CHAPTER -I

PRE-HISTORIC PERIOD IN INDIA

First Phase of Primitive Communist Society (Stage of Savagery)

Primitive Communist Society, Food Gathering and Hunting (From 40,000 BC to 3000 BC).

This period can also be called as Palaeolithic and Middle Stone Ages. During this period, people used to eke out their living through hunting by using stone tools and particularly, bow and arrow. Throughout this entire phase, food gathering and hunting used to be the main occupations and society was in primitive communist stage.

Advanced Phase of Primitive Communist Society (Stage of Barbarism)

Primitive Communist Society, Domestication of Livestock and Primitive Agriculture (From 3000 BC to 600 BC).

This Period can be termed as Neolithic, copper and bronze ages. This transformed into civilised society as the usage of iron developed. Though domestication of animals on the basis of primitive cultivation began in some places, both food gathering and hunting continued extensively in other parts. Archaeological evidence shows that similar developments took place till around 2500 B.C. both in North and South India also and it had trade relations with the Indus Civilization by the time bronze age culture developed in the Indus valley (2500 B.C.). However, in South India, primitive agriculture was important than livestock rearing.

The Indus Valley Civilisation

Class society based on primitive agriculture, industry and trade with far off places (From 2500 BC to 1800 BC).

This Bronze age civilisation lasted a few hundred years but declined by the time of the entry of Aryans mainly due to the internal contradictions. The Aryans hastened its decline. After the fall of this civilisation, another uncivilised age continued for 1200 years.

Period of Transition from Pre-class to Class Soceity (The Last Phase of Barbarism)

Period of transformation from cattle rearing, agriculture, republics to class society

This phase started from the influx of the Aryans by 1800 B.C. and fall of the Indus civilisation to extensive usage of iron, agriculture becoming mainstay and setting up permanent structures for living (600 B.C.). In this period, South Indian developments differ from those in the Ganges and Jamuna valleys. When the Aryans were nomadic people, stable habitations based on relatively stable agriculture have come up in the South.

While cattle rearing was an important feature in the North because of the Aryan migration for a long time (1000 B.C.), in the South simple agriculture was the main occupation. Though cattle rearing was significant in Krishna and Tungabhadra basins, villages dependent on slash-and- burn agriculture were the characteristic feature on the whole. During the transition period when the Aryans started using iron and developed agriculture with setting up stable habitations (1000 - 600 B.C.), plough-based agriculture could not develop in South due to non-usage of iron. This diversity appears remarkably in the social structures of these areas. While patriarchy came into being in the Aryan and non-Aryan tribes which practised agriculture using heavy plough after cattle rearing, it was matriarchal system that existed throughout this period in South where the people relied on primitive agriculture and domestication of animals.

Class society, origin of State (Stage of Civilisation)

Though this transformation started around 1000 B.C., one can say that it started with the formation of states (around 600 B.C.). Civilised age might have started from the formation of 12 big republics in the basins of the Ganges, Jamuna and Indus, formation of Magadha and Kosala Kingdoms in the North and Satavahana Kingdom in the South (around 240 B.C.). The tribes in the South India have been practising slash-and-burn cultivation since 2000 B.C. and set up relatively stable habitations and entered the chalcolithic ages. However, they did not know the usage of iron, because of this, the Aryans who were at a lower level in the development of productive forces as nomads and cattle rearers, could develop into a higher mode of production even before them.

The foregoing picture is one that is obtained till the beginning of civilised society in India.

Leaving this prehistoric period aside, we shall deal with the Indus valley civilisation and consequent social and economic developments in detail to understand the historical evolutionary process in the country.

CHAPTER-II

THE INDUS VALLEY CIVILISATION

Until archaeological evidence of the Indus valley civilisation was discovered at Harappa and Mohenjodaro in 1922, it was common to treat the Aryan influx as the beginning of civilisation in India. According to the archaeological findings in the recent excavations, it has been proved that the Indus valley civilisation was not confined to the Punjab and Sindhu alone but spread to Gujarat, Haryana, Rajasthan, Jammu and Uttar Pradesh also. Findings pertaining to copper-bronze age civilisation was discovered at 260 places like Lothal, Surkothanda, Chanhudaro, Alangirpur, Dholavira and Balakota. Starting from the Indus, the civilisation has spread to the Tapti -Narmada valleys in the South for more than a thousand miles and focused on urban centres which in turn were based on simple cultivation.

Throughout the world, all the first bronze age civilisations began in the river valleys that pass through deserts. Agricultural civilisations based on simple cultivation with wooden plough or a rough club blossomed in the valleys of the Indus, Nile, Euphrates and Tigris. As the basins of these rivers used to be stocked with fertile soil after floods, the areas used to be amenable for cultivation. In fact, the most fertile soils in the valleys of the Ganges, Godavari, Amazon, Mississippi etc., were filled with thick forests and until iron was invented, they could not be cultivated. That is why, civilisation did not take root in these areas until the iron age.

As the script of the Indus civilisation is still not deciphered, several issues are still incomprehensible. Yet, regarding the development of productive forces there, a few surmises could be made through evidences from archaeological excavations.

We have already seen that simple cultivation used to take place in flooded areas. The area under flood was expanded by constructing dams to the Indus and its seven tributaries (out of which only five are existing now). There is no evidence of digging canals as in Mesopotamia. The crops grown were paddy, wheat, barley, Ragi and cotton.

Handicrafts, city building and trade were in a very developed stage. The finding of trade seals and clay plates of Harappa and Mohenjodaro in Iraq, Syria etc., shows that the civilisation had had close links with Mesopotamia and other West Asian Bronze Age civilisations. Ivory, copper, peacocks, monkeys, ocean pearls, textiles etc., used to be exported from the Indus plains to Mesopotamia. The Copper, Tin and Bronze metal industry was highly developed and the smelt metal was used in manufacturing tools and weapons. Strong buildings used to be constructed with burnt bricks. However, any civilisation cannot sustain itself with the meagre surplus from simple cultivation. Urban centres were not solely dependent on mere agricultural production and they might be acquiring substantial surplus from handicrafts, mines and other industries. The urban centres could survive for some time on the strong centralised administration was impossible without taking to iron usage and clearing off forests and bringing vast areas under cultivation. Though the Indus valley civilisation areas were spread over a thousand miles, as it was relying on flooded areas, even sustaining the urban centres had become difficult and decline set in. Even if the invasion of Aryans did not come at that time, the Indus civilisation would have perished due to these internal contradictions. Possibly people in the plains might have revolted by the time of Aryan invasion.

Several historians including D.D. Kosambi maintain that the ruling classes in the Indus civilisation might have controlled people through religious bigotry without resorting to force. They argue that there might not be slavery since slavery could not be explained without use of force. They show the minimum availability of weapons as an evidence for this.

It does not seem realistic to say that there was no use of force or lesser use of force. For, when the neighbouring primitive tribes did not know the use of copper, a minimum of weapons might be sufficient. Further, Without using slaves or forced labour further in mines and industry it would not have been easy to secure huge surplus and sustain urban centres. It would be quite natural to expect that there were revolts by the suppressed classes against this cruel exploitation. Constructon of strong buildings is sufficient evidence to imagine that there was widespread dissent and disharmony and it would have been difficult to suppress that without use of force.

At the time of analyses by the historians like Kosambi, only two cities of Harappa and Mohenjodaro were discovered. Many other towns have been discovered in recent times. If we compare it with contemporary Mesopotamia, there used to be several urban resemblances. In Mesopotamia, there used to be several urban centres each forming a city state along with a few neighbouring villages. The city states used to quarrel amongst themselves continuously. Though we could not find any symbols of kings or ruling clans in the Indus civilisation, we may have to conclude that a ruling class nexus comprising of kings, priests and traders used force to suppress people's revolts.

Though we cannot say that the Indus civilisation was based on slavery for sure, we may say that use of force was prevalent. The people's revolts might have helped the Aryans in destroying Harappa and Mohenjodaro. However, it is better to leave the controversial issues of the nature of class society in the Indus valley to the future investigations.

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CHAPTER-III

STAGES IN ANCIENT INDIAN HISTORY

Ancient Indian history after the Indus civilisation can be classified into four stages. This period begins with the influx of the Aryans and ends with the rule of the Guptas.

1. Stage of Pastoralism and Primitive Agriculture (From 1800 BC to 1000 BC) :

This was a stage when cattle domestication was the mainstay of the Aryan tribes. This is also called as the Rigveda period (from 1500 BC to 1000 BC). During this stage the Aryans were cattle rearing nomadic tribes organised in the republics. In Search of grazing lands these tribes spread all over the Indus and Jamuna banks up to the present Delhi. They have taken up cultivation basically to provide fodder for their cattle. On the other hand, non-Aryan primitive tribes continued in food gathering and hunting stages as bronze age tribes started simple cultivation. Some people (the Yadavs) have started cattle raising. Chalcolithic agrarian societies were formed with relatively stable habitations in South India. On the whole, nowhere in India class society emerged.

