Planning and the Regime of Capital in India

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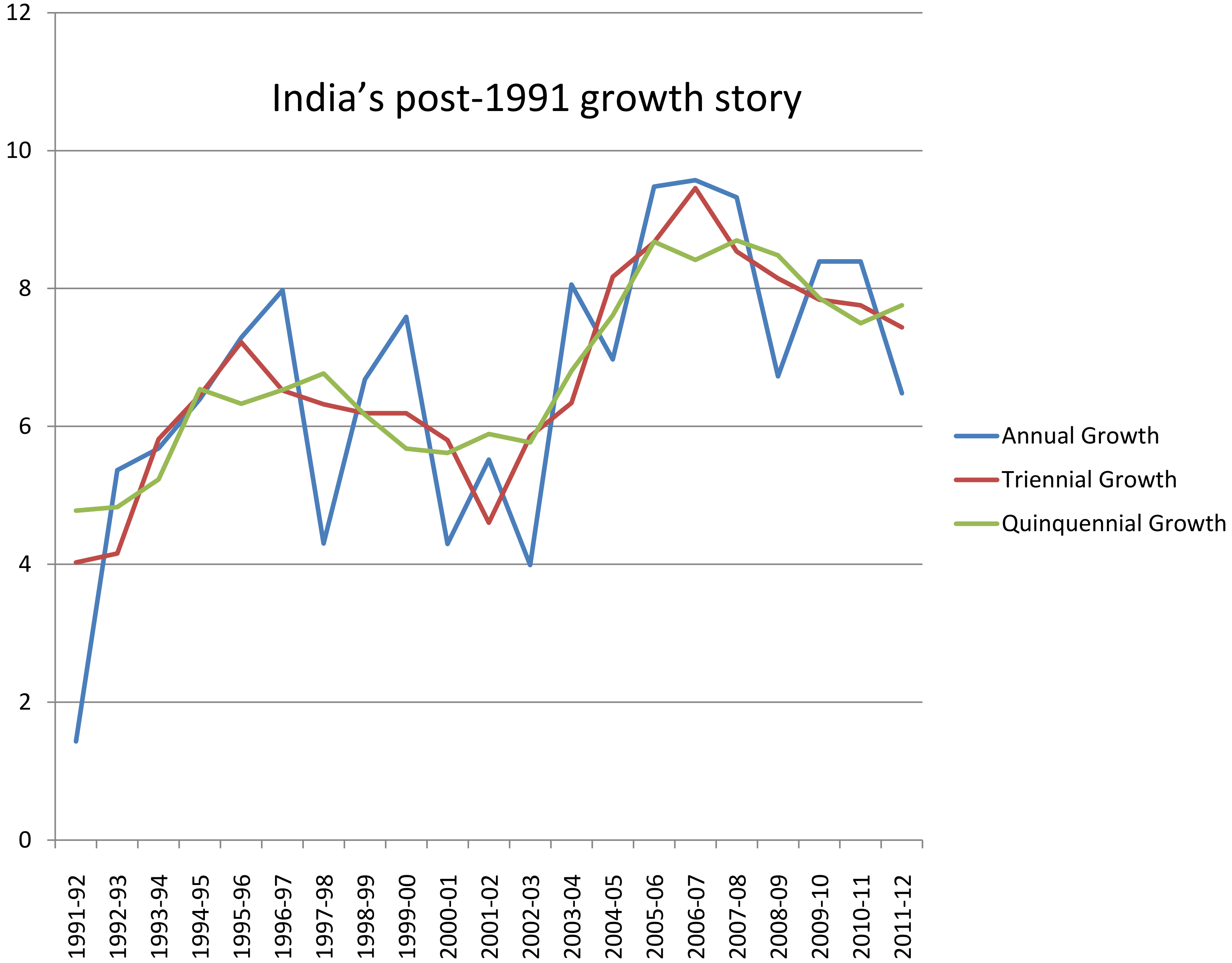
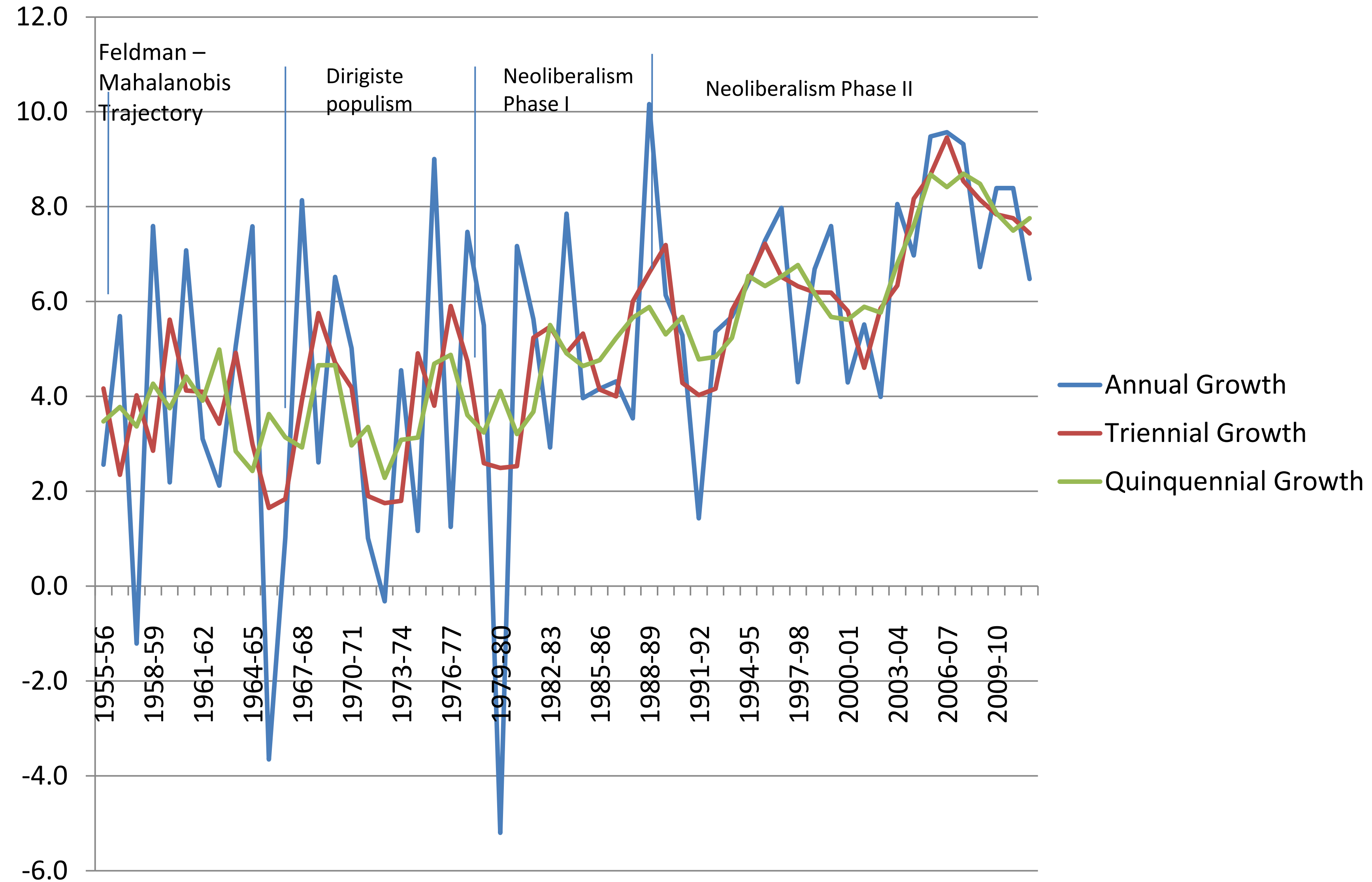


