class after the Green Revolution. From the late sixties the group of rich farmers became more assertive and articulate and the configuration in the coalition had to be re-aligned. There was also a simultaneous and almost resultant rise of peasant oriented regional parties . In such a situation, of well defined conflicts of social classes, "a state may find it necessary to maintain a degree of deliberate malintegration amongst its various policy making arms...In many cases the pursuit of incompatible policies renders all of them ineffective ,but this strategy prevents any one group from claiming that the state has come down on the side of its opponents".[8] Such was the typical strategy of Mrs.Gandhi in handling the conflicting interests of the rural rich and the big bourgeoisie.Economically it tended to make the regime more repressive against weaker sections.And responses to these squeezes were bound to use channels of political agitation.

The elections of 1971 were fought in the background of Bank nationalizations, abolition of Privy purses,MRTP act and related measures which enabled the Congress to claim redical credentials. However,what is remarkable is not the way Indira Gandhi won her legitimacy but the way she lost it and the short tenure of this legitimacy . Within two years Indira Gandhi's government was in deep trouble facing an unprecedented political and economic crisis. First "there was the inherent danger of radicalized distributive expectations .If electrol promises raise people's expectations,this could lead to areal performative paradox; for even a performance which was roughly equal to earlier periods would appear poorer because of government's own move to set higher performance criteria".[9]

Secondly, the stagnation in Industry since the mid sixties, catalyzed by the Bangladesh war and the petroleum crisis precipitated into a deep economic crisis. The mixed economy framework seemed to have reached a limit point. To avoid stagnation the government had to embark on policies which led to inflation and vice-versa. The macro pressures became difficult to handle in a democratic set up. In developing countries the 'politics of scarcity ' seem to push the government constantly close to the edge where they resort through centralization, autoritarian measures to bring about law and order, to sustain investment and therewith economic growth that is so critical to sustaining the economy. Where macro-discpline is restored to by militaristic intervention, or by steps short of it, as in Mrs.Gandhi's Emergency phase in India, a concommitant result may then well also be a recourse to economic liberalism.

A continuation of economic expansion within the existing framework creates inflationary pressures which affects the middle classes, professional groups and the slariat adversely. This creates problems for the ruling class for this is one segment whose electrol support is crucial. A discontinuation of economic expansion, on the other hand, furthur retards the pace of economic development which narrows down employment opportunities and again affects the working class and sections of urban petty bougeoisie adversely.[10]

It is at this juncture that the mixed economy is replaced with the typical alternative of 'a freer play of market forces' and simultaneously an appropriate political framework which is more autoritarian and rigid in its disposition.

Emergency must, thus be seen in terms of precipitation of the structural crisis,as a crisis of the whole system. And the policy of liberalization under official patronage should similarly be seen as a response to this crisis and not in terms of the state acting on behalf of the propertied classes.That the policies served the interests of the Indian Capitalist class does not reflect behind-the-scene bourgeois control of power but a congruence of interests and goals.

However to regard the emergency as directly a result of structural strains might lead to erronous conclusion ; for it would suggest that by the end of emergency the strains had eased themselves. Structrual tendencies are not meant to explain individual events and the emergency itself had contingent causes- for example the J.P. movement or Mrs Gandhi's personal unwillingness to gave up power related issues. That the crisis persisted is clearly revealed in the nature of Janata politics. Despite the variance in the social background of the members of the ruling coalition and despite the adoption of radical postures which promised redistribution of wealth and opportunities, the long term structural inelasticities drew the limits within which the Janata regime had to operate. They could not depart from the congress structure of policies or its mode of functioning . "The state necessarily serves capitalist interests because it is solidly embedded, structure and functionally, within the capitalist relations of production, no matter what the social character of its personnel".[11]