2. Period of Transition from Pastoral-primitive Agriculture to Plough-based Agriculture (From 1000 BC to 600 BC) :

This was the period of transition from nomadic livestock rearing stage to stable agriculture. Agriculture dominated stock breeding as the main occupation. This is also called as the period of the Yajurveda. The period came out of republics relatively and class society started to emerge in the form of Varna System. Among the aryans, the varnas were Rajanya, Brahman and Vis. Shudra varna was born out of non-Aryans. Shudras were not slaves but they became collective servants for the Aryan tribes. Still the tribes in the Southern India had not learnt to use iron, chalcolithic farming was still in existence.

Period of Shudra-holding System (From 600 BC to 200 BC):

This can be identified as a pre-feudal or a class society transforming itself into feudalism. Slavery obtaining in the contemporary western cultures cannot be seen in India. In its place, class exploitation existed in the form of four-varna system in which Shudras were agricultural workers and bonded labourers. The society was sustained on the surplus produced by the Shudra toilers. They were domestic servants to

Kshatriya, Brahman and Vysya varnas. Urban civilisation, rapid expansion of iron age agricultural society, emergence of big kingdoms, mobilisation of surplus produce in a centralised manner and foreign trade were the major developments during this period. This is the age when Buddhist and Jaina religions emerged and developed.

Among the Varna system, Kshatriyas were dominating and hence varna system could not get universal acceptance.

Expansion of plough-based agricultural habitations into South India took place at this time. The same kind of developments under the centralised kingdoms occurred under the Satavahana regime (250 BC to 250 AD) in the South. Establishment of self reliant villages after the fall of the Mauryan empire in the North and the Satavahana regime in the South puts an end to this stage.

4. Transition from Sudra-holding System to Feudalism **(From 200 BC to 4th century AD) :**

Emergence of self reliant villages, foundations of feudal system, several small decentralised kingdoms in the place of a large centralised empire have appeared in North India from 200 BC onwards. In the South, this development occurred after the regime of the Satavahanas. Decline of the ranks of handicraftsmen and traders, fall of urban centres, artisans migrating to villages, decline of Buddhism and dominance of Brahmanism and establishment of caste system were the significant events in this period. As Kautilya's Arthasastra mirrored the earlier period, Manusmrithi reflects the developments in this stage.

With this period, ancient Indian history comes to an end and the history of feudal society (middle ages) begins.

We shall discuss the foregoing periods in detail :

Entry of the Aryans - The Rigveda Period

The Aryans came to India in two instalments. These migrations took place earlier in 1800 BC and later between 1200 BC and 1000 BC. The Aryans used to be livestock rearers and nomads. In search of grazing lands for their livestock they migrated from Central Asia to Europe, West Asia and India in the South. About a thousand years after the fall of the Indus civilisation, the Aryans continued to be livestock rearing tribes and gradually learnt to use iron, farming by clearing forests and setting up stable habitations. With the help of Vedic literature that is available from 1500 BC to 600 BC and archival relics, this process can be clearly understood. This thousand year period shows the transformation process from the stage of barbarism to civilisation, from tribal republics to class system.

By the time of the Rigveda period, apart from livestock-breeding Aryan tribes, there were three types of societies.

1. **Barbaric tribes in food-gathering and hunting stage were predominant.**
2. **Bronze age agricultural societies of primitive agriculture in theIndus valley.**
3. **A few livestock breeding tribes.**

All these people were described as Dasyus meaning non-Aryans, in the Rigveda. A very significant development in this period was the creation of a wider Aryan society by the Aryans by co-opting Dasyus. By the time of the Rigveda, Dasyus were neither slaves nor servants. Only after the formation of agricultural class societies some of the Dasas have become Shudras. The Dasa priests and Aryan priests united to form a Brahmin varna. Keeping in view the domination of priests in the Indus civilisation in the later blending of Aryan and Dasa priests, the Dasa element played a major role in the newly formed Brahman varna.

Transformation from republic to class system (From 1000 BC to 600 BC) :

With the expansion of use of iron by 1000 BC, there was a remarkable change in the forces of production. Food production gained prominence over livestock-breeding as mainstay of life. As productivity increased, the Aryan tribes were able to produce surplus for the first time ever. That led to the basis of class system and a ruling class which appropriated surplus produce formed. If the productive forces were to be further developed, the hurdle of old republics and primitive communist society would have to be overthrown.

Varna system had provided a new social order and new relations of production. The Aryans who settled in the Punjab region by 1000 BC with their nomadic livestock breeding society, expanded to east after learning to use iron. They moved to the Ganga-Jamuna valley, the present Haryana, Delhi, western Uttar Pradesh and Rajasthan. Both in these areas and in Punjab, they cleared the forest and started agriculture with iron ploughs. They set up stable habitations. The Yajurveda, the Atharvana Veda Sathapatha Brahmana are the literature that reflected this newly born agricultural society. Some passages in the Mahabharata and Yagnas, rituals, sacrifices, tributes and type of grains mentioned in both the Yajurveda and the Upanishads prove that an agricultural society was in existence. The Atharvana Veda shows that the animals which were used as food started to be used in cultivation for the first time.

When a society which burnt forests, made ploughshares with iron, farmed with cattle emerged, there was a division between people who had to toil and those who appropriate surplus produce. This class division appeared in the form of Varna System in the Aryan tribes. Kshatriyas and Brahmanas became ruling class and Vysyas became farmers doing agriculture. Besides, Dasas and the non-Aryan forest dwellers were subdued and turned into Shudras. Serving the three other varnas was the duty of the Shudras. Sudhras did not have any role in direct production during this period.

While common people in livestock breeding Aryan tribes were described as Vis in the Rigveda, by the time of the Yajurveda the term acquired the meaning of farmers. The term Vysya was derived from this earlier word. Class system started in the womb of republics and destroyed it as agricultural society grew and finally became Varna System. This process started around 1000 BC and crystallised by 600 BC. We have to remember that class system in our country came in the form of varna system rather than as slave system.

There are two factors for the absence of slavery in India as in western societies like Greek or Roman societies :

1. The Aryans who created agricultural societies here did not depend on private property. They came from republics having common property in land and livestock. Therefore, both Dasas and non-Aryans subdued by the Aryans became common servants for the entire Aryan tribes and did not become slaves to any individual Aryan.

2. Thanks to the vast area of India, there were plenty of opportunities for food gathering and hunting. Thus it was very difficult for slavery to survive. Keeping barbarians and Dasas as slaves for good could not be done here like in the Greek and Roman empires. Hence, they were incorporated into a social structure like Varna System and attempts were made to subjugate them through Dharma Sastras rather than through use of force. That does not mean that all Shudras surrendered voluntarily without any class struggle. Vanrnashrama order could only reduce the use of force.

While the Rigveda period of livestock breeding Aryans (1500 BC - 1000 BC) was a barbaric phase where class differentiation did not take place, the later Yajurveda period (1000 BC - 600 BC) was a society in transition from barbaric to civilised age. During this period, class division based on surplus produce began, but that did not materialise into slavery as in western countries and crystallised in varna system.

Rise of the State

When it comes to the third stage of the Aryan expansion and development of forces of production, it continued from 600 BC to 200 BC till the fall of the Mauryas. After the Indus civilisation, only in this period, civilisation can be said as renewed. Republics have completely erased and class society emerged in the form of a Varna System. Villages as stable habitations have become the major feature. Urban centres sprouted. Instead of republic administration and federations of tribes, state emerged as a representative of Brahman and Kshatriya elite in all the tribes.

During this phase, the first ever empires in India, the Magadha (530 - 470 BC) and Kosala, came up in Bihar. It was due to the geographical reasons, these developments took about 1200 years to take shape after the influx of Aryans into India.

The entire area east of the Indus was covered with thick forest at that time. Stone and bronze tools were inadequate to develop agriculture and set up stable habitations. To clear thick forests, one needs an iron axe and a hoe to level the field and to till the land a heavy iron plough. Expansive iron mines to use the metal for these tools were in Bihar. With the occupation of that area, the transformation was over and it was easy for formation of civilised society. Not only that, to defeat and subjugate through wars, the non-Aryan uncivilised people like the Nagas and the Nishads and the tribes like the Dasas who were in bronze age uncivilised stage, bronze weapons were insufficient. It would be possible only through iron sword and spear. As Engels observed, the major weapon in the age of barbarism was the iron sword. The Aryans could vanquish and subjugate other barbarian and bronze age uncivilised tribes through their horses and iron swords. Or else, they taught agriculture to them and assimilated them. Thus, they could set up a class society and form empires.

The Buddhist classics and the Mahabharata portray two important changes that occurred between 600 BC - 200 BC. The process through which an agricultural class society based on food production had given up its republic features and set up civilised states can be seen in non-Brahmin, Buddhist and Jaina religious literature.

PERIOD OF BRITISH COLONIALISM

The British colonial rule in India can be divided into three phases.