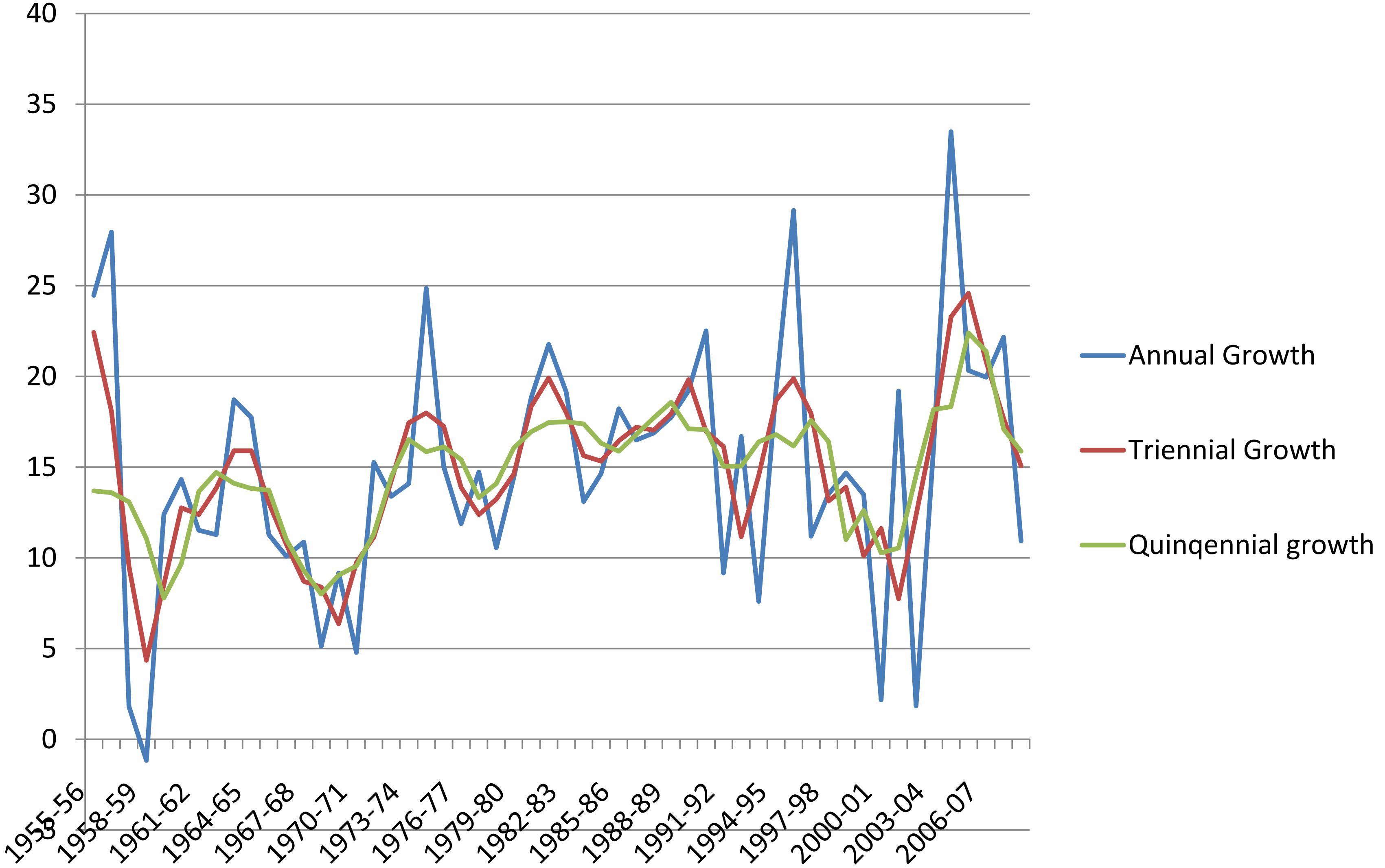
Two clear stop and go cycles

Responsiveness of Growth to Policy Regimes in India : 1955-56 to 2011-12



Seven Stop and Go Cycles since the Second Five Year Plan

Growth (%) in Gross Fixed Capital Formation in India



Part I: Consensus on State Led Development

Huthseeing summed up the arguments of why the capitalist class saw ISI as desirable and its relation with desired growth of exports very precisely.

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

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

Part II: State and Capital: 1947-1956

- 18.1% of foreign capital was invested in branches of foreign companies,

- 70.8% was invested in foreign controlled companies

- 10% was invested in Indian companies controlled by Indians

(as on 31st December 1955.)