It was the Janata defeat in 1979 and the re-emergence of Mrs.Gandhi which explicity demonstrated the fact that the options of bourgeois politics in India were exhausted betwen the two packages offered by the Janata and the Congress.Mrs.Gandhi was re-elected to power with a massive majority of seats in parliament, in all but four ofthe State assemblies.Ironically,however,electoral results weere no longer reliable indicators of real historical trends or configuration of political forces.The size of majorities became larger - as reflected both by the 1971 congress and the the 1977 Janata majority. However that as an indicator of the power to administer effectively or as an indicator of the degree of legitimacy vested in the Governments became more tenuous and less reliable. Arguments for a political order's claim to be recognized as fair and just became weaker. Consequently the governmental process became subject to pressures and interests which transcended the mandate. Legitimation losses were incurred on account of failure to perform in the economic sector, on the mishandling of regional pressures,as in Punjab and Assam,in the unwillingness to translate the issues of distributive justice, into effective public policies. While in all three electrons during the 70s, one or the other political parties received massive majorities,none succeeded is restoring legitimacy to the political authorities.

In such a situation the ruling elite realizes that the economic and social problems cannot be solved without endangering their own position. Yet the very neglect of these problems and issues lays bare the face of socio economic groups which wield power,and the very fact that they can no longer conceal the nature of class-based public policy results in legitimation losses.The crisis lies precisely in the presence of such contradictory pulls within the systems.

In such a situation one way of dealing with popular discontent and mass pressures is to treat the problem,not in terms of aiding the process of social restructuring,but as an administrative problems - as a problems of tightening up of the law and orders situations, of mounting rescue operations through liberatizations,securing foreign investment and international loans."Recourse to stronger measures do not solve the problem because they are not problems of administrations,but of structural tendencies of the social form. Usually,therefore,the political costs of strong government outweigh the economic gains leading to a tendency to call for likeralization again."[12]

The presence of these contradictory trends within the Indian system has to be seen as elements which were,in more simplified versions, a part of our colonial legacy but which were not reworked in the earlier phase of post independence. The newly won energies were used primarily on settling political conflicts, consolidating rule and for short-term electrol considerations. These trends in the long run got re-inforced, became more inelastic and more limiting. Coalitions which were earlier not re-defined for electoral gains and factional stability, in the post 70s became conditions which began to draw limits to the antonomy of the state.

The Indian state has not been able to direct any re-distributive reforms nor has it been able to reconcile growth with distribution. As a consequence of this political incapacity, the accent in the post '75 period especially, has been on economic growth without redistributive objectives.

Some trends have become clearer. The economy is on a capitalist footing more than ever. The Indian political economy is characterized by a state-supported capitalist economy where the political authorities have entered in to a 'growth oriented alliance,[13] with the forces of private enterprise. Here the logic of the state + the indian capitalist class seems to mesh, without one conditioning the other. Thus though specific measures of the policy of 'liberalization' pursued by the governments, may have been lobbied for or may have been a result of pressure from this class, 'Liberalization' itself as a policy is an outcome of politically defined goals and decisions. Given the fragmented class structure in India, where no single class is capable of imposing a hegemonic rule, the state remains retatively autonomous of the Indian capitalist class. "It takes charge as it were, of the bourgeois political interests and realizes the functions of policical hegemony which the bourgeiosie is unable to achieve. But in order to do this, the capitalist class assumes a relative automony with regard to the bourgeoisie".[14] However it is the overall structure of class relations, the asymmetries of backward capitalism which make it difficult for the state to generate sufficient degree of autonomy to off set the crisis and to take the economy to a higher level of equilibrium .

1. Hamza Alavi, 'The State in post colonial societies -Pakistan to Bangladesh,' in New Left Review, no 74, Jly/Aug pp.59-81

2 Ibid

3 See Pranab Bardhan, Op cit, pp 37-39.

4 Nicos Poulantzas, 'Political power and social classes,' esp sec III, ch.3

5 Ibid, pp.285, 286

6 Eric A Nordlinger, 'On the antonomy of the democratic state, 1981, p.120

7 Poulantzas cites the case of the state bourgeiosie is certain developing countries."The bureaucracy may, through the State establish a specific place for itself in the existing relations of production.But in that case it does not constitute a class by virtue of being the bureaucracy, but by virtue of being an effective class." op.cit, p.334.