1. Phase of Mercantile capitalism : This continued upto the beginning of the 19th century, from 1757 to 1813, to be precise. Duirng this period the East India Company played the main role in plundering India. By virtue of the monopoly position enjoyed by the East India Company over export-import trade of India, the British colonialists amassed enormous profits by buying Indian goods at low prices and selling them in the world market at higher prices. Gradually other methods associated with primitive accumulation of capital were also resorted to by the British in India.

2. Phase of Industrial capital : This lasted mainly from 1813 to the beginning of 20th century. During this phase India was transformed into a semi-feudal, colonial appendage to the British supplying raw materials and other primary products to British industry and serving as a market for the British industrial goods. It was in this phase that the class of Indian comprador bourbeoisie and the revolutionary working class emerged.

3. Phase of Finance Capital : Though it began to emerge in the later half of the 19th century, it became prominent with the rise of monopoly capital through the merger of bank capital and industrial capital at the beginning of the 20th century i.e. with the advent of imperialism as the highest stage of capitalism.

Now let us examine in detail the changes that had taken place in the Indian economy during each of the above phases.

CHAPTER-VI

MERCANTILE CAPITAL STAGE

In essence the methods used by the British imperialists during this phase are that of primitive accumulation. It means open and shameless exploitation by the state.

The important methods of exploitation were:

1. Exploitation as a result of unequal trade
2. Suppressing and exploiting the artisans by coercion.
3. Imposition of heavy additional taxes.
4. Direct looting of the national wealth in military attacks.
5. Exploitation by the indigo planters.

The main objective of the East Indian Company in its earlier days was to earn profits by establishing monopoly over the trading of the Indian goods. With this aim, it established commercial depots at Surat in 1612, at Madras in 1639, at Bombay in 1669, at Calcutta in 1696 and continued with the export and import of the goods through these harbours. The history of actual exploitation by the East India Company as the direct agent of the British ruling classes started only after the "Wigs" came into power in the beginning of 1700s (i.e. 1702), when all the British companies which were carrying the trade with India and other eastern countries joined to form one company.

The principal obstacle faced by the East India Company in carrying out the trade with India was it had nothing except woollen products to export from England to India. As there was heavy demand for the Indian spices, silk and cotton clothes in Europe and also world wide, they had to pay in silver and gold to buy these goods. For this purpose, British government gave special permission to export 30 thousand pounds to be used for buying the Indian goods. During that period India always had trade surplus. It means exports were always more than the imports resulting in the inflow of bullion. The characteristic feature of the mercantile capital is to buy the goods with money and earn more money by selling these goods.

Money - Commodity - Additional money   M - C- M'

Had the goods been sold in England alone, the money from the English consumers would have gone into the hands of the Indian traders and East India Company's share holders. And the manufacturers of England would have become bankrupt. To avoid this East India Company had exported more than half of the Indian goods to other European countries. London became show room for the Indian goods. The traders of the other European countries used to buy them and sell them in their countries. Exorbitant taxes were imposed to discourage the selling of Indian goods in England. Marx had noted that with the monopoly of the East India Company over the Indian trade, the British bourgeoisie had made huge profits, not only from the Indian merchants but also from the other European countries. They had to pay the silver to the Indian traders not only from England but also what they earned by selling the African slaves in West Indies and Latin America.

With the occupation of India, and mainly after bringing Bengal, Bihar and Orissa under their direct rule after the battle of Plassey in 1757, trade became nothing but direct robbery by the British. They bought the Indian goods cheaply by coercion and sold them at much higher prices in other countries.

Bengal Nawab in his memorandum to the company had noted that the company agents paid only 1/4th of the price for the goods to the peasants and artisans. East India Company compelled the artisans with the help of the company agents and its clerks to manufacture the goods they needed. By providing raw materials and loans to the weavers of Bombay, Gujarat & Bombay through their agents, i.e. Muqaddams, the company bought their goods by paying partly in cash and partly in foodgrain. They had forbidden the weavers registered with the company from working and selling for others. These Muqaddams were so trustworthy to the company that it gave them thousands of rupees in advance. The Parsies in Bombay, Banias in Gujarat, Marwaris and many others have acted as Muqaddams to the East India Company.

Apart from robbing the artisans of their labour, the company looted the peasants in the form of land revenue. More than half of the land revenue collected from Bengal was taken to England. The remaining was spent for the expenses of the British government and for the compensation to the surrendered Nawabs and feudal lords. The living conditions of the peasants became miserable because of the increase in land revenue every year.

In the year before the occupation by the British, i.e. in the year 1763-64, the revenue collected by the Bengal Nawab for the last time was 8 lakhs and 17 thousand pounds, but the British had collected 14 lakhs and 70 thousands' pounds in the following year 1764-65. It increased to 23 lakhs and 41 thousand pounds by 1771-72 and to 28 lakhs and 18 thousand pounds by 1775-76. While introducing the "permanent settlement" in 1793, Cornwallis had fixed the revenue as 34 lakhs pounds. The Bengal peasant had experienced the worst exploitation which he had never seen in any other feudal lord's rule in the history of India. About one crore peasants and artisans died in the worst famine that occurred in Bengal in 1770s because of this exploitation. About 1/3 of the population were killed in Purnea district which never had the shortage of food grains in the past. In such a situation also the East India Company representing the mercantile capital continued to increase the land revenue. Cornwallis who was the Governor General in 1789 had admitted that 1/3 of the Bengal's land was turned into forest within 20 years of British conquest.

The 'Industrial Revolution' in England was carried out only with the help of the wealth looted from India. Prior to this, England was only an agricultural country. Its main industry was the production of woollen goods. Prior to 1760 the machinery used in England's textile industry was not superior to the Indian machinery.

Though capitalists and wage workers, the two important classes which are essential for capitalist production were formed much earlier in the British society, enough capital was not accumulated to commence machine-based production to transform it into an industrial capitalist society. England was still in the stage of "capitalist co-operation" and "manufactory" stage.

After the battle of Plassey, qualitative changes happened in England. Scientific inventions like spinning jenny in 1764, steam engine in 1765, water-frame in 1769, crompton mule in 1779 and powerloom in 1785 were made.

Without the capital drained out of India even the steam engine, power could not bring the qualitative changes in England's industry. It is not an exaggeration to say that the surplus value extracted from Indian peasantry and artisans had acted as a motive force in the historical stage of Industrial Revolution in England.

With these changes, the industries in England required the cheap raw materials for production and also market for their industrial products. The contradiction between the East India Company which had monopoly on Indian trade and the industrial capitalists in England intensified. In this struggle between the mercantile capital and industrial capital naturally the industrial capital had emerged the winner. By 1813, the monopoly of the East India Company was abolished.

In fact, the contradiction between the industrial capitalists and the East India Company had started in the beginning of the 18th century itself. But in that situation the clothes produced in England couldn't compete with the Indian clothes in quality. Because of this the import of silk, printed calico clothes from India were banned completely in England by 1720. Exorbitant taxes were imposed on many Indian goods. The British industries could develop in the beginning only because of these protectionist policies. But with the starting of factory production based on modern machinery, the relations and policies which the British imperialism had with India changed qualitatively. These policies were brought forward by the classical economists like Adam Smith, David Recordo in the name of "free trade". For meeting the needs of capital, "protectionism" was transformed to "free trade".

Before studying the changes in the Indian economy during the industrial capitalist stage, let us see briefly the nature of the changes that had occurred in the preceding mercantile capitalist stage. The important changes in the Indian economy in that stage were:

a)Restoration of the weakening feudal relations.

b)Transformation of Indian traders and money lenders into agents of the British imperialism.

c) Further shrinkage of the domestic market.

Restoration of feudal relations :

The East India Company, except for indiscriminately sucking the blood of the people of this country like leaches had done nothing significant to change the economic, social system of this country. It essentially continued the same policies of earlier feudal rulers. However it had made changes in the land revenue policies in order to exploit the people maximum possible. For example while the Marathas had collected 4 lakh rupees annually in Orissa when it was under their rule, East India Company had collected seven and half lakh rupees during the period 1804-15, after occupying it.

It had strengthened the feudal rulers, Nawabs and other feudal forces. It created new zamindars in the areas which where under its direct rule. They treated the peasants as tenants and collected rent from them. In other areas EAST INDIA COMPANY collected duty from the feudal lords by intimidating them and by bringing them under its control. It granted total ownership on Jagirs and on land to the Jagirdars and other feudal lords who were just collecting the land revenue. That means they were given the power to rent out the land to any one they wish. But they were asked to pay 90% of the revenue collected to the British government. If they failed to do so the company had the right to sell out the land through public auction. Land lords who were earlier collecting the tax from the peasants on the basis of the crops, now started collecting rent from them. Peasants became the tenants either to the land lords or to the British government. In a way the East India Company acted as the biggest land lord.