- Total foreign investment, of which 95% was invested in branches and subsidiaries of foreign companies amounted to a total of Rs. 4112 millions.

- This amounted to 38.7% of gross capital formation in the economy based on the National Accounts Statistics (NAS) data for 1955.

- The profits from foreign investment were shared between foreign and Indian investors in a ratio of 15.9:1 (Bose 1965).

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

‘Old Industries’	**1951**	**1955**
Cotton Textiles	101	127
Jute Textiles	80	94
Steel	116	132
Cement	207	286
Paper and Paper Boards	124	174
Matches	140	147
Sugar	121	173
‘New Industries’		
Machine Tools	52	82
Diesel Engines	1532	2124
Bicycles	266	1143
Sewing machines	726	1658
Electric Motors	311	549
Soda Ash	396	644
Caustic Soda	508	1181
Super phosphates	1256	1508

The records of licenses under IDRA in the period from 1952 to 1955 show that 1440 applications were made, and 1142 were granted. Out of these, 363 were for new schemes, 657 for expansion schemes and 122 for organisational changes without additional capacity (Hazari 1967). Not all of these licenses were used, as Hazari's (1967) study would reveal in a few years' time.

The Industrial Finance Corporation of India Annual Reports show that under the stipulation of the first Industrial Policy Resolution of 1948, the total amount of loans sanctioned rose from Rs 9.5 crores in 1951 to Rs 43.20 crores in 1956 (Industrial Finance Corporation of India (IFCI) 1951, 1956).

From the office of the Registrar of Joint Stock Companies, companies registered and in actual operation rose from 22,675 in 1947-48 to 29,779 in 1954-55 (Shroff 1966: 26). Thus even before the Second Industrial Policy and the 'Period of Planned Development' from 1956 was ushered in, the capital deepening and diversification process in the domestic economy had already started.

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

(Kirloskar, FICCI 1965)

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

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

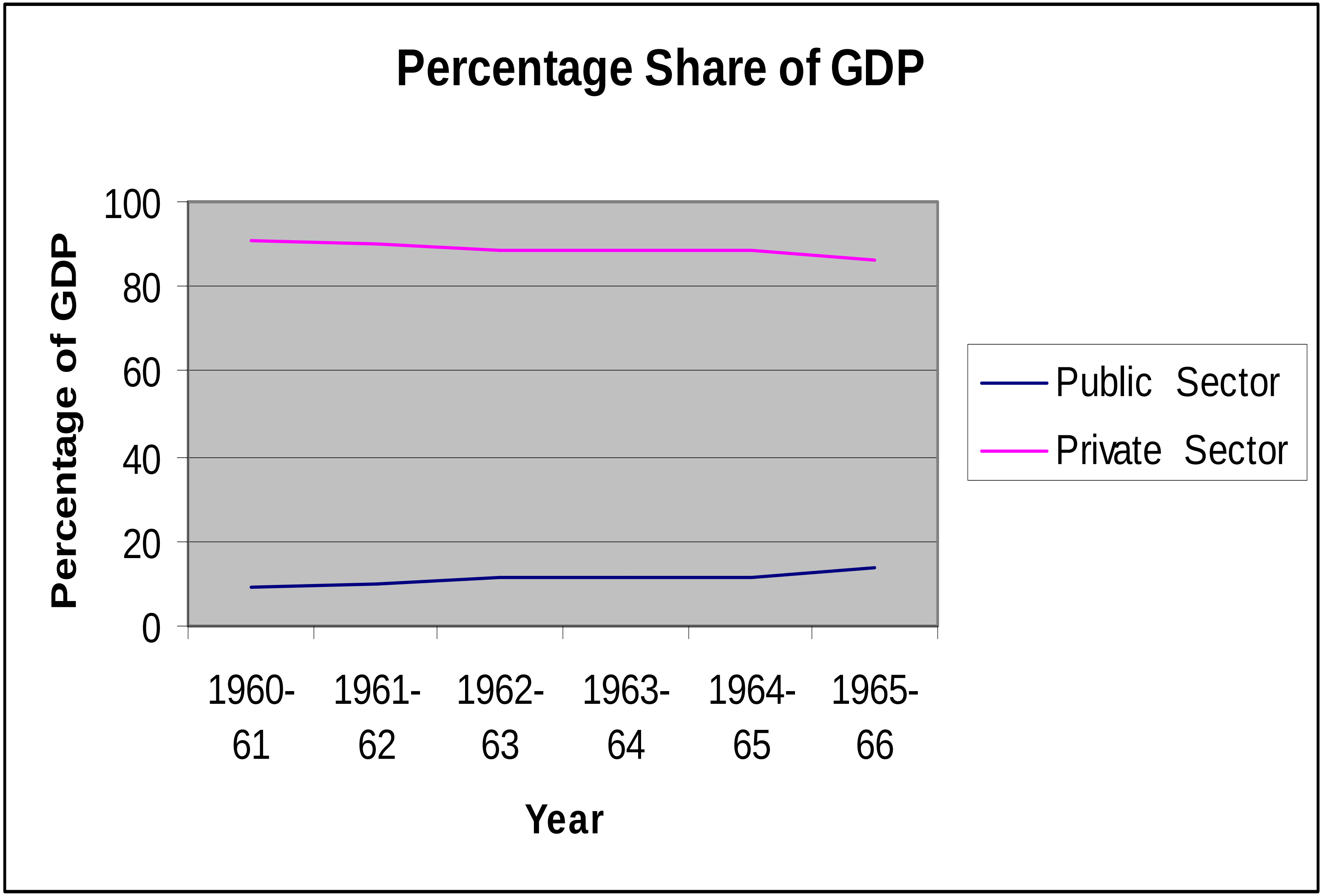
Part III: State and Capital : 1956 – 1966