8. Peter Hall (1981), 'State in Post - colonial Society', as quoted in David Held (ed). 'States & Societies,' 1983, p.490

9. S.Kaviraj, 'Indira Gandhi & Indian Politics,' op.cit p 1702

10. Thesis put forward by Rao & Patnaik, dealt in detail in chapter two of this dissertation.

11. Nordlinger, op.cit, p.120.

12. S Kaviraj, 'Economic development & political system,' Op.cit p.27

13. phrase used by Atul Kohli, Op.Cit, p 79.

14 Poulantzas, Op.Cit, pp.284, 285

Table 1

Assets of ten big business houses in 1972, 1975, 1977, 1983

Assets in Rs. (crores)

Business House	1972 (1)	1975 (2)	1977 (3)	1983 (4)	% increase between 1972-83
1. Birla	589	905	1070	2381	273
2. Tata	642	924	1069	2672	257
3. Mafatlal	184	244	286	695	278
4. J.K.Singhania	121	210	264	674	457
5. Thapar	136	198	216	572	320
6. ICI	135	171	210	375	178
7. Bangur	126	159	188	350	178
8. Larsen & Tubro	79	138	190	424	436
9. Shri Ram	127	166	180	357	181
10. Reliance	-	-	-	563	-

Source - Column (1), (2), (3) - Department of Company affairs
Column (4) - The Economic Times, May 9, 1985

Table 2

Structure of Industries in terms of ownership & organisation

	% age of total Employment	% age in total productive capital	% age in Total value added
1. Public Sector	26.7	62.1	29.5
2. Joint Sector	5.1	5.8	5.9
3. Private Sector	68.2	32.1	64.6

Source - Pranab Bardhan, 'Political Economy of Development in India', p.102

Table 3

Nature of linkages in the Corporate Sector

Group (all non govt. Cos.)	No.	Assets (Rs crores)	Paid up capital (Rs crores)
1. Pvt.Ltd. Companies with atleast Rs 50 lakhs Paid up capital	43	200.89	42.06
2. of which (i) Subsidiaries of foreign cos.	15	119.35	18.79
3. (ii) Indian owned cos.	28	81.59	23.27
4. of which (a) Cos. within 73 ILPIC group	13	45.17	11.28
5. (b) Cos.sharing director with quoted PLCs	7	25.32	5.50
6. (c) Cos.apparently independent of quoted PLCs	8	11.04	6.50
7. all cos.with atleast 50 lakhs paid up capital	610	6271.20	1019.67
8. Row 6 as a % of Row 7	1.3	0.18	0.64

Source - from Company News and Notes, Vol-17 (1967) p.9160-9170

Table 4

Index No. of NNP and Annual Growth rates of Industrial Production

(Base : 1960 = 100)

Year	NNP at 1960-61 prices	All industries
	weight	100.00
1961	100	9.1
1962	103.4	9.7
1963	105.6	8.3
1964	111.7	8.6
1965	119.7	9.2
1966	113.7	- 0.7
1967	114.7	0.9
1968	125.3	6.4
1969	128.3	7.1
1970	135.1	4.8

Source - GOI, Economic Survey, 1971-72, pp 75,

Table 5

Trends in the Import intensity of Exports

	1972-73	1977-78	1980-81	1984-85
1. Import replenishment licenses for exports as a % age of the value of total exports	6.9	13.7	21.2	23.5
2. Import replenishment licenses for exports as a % age of the value exports eligible for such licenses	10.4	18.6	29.5	35.5

Source - Deepak Nayyar, 'India's export performance 1970-85', in Lucas and Papanek (1988) p.255

Journals Referred

- Economic and Political Weakly (EPW)
- Far Eastern Economic Review (FER)
- Economic Times
- New Left Review (NLR)
- Monthly Review
- Social Scientist
- Asian Survey
- Seminar

Abbreviations Used

MRTP Act	-	Monopolies and Restrictive Trade Practices Act.
FERA	-	Foreign Exchange Regulation Act.
NAS	-	New Agrarian Strategy
MNCs	-	Multinational Corporations
LBHs	-	Large Business Houses
IMF	-	International Monetary Fund
RBI	-	Reserve Bank Of India
GOI	-	Government of India.

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