All these policies were incorporated in the 'Permanent Settlement Act of Bengal', which was introduced in 1793. However it no way weakened the land lords . Nor it has increased the productivity of the land. There were no significant changes in agriculture. Above this, as the minimum irrigation facilities that were available during the earlier feudal lords' period also disappeared and many regions became barren lands and turned into deserts. More than one crore people died in the famine of 1770s. In some regions peasants gave up the cultivation as they were unable to bear the increasing burden of taxes.

In this way the feudal exploitation continued through out this stage. Though the market relations were introduced to some extent into the feudal system there was no fundamental change.

Shrinkage of domestic market :

We have already seen how the artisans were exploited through the barbaric methods along with the peasantry. In addition to the heavy taxes and duties on the exports and also on internal trade, special taxes were also imposed on artisans. This had retarded the production and exchange of goods. Income of feudal lords and zamindars was also declined significantly as the taxes were collected as per contract and without linking them to the actual crops. Because of this all the artisans who were producing for them became bankrupt. Prices of the goods produced here had fallen because of the deflation in the country caused due to the draining out national wealth in the form of various taxes. As a result of this many artisans were pauperised because the goods were mainly meant for the external market. Particularly the Bengali weavers were severely affected. It is not exaggeration to say that "the bones of the Bengali weavers bleached the plains of India". Because of these reasons the purchasing power of the people has fallen significantly and this led to the further shrinkage of the market. The very same market relations which the British imperialists tried to introduce had led to the further shrinkage of the market.

Emergence and growth of comprador merchants :

One can easily understand that Marx's observation, "In Asiatic forms, money lending will continue for long time without creating any thing except economic decline and political corruption" is hundred per cent valid in case of the Indian businessmen when we see their behaviour in this stage. Whole world knew about Omichand, the money lender who served the British in their coup against Sirajuddaula. When the East India Company went on to occupy the Ganga valley regions, they received extensive support from Jagath Seths and other Marwaris and Bengali bankers. They had helped Colonel Clive who was the British Commander at the time of the battle of Plassey in 1757. One British official had written in his book that "(we) could end the Muslim rule in Bengal only with the money from the Indian bankers (money lenders)." Many Indian businessmen, headed by Omichand had lived directly under the protection of British canon in the William Fort in Calcutta. Till 1782, Jagath Seths acted like bankers to the company. After that a Benarasi Marwari banker named Gopaldas, belonging to Agrawal caste, took their place. His son Bhavanidas had supplied food and other goods to the British army when they attacked Tipu Sultan of Mysore in 1799. Satisfied with the services of this comprador Bhavanidas, the British rulers presented him the Sword of Tipu Sultan after occupying Sriranga Pattanam. Almost all the Marwaris and Gujarati money lenders who had been serving the earlier feudal rulers and Mughal rulers became the agents for the British.

Gujarati and Parsi businessmen from Bombay also became agents to the British. They worked not only as the business agents but also as revenue collectors. Many Bombay businessmen were partners in the British financial institutions. They played significant role in exporting the Indian goods to the external market and in selling the British goods in Indian market. The Parsies invested in ship building after 1735 and by 1792 they had built 20 large ships. Biggest ship owners were from the Wadia family. All of them were doing business by collaborating with the British. By the beginning of 19th century 37 out of 53 large trading firms belonged to the Indian businessmen; however all the commercial transactions were under the control of the British mercantile capital. Indian businessmen were nothing more than the agents of the British businessmen. Some of them worked as Muqaddams to the company and they severely exploited the artisans particularly the weavers. Similarly many Marwaris worked as agents to the company as the land revenue collectors.

However the businessmen (Subarna Baniks) in Bengal and Banijagas in Mysore have suffered losses to some extent. Bengali businessmen bought the land and became the new zamindari class. Most of the zamindari families were belonging to Brahmin and Kayastha families and they worked as revenue collectors and business agents to the British. These compradors extended full support to the East India Company in exploiting the large Indian masses and in the process had amassed lot of wealth for themselves.

In the absence of the process of capitalists emerging from the artisans was and as all the Indian businessmen developed not by participating in the production process but through charging interests, by serving the feudal lords and by supplying the goods to the external market, they have more feudal characteristics. This had facilitated them to become the compradors to the imperialism.

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CHAPTER -VII

INDUSTRIAL CAPITAL STAGE

After the industrial revolution in England which was carried out mainly with the capital drained out of India, the industrial capital started exploiting India in new forms in place of the mercantile capital. After 1813, India was changed into the agricultural appendage for the British industrial capital and also as market for the British industrial goods. However this doesn't mean the abandoning of the earlier means of exploitation but addition of new methods to them. British imperialism not only continued but also increased the exploitation through taxes, military loot and unequal trade. It added the new methods to the old methods of exploitation. On the one hand they advocated the "free trade" and on the other hand they imposed heavy import duties on Indian goods in England. By charging 75% duty on clothes they almost completely blocked the clothes import. It went one more step ahead in 1830s and imposed various duties on Indian weavers. Taxes like 5% on raw materials, 7.5% on yarn, 2.5% on cloth, another 2.5% if it is dyed outside and not in own work-shop are also charged. All these taxes put together there was an additional expenditure up to 15 to 17.5% on the cotton cloth produced in India. In the same time there was only 2.5% tax on the mill cloth produced on machines in Britain. In this way British government practised the 'one way traffic' policy for some time. It means while the British goods were freely allowed into Indian market, Indian goods were blocked from entering into Britain market by imposing heavy taxes on them. They also put restriction on India not to trade with any other country. Thanks to all these measures, the factory production in Britain was immensely protected and encouraged and finally the British goods produced on modern machinery gained upper hand. India which was known as exporting country till the beginning of 19th century, started importing the industrial goods from Britain.

Between 1814 and 1835 the cloth exported by the British textile industries to India increased from 10 lakh yards to 5.1 crore yards. In the same time the Indian cotton products, imported by the British dropped from 12,50,000 yards to 3 lakh yards. By 1844 it fell to 63 thousand yards. India which was supplying goods to England and many other countries in the world became the market for the goods produced by England. This was an irreparable blow to the Indian economy. British factory commodity destroyed the Indian artisans. All the artisans working in the industries like handloom, silk, wool, jute, iron, glass, paper, etc., couldn't compete with British goods and became bankrupt in the process.

In England when the handicrafts were destroyed the artisans were absorbed as workers in the factories. But in India as the new industries were not established lakhs of artisans deprived of their source of living in towns migrated to the villages. Dhaka, Murshidabad, Surat and many other towns which were once comparable to London till the end of the 18th century, soon reduced to villages. Dhaka which was trade centre and with the population of one crore reduced a centre of 30 thousands people. With the migration of artisans to villages, the rural population was increased and resulted in overloading of the agriculture. The balance between the agriculture and industry was destroyed and India became the agricultural appendage to the industrialised Britain.

Describing how the new methods of exploitation adopted by colonialism changed the Indian economy, Marx had written like this:

"It is the British invader who had broken the hand loom and destroyed the spinning wheel. England started pushing out the Indian textiles from European market. It introduced spinning in Hindustan and flooded that textile country with the imported textile. Between 1818 and 1836, the textile export from Great Britain to India increased in the ratio of 1:5200. The British muslin exported to India which was less than a lakh yards in 1824 increased to 64 lakhs yards by 1837. But in the same time, the Dhaka population declined to 20 thousands from one lakh fifty thousands. The decline of the Indian towns, famous for the textile is not unique. The British steam engine and science technology had thoroughly destroyed the entire land of Hindustan. Destroyed the balance between the agriculture and manufacturing industries."

(Marx, British rule in India, 1853)

British imperialists acted in a planned manner to obstruct the establishment of industries here and turn India into the market for British industrial goods and reduce it to an agricultural appendage to them. With this objective they started the plantations, mines to supply the raw materials required by the British industries. Built the railway lines linking Bombay, Calcutta and Madras for raw material and finished goods transportation. British capitalists were allowed for the plantations in India in the year 1833. Many of the plantation owners were earlier employed the slaves in America and West Indies. They adopted the same measures in India also. By the beginning of 20th century about 10 lakh people were working in Tea, rubber, coffee plantations. The British compelled the farmers to grow cotton, tobacco, indigo, jute and sugar required by the British industries. Between 1849 and 1914, value of the raw cotton products increased from 17 lakh pounds to 2.2 crore pounds. In weight they increased from 3.2 crore pounds in 1833 to 96.3 crore pounds, i.e. growth of 30 times. Jute products increased by 126 times. Even the food grains mainly rice and wheat also increased by 22 times. In the mean time droughts and famines were also increased. In about 24 famines occurred between 1851 and 1900 about 2 crore people were killed.

The important changes in the Indian economy during the Industrial Capital stage which continued for about 100 years.

i) Transforming India into agricultural products exporters to the British industries, i.e. transformation into agricultural colony to the British industrialists.

ii) India was brought under the control of world capitalist system and became a part of it.

iii) Decline in its status from that of exporting country to the importing country of the finished goods and becoming the market for the British goods.

iv) Transformation of feudal relations into semi-feudal relations.

v) Beginning of the transformation of Indian comprador merchants into comprador bourgeoisie class.

vi) Emergence of modern proletariat.

vii) Stagnation in the domestic market because of the ruination of the craftsmen and peasantry.