It was to address this crisis of capital formation that in 1956, with the adoption of the Second Industrial Policy and the implementation of the Second Five Year plan, the state moved into the implementation of the ambitious premises of the Feldman-Mahalanobis model (Chakravarty 1987).

There were two new interventions in the Second Plan:

- First, ‘indicative planning’ was used together with licensing to influence the allocation of critical resources, in particular, savings and foreign exchange (Bagchi 1988).

- Second, the sheltering of Indian capital from excessive foreign competition was accomplished through a detailed system of tariffs and non-tariff barriers.


Percentage Share of GDP
Percentage of GDP
100
80
60
40
20
0
1960-61
1961-62
1962-63
1963-64
1964-65
1965-66
Year
Public Sector
Private Sector

It is evident from Figure 3.1 that there was a very gradual shift in the share of GDP from the private sector in favour of the public sector.

The share of the public sector increased marginally from 9% to 13% in six years between 1960/1 and 1965/6. The share of the private sector on an average was 88.1% of GDP. This has to be seen in the context of a non-existent ‘public sector’ until 1950.

Neoliberal accusation of ‘a substantial public sector, going well beyond the conventional confines of public utilities and infrastructure’ (Bhagwati 1993) is thus hardly a tenable criticism for this period.

Capitalists within FICCI asserted that production beyond the most primitive type was *capitalist* wherever it obtains in any part of the world with any political system within the postulates of a mixed economy (FICCI 1956).