Indian economy becoming the integral part of the world economy that too as a dependent economy is the main important change in this industrialist capitalist stage. It means the production process in India was moulded according to the requirements of the British industrial capital and world capitalist system. With this, the new international division of labour was evolved and India became supplier of raw materials and food grains required by the world capital particularly the British industrial capital and in the mean while Britain has developed as industrial goods supplying economy. In this total phase new industrial division of labour acted as the guiding principle. All the changes after 1850s like rapid extension of railways, roads and other transportation facilities, development of mining, plantations (gardens) and commercial crops, significant growth of banking system had happened as a part of the subjugation process of Indian economy to the world capitalist system. Even if there was some industrialisation in this phase, it was essentially subjected to the international division of labour.

The cotton mills established in this stage were mainly spinning mills producing cotton yarn meant for the external market. For example in 1888, _ of the yarn produced in India was exported to China alone. In addition to this it was also exported to British colonies like east Africa, Hongkong and other markets. Jute industries were totally in the hands of British and were utilised for meeting the needs of the international market. Shipping industry started only to transport the British goods here and the raw materials to Britain and their industries in other countries. In this way whatever the limited industrial growth happened in the country was only to consolidate India as an agriculture colony and not to facilitate in any way for its natural industrialisation. For this reason only the British capitalists had not started the construction of machinery and production of engineering goods here.

With the above mentioned development process, the Indian economy reduced to shambles and each segment of it evolved independently to serve the needs of the British colonialists. Different sectors of the economy - agriculture, industry, banking and service sectors like transportation, etc., not only lacked the required co-ordination among them but also none of them developed to meet the domestic needs. Colonialism destroyed the equilibrium required between various production branches and looted the domestic natural resources. This way it had obstructed the development of the production forces. This is nothing but distorted development or lopsided development.

We can cite three main reasons for the non industrialisation even on this comprador basis.

1. Industrialisation in India in whatever form was detrimental to the interests of the British colonialists. It was advantageous for them if there is no industrial development in this country, and India remained as an appendage to the Britain, supplying raw materials.

2. Colonial economy obstructed the natural industrial development here, and gave it a shape of

distorted development. It helped the Indian mercantile, interest capital to exploit the Indian masses by collaborating with British bourgeoisie.

3. It is not possible in any country to attain 'significant industrial development' without capitalist development in agriculture. The capitalist development in agriculture was not done in India as the British colonialists protected the feudal forces with the objective of getting the agricultural raw materials cheaply and the Indian capitalists instead of opposing have fully co-operated for this.

Due to the above mentioned reasons and also as rightly predicted by Marx, the construction of railways, growth in transportation facilities and development of plantations and mines etc., could not develop the rapid growth in productive forces and capitalist system in India. On the other hand in spite of the capitalist relations introduced to some extent to meet the needs of the British, the capitalist development was hampered as they have joined the hands with the feudal forces on the other hand. Describing this contradictory aspects in the context of China, Mao had noted like this:

"Penetration of the foreign capital has accelerated this capitalist development process. But there is one obstructing feature to this. That is the collaboration of the imperialism with the feudal forces in China to obstruct the capitalist development in China."

The primary obstruction for development of the productive forces here was not the draining out of crores of rupees, but the ruining of domestic industries and forceful transformation of the country into the raw material exporting and British goods importing colony. Even though some industries were established, encouragement of the mercantile and interest capitals without disturbing the feudal production relations in the rural areas was the primary feature.

Comprador big bourgeois class :

While in the western countries the petty producers (artisan) changed into traders and then transformed to industrial capitalists, i.e. they adopted the true revolutionary path, in our country comprador traders had invested in the industries. Industrial development was not independent but with the artificial creation of some industrial centres within the feudal economy to meet the needs of the capitalism developed in foreign countries. By destroying the natural capitalist relations emerging out of the womb of Indian feudalism, they pasted the artificial and parasitic capitalist system on it. If we note the point that the industrial capitalism here had not emerged due to the contradictions and class struggles in the society, it is easy to understand the comprador character of the Indian bourgeoisie.

All the comprador traders who had invested in the factories imported into India had continued only as the sub exploiters surrendered totally to feudal forces, foreign capital and served as the agents to the foreign exploiters. The main source to the capital in the Indian industries is the taxes collected by the feudal rulers in the princely states (Gwalior, Mysore, Baroda, Indore, Travancore etc.) and other feudal forces by sucking the bone marrow of the peasantry.

Bombay mill owners' association was formed in 1857. Since then and up to 1923, the secretary of the Bombay chamber of commerce which represented the British capital acted as the secretary to this Bombay mill owners' association. And in most of the companies (whether they belong to Indians or British) both Indian and British were on the Board of directors. One of the important reasons for the British to allow the Indian compradors to set up textile mills was their confidence that the Indian mills can never be competition for British mills and other reason was to create market for the British machinery.

The clothes manufactured in Indian mills were inferior in quality and type while the clothes manufactured in Lancashire, Britain were superior in quality and type. The Chairman of Bombay Mill Owners Association, clearly expressed this in the annual general body meeting in 1899.

"As repeatedly noted by this association that there cannot be any competition between the superior quality of cloth manufactured in Lancashire and the inferior cloth manufactured in India."

Apart from the textile mills another important industry set up by the Indian big bourgeoisie in this phase is the iron and steel industry. George Hamilton, then secretary to the government of India in 1900, pressurised J N Tata to build a steel plant. When Tata had expressed doubt about his capabilities, Hamilton assured him that government will extend all the necessary support. Financial support for this first Indian steel plant was provided mainly by the feudal lords. It was constructed and managed by the American experts. The setting up of this industry clearly explains the intimate relations between the comprador bourgeoisie, feudal lords and imperialist forces. This industry mainly served the war needs of the British imperialists.

On the whole in all the industries set up during this phase, the British imperialists had the majority share. In 1898 out of the total 177 textile mills in the country, 1/3 were in the hands of the British capitalists. The total 33 jute mills were under the control of British managing agencies. In other industrial and agricultural production sectors like wool, paper mills, cotton ginning mills, plantations etc., about 3/4 of the investment was of British. In the total worth of 3.55 crore pounds in the joint stock companies, Indian share was only one crore. The Indian bourgeoisie class which was an agent of the imperialists was also weak in its capital strength.

Extension of commodity relations into the agriculture - Growth of Interest and Mercantile Capitals :

We have already stated that through the Indian comprador bourgeoisie class was emerged in this stage, their main field of activities were in money lending and trading. The change brought here in land relations and agriculture by the British had greatly facilitated the growth of this interest and mercantile capitals.

They encouraged plantations, commercial crops to meet the British industrial needs. They changed the method of revenue collection. They abolished the traditional right of the farmer on the land and converted it into a commodity. They flooded the national market with British industrial commodities. All these measures have increased the role of interest and mercantile capital. Money lenders and merchants who suck the blood like leach emerged in every village. The market relations in the rural areas helped only to exploit the peasantry in the feudal methods. In this way the semi-feudal relations emerged through out the country.

Peasants who cultivate the land were subjected to three types of exploitation.

1. Land revenue collected by the British government.

2. Surplus value collected by the land lords in the form land rent.

3. Interest collected by the money lenders.

All these three put together were about 2/3 of the aggregate agricultural product.

Above this they had to spend some more from their income in the form of indirect taxes i.e. in the form of taxes on the commodities like salt, kerosene, arrack, match box etc., bought from the market. The dependence on the market for the farmers for paying taxes, rent, interest to the government, land lords and money lenders respectively and to buy the essential commodities has increased there was no capitalist development in the agriculture. In most of the land plantations were grownup for the industrial needs, the cultivation was done only in the feudal methods. The irrigation facilities which were there before the advent of the British were totally neglected and in many places the cultivable land became barren lands. The productivity of the land has fallen. Peasants who could not pay the taxes, rent and interest were evicted from their land. And with this the concentration of land has increased. As the ruined craftsmen and the soldiers and other employees who earlier worked under the feudal lords had migrated to rural side as they didn’t have any other alternative, the pressure on the land increased. The percentage of farmers increased from 61 in 1891 to 73 in 1921. The British rule, apart from extending the commodity relations to the rural side, had also transformed the Indian economy into rural economy (Ruralisation of economy).

Per capita land under cultivation continued to decrease gradually with the increase in population depending on agriculture. Meanwhile due to the total negligence by the British colonialists for providing the irrigation facilities instead of bringing the new land into cultivation, the land already under cultivation became barren land. More and more farmers lost their lands because of various feudal exploitations. For example an agricultural director after studying a model village in Pune in 1917, came to the conclusion that - per capita land under cultivation decreased from 40 acres in 1771 to 17.5 acres in 1818, to 14 acres in between 1820-40 and to 7 acres in 1914-15. He had commented like this.