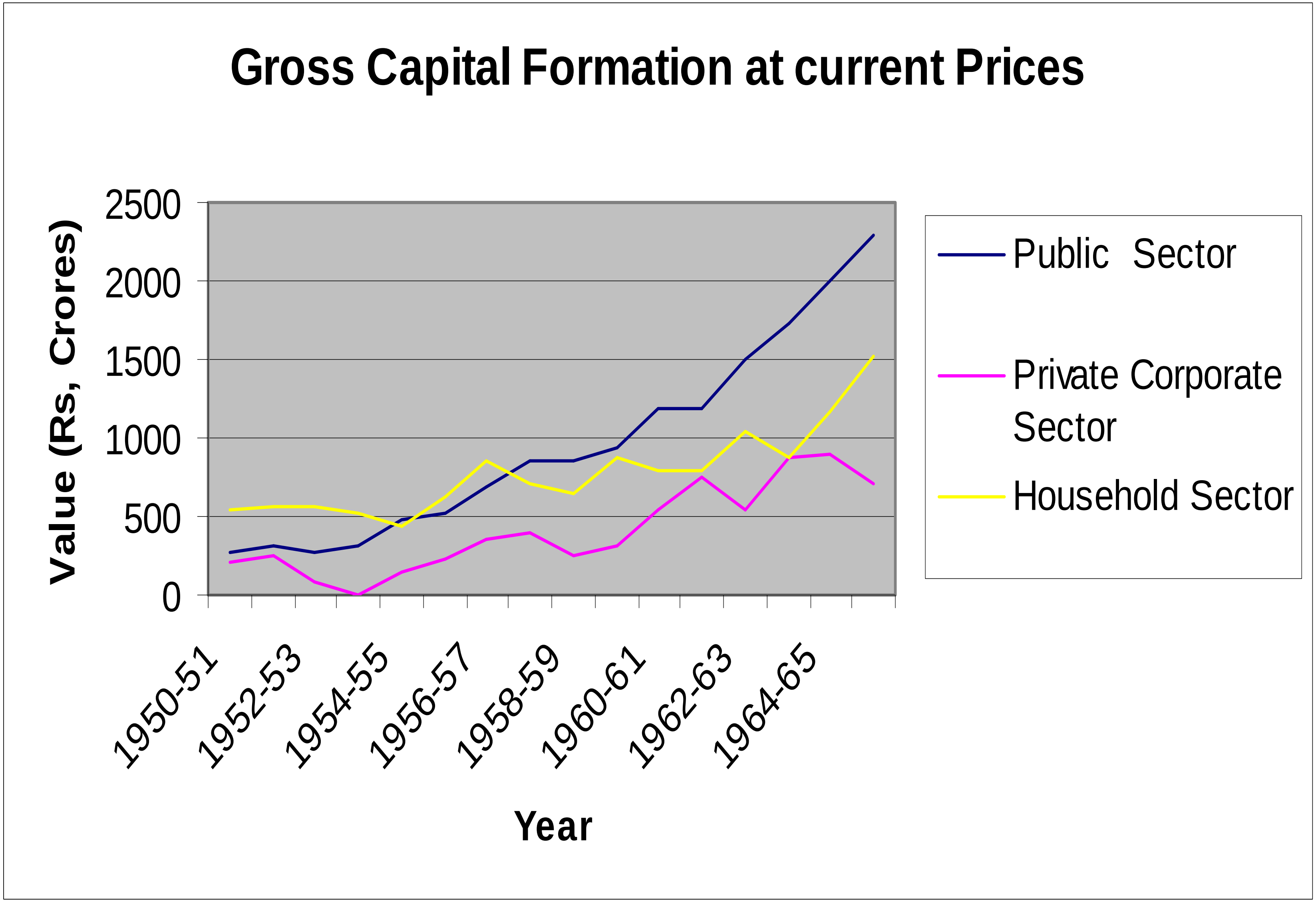
> *…The fact of the matter is that today every national economy is a mixed economy in varying proportions. (FICCI 1956: 7)*

G.D. Somani as President of the All India Organisation of Industrial Employers, a key body within FICCI argued in 1956

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

He went on to argue:

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


Gross Capital Formation at current Prices
Value (Rs, Crores)
2500
2000
1500
1000
500
0
1950-51
1952-53
1954-55
1956-57
1958-59
1960-61
1962-63
1964-65
Year
Public Sector
Private Corporate Sector
Household Sector

National Income increased by 21% during the Second Plan period between 1956 and 1961, an average annual growth of 4.2%.

Moreover, the share of agriculture in GDP fell from 58% to 53% between 1950/1 and 1960/1, though GDP measured at 1993-94 prices from agriculture reached a level of Rs 109254 crores from Rs 81069 crores in the same period (EPWRF 2002:32 Table 3A).

The Third Plan envisaged an investment programme of Rs 10,400 crores over the period 1961/2 to 1965/6. Out of this, the target of investment in the public sector was fixed at Rs 6100 crores.

The targets for generating resources were also laid out at Rs 7500 crores for the public sector and Rs 4100 crores for the private sector (Hanson 1996). The resource mobilisation envisaged in the public sector was expected to cover the cost of its investment programmes and current expenditure and also transfer Rs 200 crores to the private sector to assist selected investments in agriculture, industry, housing etc (NCAER. 1966:7).

In the Third Plan period between 1961 and 1966, National Income grew by 14%, an annual average of 2.8%. The slowdown in manufacturing was much higher.

Table 3A shows that the annual percentage of gross domestic capital formation hovered between 15.7 and 21% in this period with a steady increase in the period of the Third Plan. The net addition to stocks was between 1% and 2% for most of the period except for 1955-56 and 1958-59 when it was below 1%.

Thus capital formation in the economy showed a break in its pattern from the period of the First Plan if we compare the figures in Table 2B and 3A. This is also reflected in the patterns of capital formation in the public, private and household sector illustrated in Fig 3.2.

Gross Domestic Capital Formation (GDCF) as Percentage of GDP, 1955-65
Source: Table 11, p78, EPWRF 2002b

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

The ‘elite’ designed and ‘elite’ benefiting nature of the ‘planned’ development process could be seen in the:

- consumption patterns of a majority of the fractile groups of the population who experienced reduced proportions of consumption of industrial goods in 1964-65 compared to the Second Plan Period (Patnaik 1994, Table 3 and Table 4: 41-42),
- reduced consumption of items of government current expenditure,
- and in the continued feeble direct tax effort (Roy 1998).

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

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

(FICCI 1959: 9)

By the mid 1960s, the state was cutting back on its own investment and thereby undermining the expansion of the economy.

Thus ended the first stop and go cycle of planned capitalist growth process in India. But structurally, it had embedded the contours of monopoly capital in India.

While the overall strategy faced serious constraints, and did not in the end amount to a strategy of capitalist transformation that could be sustained, it did create pockets of very successful asset concentration for India’s big bourgeoisie.

Concentration of Assets and Capital Formation by Major Business Houses (Rs Crores)

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

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

From Table 3B, we note that the total asset concentration as a percentage of gross capital formation in the economy hovered between 26.6% and 32.5% from 1951 to 1989-90 for the top twenty business houses.

The change came with the rise of Bajaj in the late 1960s, and Reliance and Chidambaram groups in the 1980s.

Out of these assets, less than 0.2% was accounted for by the actual investment of the family group in the assets of the group in the case of the five top houses of business – Tata, Birla, Mafatlal, J.K. Singhania and Sriram (Yechury Table 3: 1992: 44).

Thus assets remained highly concentrated even after two decades of restrictions under MRTP.

The majority consensus in Parliament was to implement tighter controls on large firms (Rosen 1988: 62).

The Monopolies and Restrictive Trade Practices Act (MRTP) of 1971 was introduced as a result of this debate. The MRTP was a complex piece of legislation that established a limit on expansion of large private undertakings where the undertaking was defined as itself and products, supplies and distributions that it controlled.

An additional definition classified all undertakings that rendered one-fourth of any services rendered in India. All such undertakings came under the purview of the act. Large businesses were thus defined on the basis of asset size and extent of market control. The Act imposed restrictions on licenses for diversification by ‘monopoly houses’. It also placed restrictions on mergers, amalgamations and take-over. It also created mandatory systems of inspection and disclosure of information.

This opened up the possibility of ‘late entry’ to medium scale family run trading houses, for example the Ambani, Jindal and Bajaj groups, into industry.

The MRTP Act actually made import substituting capitalist ventures a viable strategy for ‘new’ entrants to industry, thus resolving one of the contradictions of the Nehru-Mahalanobis trajectory.

To conclude, the regime of capital in India achieved the following through the Feldman Mahalanobis exercise:

1. It broke the barrier of the capital formation constraint in the economy for 10 years from 1959 to 1965 but ended in crisis.
2. It ensured asset concentration in the hands of the big bourgeoisie. We argue that this was not despite planning but because of the particular nature of planning in India.

3. However, the planning exercise in its class consensus on irresolution of the agrarian constraint and taxation had rendered itself unsustainable and met its demise in the deep crisis of 1965-66.

However, the stop-go cycles in capital formation, asset concentration in the hands of the big bourgeoisie, and the class consensus on the perpetuation of the agrarian and taxation constraints constitute three distinctive characteristic features of every policy regime since then including the present neoliberal regime in India.