“ It is very clear from this that there is a qualitative change in the land size in the past 60-70 years. Prior to British and also in the early period of British rule, the land for each farmer was large enough and was more than 9-10 acres. There was no farms at all which were less than 2 acres. Now the number of land holdings has been doubled. In this 81% are below 10 acres and 60% are less than 5 acres.”

This trend can be seen through out the country. In the 1921 census per capita land in farmer was identified like this.

The productivity of the land has fallen significantly due to small land holdings, total neglect of tanks, canals and other irrigation facilities and cultivation in the pre-capitalist feudal methods of cultivation. Famines and droughts became more frequent. Due to inflict of various types of exploitation, at one stage the cultivation itself became a burden for the farmers. On many instances land had no market value. This is due to fact that in certain instances, the land revenue was either equal to the crop or more than the crop. While the earlier feudal kings determined the tax on the basis of crop, the British colonialists determined it on the land and not on the crop. Farmers had to pay the pre-decided tax whether they got the crop or not.

Three types of land revenue collection:

1. Zamindari System
2. Ryotwari System
3. Mahalwari System

We have earlier mentioned that Cornwallis had introduced the Zaminadari System for the first time in the states of Bengal, Bihar and Orissa in the year 1793. This method was latter extended to north Madras. Initially this permanent settlement helped the government to collect the maximum taxes. In this system, the zamindars in Bengal were to pay 30 lakh pounds to the government. At that time it was calculated as 90% of the taxes were paid by farmers. But with the decrease in the value of the money and due to the unlimited exploitation of farmers in the form of land rent, the taxes paid by the farmers increased to 1.2 crore pounds. But as per the permanent settlement only 30 lakh pounds (dth of this) was the tax to be paid and the remaining amount was retained by the zamindars. Because of this in some of the places temporary settlement system was introduced in the latter period. This was implemented in United Provinces, Central Provinces, Bombay, Punjab and in some places of Bengal. To avoid the share of zaminadars and to collect the total surplus, Thomas Munro has suggested the “Ryotwari System”. This was first introduced in majority regions of Madras in the year 1820. Latter it was extended to more than half of the British ruled regions. In this system the tax is collected on the basis of the land. British government itself acted as the land lord. Because of this the exploitation in this is no way less than the zamindari system.

In 1937, the Zamindari and Ryotwari systems were in practice in 40% and 57% respectively. In addition to this in some limited regions “Mahalwari system” was in practice. According to this system the total village has to pay the tax collectively. This was in vogue in the villages in North western India (Gorakhpur, Allahabad, Kanpur, Farakkabad, Bareli, Etawa, Moradabad, Agra, Delhi, Aligarh, Saharanpur and BundelKhand) where the English made revenue settlements by fixing land tax for the village as a whole. This was to be paid collectively by the entire Mahal or village. 2/3 of the produce was fixed as land tax to be paid to the British government. Thus tax on land under the Mahalwari system too was unbearable to the peasantry.

In Central India there was another method of land tax collection known as Malguzari system. Under this, the village officials were given property rights over the land and were called Malguzars.

But even in Ryotwari regions also the land was concentrated in the hands of few land lords and money lenders was going on. Money lenders who had acquired lot of wealth, joined hands with the British colonialists and as there was no alternative for investing in other productive sectors, concentrated in buying lands from the farmers and bankrupted Zamindars. Many money lenders bought the lands and became absentee land lords by renting out the land. In fact the British government itself exploited the peasants in the Ryotwari regions by extracting the rent as high as 50 to 60%.

Describing the Zamindari and Ryotwari systems, Marx noted that they had the most contradictory nature and they were implemented not for the farmers who tills the land but for the owner and the taxes imposing government. He also said that by imposing heavy taxes, the central government had made mockery of the private ownership of the land. In reality it is not an exaggeration to say that government became the owner of the land by imposing excessive taxes.

Indian farmers becoming indebted is the striking feature in this stage. Commission on Famines had noted in its report that by 1880 itself about 2/3 farmers were indebted and half of them were severely fallen into the debt trap and it is impossible for them to come out of it. After that debts have been increasing further. Between 1876 and 1900 about 2.6 crore people were killed due to the starvation. This was five times of those killed between 1850 and 1876.

In the places where the farmers were growing commercial crops for the exports, were invariably depended on the merchants for the food grains. Particularly in the cotton growing regions of Gujarat and Maharashtra, the dependence on the merchants was increased. Farmers growing crops for export suffered on two accounts. Firstly they have to become bankrupt whenever there was a fall of prices in the world market, secondly they have to buy the food grains at the prices determined by the merchants. However these merchants bought the food grains at the prices convenient to them by lending to the farmers in their lean period. In this way the bania traders in Gujarat and Marwaris infiltrated into Maharashtra made huge profits. Indian compradors and landlords looted the agricultural products from the farmers, supplied cheaply to British textile mills.

As mentioned above, through out the industrial capitalist phase peasantry was subjected to feudal exploitation, state exploitation in the form of taxes and also to the exploitation by money lenders and merchants. Instead of capitalist development in the agriculture commodity- money relations developed artificially in the direction of consolidation of feudal system. Farmers forcefully evicted from the land and craftsmen alienated from their production were not transformed into wage labourers in our country. In the absence of industrial development they all depended on the land on semi-feudal basis. Very few of them transformed into wage labourers.

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CHAPTER-VIII

FINANCE CAPITAL STAGE

We have seen the export of capital from Britain to India extensively during the industrial capitalist phase particularly in the construction of railways. Railway construction in India started in 1853, extended to 4,255 miles by 1869 to 25 thousand miles and reached 5th place in the world. The railway lines construction was aimed to transport the raw materials, food grains from all the corners of the country to the Ports for exporting to foreign countries particularly to Britain. In addition to railways, mines and plantations; the British capital entered mainly into some jute and textile mills. This transformation process which was started after 1860s picked up the momentum since the first world war. Total 2704 crore pounds of British capital flown into India prior to the first world war (1913). The objective of this capital is not to industrialise the country. Instead of this, the capital was utilised for taking away the raw materials from the country and buying the industrial goods from Britain to India. Prior to 1914, the British revenues were spent for government expenses, transportation, plantations, mines etc. This capital has not lead to the setting up of modern industries.

The qualitative change that had happened in the beginning of 20th century (transformation of the capitalism based on free trade, free competition into monopoly capitalism) brought new developments in the imperialist - colonialist relations.

The 19th century's industrial monopoly of Britain started weakening since 1870s. It faced competition from America, Germany and other European countries. Britain's share in Indian market which was 82% between 1874-79 fell down to 64% by 1899-94. Because of this declining industrial strength and also because of the competition facing from others, British imperialists intensified the export of finance capital. Similarly to face the competition from others they started setting up of modern industries in India. With the help of the Indian big bourgeoisie they intensified their efforts to block the other imperialist countries from setting up of their industries in India.

In the year 1913-14, the value of the trade between India and Britain was 17 thousand crore pounds and the finance capital was 50 thousand crore pounds. The interest and profit on this investment was about 4 crore pounds. In this way the financial capital export remained as the important feature in the 20th century.

Till 1914, British imperialists openly opposed the establishment of modern industries in India. In 1870s, 80s cotton mills started at very rudimentary level. When they faced severe problems because of the workers' struggles in the Jute mills in Britain, they started some industries in India with a view to exploit the labour cheaply. Similarly they set-up some railway maintenance units. In 1914 only 9,51,000 workers were registered under the factories act. During the first world war Imperialism realised the necessity of the Indian industries. In view of the competition from the other capitalist countries, internal political situation becoming clear in the peoples struggles - imperialists started some industries in India. And Industrial Commission was set up in 1916.

The control of the Indian industries was with British finance capital through their 'managing agencies'. Similarly the finance capital institutions were also controlled by the British. The machinery required in the Indian industries were to be imported only from Britain. Only British were employed in the jobs requiring high technical expertise. British imperialists who were controlling the 'Managing agencies', technology and finance institutions started the industries in India only after retaining the key and strategic positions with them. These industries were also established only during the intermediate period of the two world wars. Even then they acted only in accordance with their objective of keeping India as backward and dependent nation of the British imperialists.

In these industries, the compradors who were supplying the raw materials to Britain were given some opportunity. British were so much against the setting up of key industries in India that they destroyed even the inferior machinery and equipment which were set-up by the compulsion, immediately after the world war.

Similarly all the compulsorily required key industries were set-up in countries like Canada, Australia and Newzeland where the white people reside and not a single one was established in India.

Weakened after the first world war, British imperialism had conceded some market to the countries like America and Japan. In these circumstances and as they see no overall loss, they gave some opportunity to the comprador big bourgeoisie - the reliable servants to the British - to set up industries particularly for the manufacture of textiles.

With the result of this about 1/4 of the textiles consumed in India was produced domestically. And by 1934-35 it reached 3/4 of the total consumption. To compete with Japan textiles, British capitalists joined with Indian mill owners and established their monopoly on the Indian textile market in the name of 'discriminatory protection'. 'Discriminatory protection' means the protection of the sectors in which India had the natural advantage (for example - coal, alloys, cotton etc.). However this will not be applicable to other Indian industries. This "protection" policy was implemented only in the textile and steel industries. The reason behind this protection and encouragement given to the Tatas belonging to Indian Comprador bourgeoisie in the steel industry was only to block the steel products of Germany and Belgium from entering into Indian market. By justifying that protection is needed as the steel industry is in its infant stage, they could block the steel products of other countries. In fact this was aimed to retain the monopoly of the British steel products in India. In the name of "imperialist preference", division of labour was introduced in steel industry. According to this only inferior quality steel will be produced in India. The right to produce the better quality however was retained by the British. Indian railways has to buy from British steel alone. In this way even if the Indian big bourgeoisie like Tatas were protected from the competition from other countries in the name of "protection of infant industries", and the British had the upper hand in the Indian market. Additional duty of 50% was imposed on the non - British steel products. In case of rolled steel it was about 70-80%. In this way they allowed Tata to continue without competing with the British products.

With the implementation of steel protection act in 1924, Tata's share in Indian market has gone up from 17% to 30%. In the mean time they discouraged the other Indian companies from entering into the steel production.

We should mention the three factors which facilitated the establishment of industries in India.

1. Economic reasons : Competition from the economically strong imperialist nations like America and Germany.

2. Military needs : Protection of the British empire and its war needs.

3. Political reasons : The political need to provide some facilities to the Indian big bourgeoisie for their past and present services to the British imperialism. They were also compelled to give some compensation to the Indian big bourgeoisie because of the growing anti - imperialist consciousness among the Indian masses.

Government efforts like the setting up of industrial commission in 1916 and Indian fiscal commission in 1921, establishment of tariff boards related industries and protection given to some industries will reflect the changes in the government policies.

Though they were compelled establish industries in India, the British imperialists consciously avoided the setting up of them in key sectors. The industrial development in India was based on special division of labour. It means:

Industries in Britain and other imperialist nations were most modern, with high productive capacity, high wages and involving high capital. Where as the Indian industries are with inferior technology, low productive capacity, low wages and involving more labour. With this kind of division of labour the industrial goods manufactured in India were not in a position to compete the foreign goods. As they are with low quality and high labour, the profit in Indian goods was also less. Demand was also not very high.

Most of the industrial products exported from India were of inferior technology. For example in 1938-39, jute and textile products were 68% of the total industrial products exported.

Import of machinery was also very low. In 1900-01 machinery share was only 2.9% of the total imports. It was 3.7% in 1910-11 and 8.7% in 1930-31.

Extended reproduction is essential for the economic development. For this the surplus value has to be reinvested. But we can see how low is the reinvestment of the surplus value in case of India from Table No 2.

In this low level accumulation of capital the machinery production was almost non existent. Between 1901 and 1913, production of agricultural machinery was mere 1.92% of the GNP. Between 1914 and 1946 it was finally reduced to 1.78%.

Prior to the iron and steel industry in 1907, industries in the country were limited to textiles and jute. First engineering, sugar, cement, paper mills were started during the 1930s. Even in 1946 about 30% of the workers were in the jute and textile mills. In the first industrial census conducted after the end of the British rule in 1951 (it accounted only the large industries), it was found that in the total industrial production 56.8% came from textiles and jute mills, 6.6% from sugar industry, 7.6% from iron and steel industry, 4% from chemicals and 2% from cement industry. In 1913 only 3.8% of the GNP came from modern industries and even in 1947 it has not exceeded 7.5%.

According to the statistics of the planning commission, the number of workers in the processing industry including the crafts industry has come down from 1 crore 30 thousands in 1901 to 88 lakhs in 1951. While in the same time the population has gone up by 40%. In addition to this out of the total industrial production in 1951, 60-70% came from small and unorganised industries. There was no significant growth in towns, change in the occupation of the workers, composition of different sectors in the national income.

At the time of transfer of power, the share of the modern industries in the total industrial sector was very low (it was 6-8% of the national income) and small cottage industries and mines were 12 to 14%. The urban population which was 10% in 1901 increased only to 11% in 1931 and to 2.8% in 1941. The most important characteristic of the Indian industrial sector is the almost total absence of machinery (capital goods or producer goods) production. For the machinery needs, India has totally depended on the foreign imports. In 1950, 90% of machinery demand was met by the imports and the value of the machine tools produced in India was mere Rs.30 lakhs.

In this way the foreign finance capital was flown only into consumer industries, trading and insurance and other financial sectors.

Class A, B banks which were only 200 in 1914 increased to 1,318 branches in 1940 and to 4,644 branches in 1946. Banking, insurance sectors were fully under the control of British. Mines, tea, coffee gardens, jute industries, ship building and railways were also under their control.

Role of Indian big bourgeoisie (1913-47)

During this phase the capital of the Indian big bourgeoisie not only increased in textile and steel industries but also entered into some other industries like paper, sugar, cement and jute. Some new groups belonging to Indian big bourgeoisie started emerging since the period of first world war. Birlas, Singhanias, Surajmal - Nagarmals, Hukumchands, Goenkas, Chettiars, Naidus, Ruis are the important groups in this new big bourgeoisie class. All these new comprador classes were closely associated with British and other foreign capitals. They all were well known as comprador merchants and money lenders. And they all made huge profits during the first world war in speculation of commodities, company shares and gold. These Marwari families were acting as agents to the British since beginning and they were engaged in buying raw materials for the British agencies in the ports and in selling the British goods in Indian market. G D Birla initially worked as a broker to the foreign firms in Calcutta. He continues as broker even after investing the profits made from the s trade, in industries along with British and Japan capitalists.

Singhanias belonging to Kanpur once carried the opium trade. They got exclusive dealership for the British textile mills in Kanpur by providing financial assistance to the British prior to 1914. Even after establishing some textiles and jute mills, they mainly remained as the large share holders in the foreign companies. Goenkas are one of the Marwaris who started investing in the industries in 1930s. They worked for long time as the brokers for the British export - import firm Rallies, Kettle well Bullen. They made huge investments in money lending and real estate business. They entered the industrial sector in 1934 by buying a textile mill in Bombay.

Chettiars in Madras were well settled as money lenders and currency merchants, famous not only in India but also in South Eastern Asian countries under the British rule. In Burma alone, they had 75 crores of investment. By 1937 about 1/4 of the total land under cultivation in Burma was under their ownership. They entered in the industrial sector in big way in 1939.

Indian big bourgeoisie had inseparable relation with the foreign capital as given below:

1. They made profits by extending all types of services to the to the British imperialists in the first world war.

2. They remained as brokers to the foreign firms since beginning.

3. Their companies were fully controlled by the foreign capital (how ever small it may be).

4. They became the share holders in the foreign companies.

Their capitals were so closely integrated that it became difficult to separate the Indian big bourgeoisie company from British or any other foreign company. The similar situation exists even in almost all industries in the countries. Persons belonging to Indian big bourgeoisie class were appointed to the board of directors in foreign companies. Goenkas, Birlas, Jalans, Kanorias etc., had worked as directors on the board of directors in foreign companies. But they didn't have any role in the management of the company. Easwari Prasad Goenka worked in about 25 foreign companies like this. Though the jute industry was totally in the hands of the British capitalists, about 60% of its shares were held by the Indian big bourgeoisie, Maharajas and government officials. In paper, engineering, electricity generation industries belonging to the British capital, Indian capital was in large amounts but it was subjective to the control of the foreign capital. The three hydro power projects started by Tatas in 1929 were formed with the collaboration of Morgan company of America and Tin plate Company of India started in 1929 was formed by Burma Oil Company of Britain and Tatas. British firm called Favatin was the managing agent for this company. In this company which was biggest till the beginning of 1970s, Mactinbaro Company also of British and Indian capital were together.

British cement companies, Tatas and other cement companies merged together in 1936 and formed ACC. After that they formed cement syndicate by joining hands with Dalmia - Jains. Similarly prior to second world war Indian and British capitals joined together and formed Indian sugar syndicate.

During the second world war the Indian comprador capital developed further close relations with British capital and colonial government. In repayment of the services extended by the Indian big bourgeoisie to the British imperialists, British government started buying their goods and helping them in other ways. During the war their exploitation was so much that the prices of clothes has gone up by five times. Because of this loot, the profits of the textile mills increased from 7 crores in 1939 to 109 crores in 1943. Unreported profits must be more than this. Even while joining hands with British capital in exploiting the Indian masses, Indian big bourgeoisie had contradictions with it. This was mainly in minor items like duties, restrictions, protection of industries, exchange rate between rupee and pound etc. Even in this contradictions with the British government, Indian big bourgeoisie and British capitalists remained together. On the whole, collaborations and capitulation was the primary aspect and contradiction was the secondary aspect.

Due to the weakening of British imperialism in the second world war and its increasing contradiction with American imperialism, some close relations started developing between American imperialism and a section of Indian big bourgeoisie. Indian big bourgeoisie class tried extract some more concessions by exploiting these contradiction between American and British imperialism. The Bombay plan prepared in 1944 was part of this only. This plan was prepared by Tata, Birla and other representatives of the bourgeoisie class. In this plan there was no mention about the nationalisation. Instead it invited more foreign capital. Indian big bourgeoisie through this plan expected to benefit financially by depending on the two pillars of the foreign capital and government capital. This point was explained in the Bombay Plan without any hesitation.

“In the initial years of planning, India will depend totally on foreign countries for machinery and technological expertise for establishing key and other industries.”

Bombay Plan was formulated in accordance with the strategy of Britain and American imperialists to treat India mainly as a source for the export of their capital. British governments secretary in India him self had written to Viceroy about this:

“British capitalists are enthusiastic about associating with the industrial expansion in India. They are optimistic that, If it is properly done, it will be beneficial to both us and the Indians by the extension of the market to the British goods.”

British imperialists prepared plans to increase the exploitation in neo-colonialist methods by supplying the machinery, technology, spare parts and capital required for the industrialisation of India and by setting up of collaboration firms and foreign companies.

In this way Indian Comprador bourgeoisie after second world war had established “new kind of relations” with the British and American capitals. They proposed to set up Joint Ventures with imperialist monopolies. The agreements made after May 1948 between British monopoly firms and Indian big bourgeoisie like Tata, Birla, Wall Chand, etc., are part of this.

Birla brothers limited made an agreement with Naffield Organisation of Britain in June 1945, for manufacturing cars. As per agreement Naffield company which gets good share in profits, royalty on the patents would supply 25 -30% of the capital. In addition to this it would manufacture and supply all the technical spare parts which cannot be manufactured profitably in India. It is natural that it would decide which parts are to be manufactured in India and which parts are to be imported from Britain.

Similar agreement was made in December 1945 between Tata and Imperial Chemicals for setting up of heavy chemicals industry. As per this agreement chemicals produced in England would be sold for long time (20 years) in Indian market.

Many Indo - American business agreements like Birla - Studbaker, Wall Chand - Crysler, National Rayon Corporation etc., were made on these lines.

As per these agreements key heavy industries will not be set up in India. Instead of them, assembling units to assemble the spare parts manufactured in Britain and America will be established. The cars manufactured like this are proudly claimed as the Indian cars by giving great names like "Hindustan Land Master" (like today's Maruti car!).

Indian industrial compradors who made similar agreements with British monopoly were:

Jatiyas	–	Andrew Yule
Kanorias	–	Mc Leed
Bangurs	–	Burd, Gilander, R Balmot
Mukherjees	–	Martin Burn
Tatas	–	Mc Neel, Baray
Poddars	–	Shaw Wallace

Only after such agreements were made between the Indian Comprador bourgeoisie and imperialist monopolies the transfer of power taken place in 1947.

The details of the industries set up under the leadership of Indian Comprador bourgeoisie who made technical agreements in 1957 were: 245 companies belonging to Birlas family (apart from this they have share in 11 other industries); 68 companies in 20 different industries belonging to Tata family, 63 companies in 18 industries belonging to Dalmia - Sahu family.

With the agreements made to form Joint Ventures with imperialists, the neo-colonial exploitation has increased after 1947. As the strategy for importing the machine tools, technology and capital without taking into consideration of the concrete conditions and social needs of our country, it was not possible for it to absorb the surplus population into the industrial sector.

The weakness of our industrial sector till 1941 is shown in the below table.

The reason for this low level industrial population is the destruction of small and house hold industries and failure of the newly set up modern industries in absorbing the displaced workers. Even after the establishment of modern industries with the help of imperialists after 1945, there was no significant change in the percentage of workers in the total population due to the further destruction of small industries.

Managing Agency System :

We have seen that some groups belonging to Indian big bourgeoisie, particularly Marwaris investing some capital in sugar, cement, paper and engineering industries after the first world war. But through out the period of British rule their income mainly came from non - industrial means like money lending, speculative business, trade, real estate etc. Managing Agency system will properly reflect their non-industrial activities. This system was introduced in India by the British. Indian big bourgeoisie strengthened could only with these British agencies. Single Managing Agency used to have control on many independent industrial, trading companies. This system placed the industrial production in the hands of few finance capitalists. Unlike other countries, Indian business firms had not developed on any important productive sector (industry).

Because of these Managing Agencies big finance institutions emerged with uneven mixture. With this, instead of real industrial development only firms which give maximum profits with minimum risk were set-up. Money instead of serving the industry became an agent which exercises control over it.

Stating this, the Industrial Commission noted that the Managing Agencies refused to invest in the industries where they didn't see the attractive profits. And because of this even the essential industries were also not set-up. By investing in non productive sectors like speculation, share market, commerce etc., the Managing Agencies became hurdle for the industrial development.

Marwaris belonging to Indian big bourgeoisie class were taken as partners and employees in these Managing Agencies. In a way they were like feudal type institutions in their functioning and obstructed even the capitalist development. They became barrier for the flow of capital from distribution sector to the industrial production sector.

Semi - Feudal Relations in Agriculture :

In the finance capital phase agriculture was subjected to stagnation and there was no growth in it. Between 1911-41 per capita agricultural production fell down at an average of 0.72% per annum. In this period per capita non - food agricultural production was increased by 14% and per capita food grains production has fallen by 29%. There was no capitalist development in agriculture at all.

Reasons for Non - Development of Agriculture :

1. Existence of semi - feudal relations.
2. Zamindars instead of showing interest and investing in the agriculture, made money without any efforts by renting out the land.
3. Renters had no scope for developing the agriculture in modern methods as they were exploited by many layers of land lords.
4. Government collecting excessive taxes without doing any thing for the development of agriculture.
5. Exorbitant interests charged by the money lenders, merchants.
6. Though the rich peasants emerged in many regions (mainly in the Ryotwari regions), they either became land lords by buying more land with their income or engaged in money lending but not in investing the capital in the agriculture.
7. Because of the famines and crashing of prices of the agricultural products due to economic recessions, even the little savings of farmers were also eaten away and they left with no money to invest in the agriculture.
8. Continuous division of land holdings, reduction in size and fragmentation of the land.

Almost there was no change in the agricultural production methods till II world war. Modern tools, technology and other inputs were not in use. In the end of 1930s total 3.2 crore ploughs were in the usage in India. Better quality of seeds were used only for the 1.9% in the total crops in 1922-23. Though it increased to 11.1% by 1938-39, it was mainly limited to non-food commercial crops. In the first half of 1940s only 26.7% of the land had the irrigation facilities.

Growth in commercial crops alone cannot indicate the capitalist development in the agriculture. What was happened in the reality is they have switched over the fertile land, which was earlier used for the food grains for growing the commercial crops. With this food production was suffered and the commercial crops production increased.

The transfer of power from British colonialists to the Indian big bourgeoisie, feudal classes has not brought any fundamental change in socio-economic system of this country. Semi-feudal relations in agriculture with small alterations, continued through out the country till the end of 1960s. In addition to the exploitation of British imperialists, exploitation by America and Russia was also added. Foreign finance capital is flowing uninterruptedly after 1947. Every five year plan was implemented only with the help of foreign loans. Colonial system transformed into semi-colonial system. Though nominal political freedom came in to the hands of Indian ruling classes, Indian economy is still in the grip of the international imperialism. And after 1947, the neo-colonial methods came in place of direct imperialist exploitation. This neo-colonial exploitation which is in practice since the beginning of the 20th century in Latin American and some other countries where there was no direct rule of the imperialism, but it was deeply rooted itself as the new form of exploitation world wide after the second world war. This neo-colonialists on one side collaborated with and were protecting the feudal and pre-capitalist ruling classes in their erstwhile colonies, while on the other side they bought their economies under the control of the world capitalist system. It means they introduced the changes in these colonies as per the needs of the imperialism and world capitalism. We have to understand the changes in Indian economy after 1947, in this international background.

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INDIAN ECONOMY AFTER THE TRANSFER OF POWER

At the time of transfer of power the Indian economy was characterised by feudal as well as capitalist relations of production. Feudal mode of production was co-existing side by side with the capitalist mode which had emerged in the period of over a century subserving the British imperialist needs. There were also pre-feudal structures in some pockets mainly inhabited by adivasis. Agriculture was primitive, industry was lop-sided and distorted and mass poverty was a prominent feature. Foreign (overwhelmingly British) capital dominated all sectors of the economy. There was an interpenetration of feudal and capitalist elements in all spheres of the economy. While feudal methods of exploitation were widely used in capitalist production, predominantly feudal rural economy was marked by the penetration of capitalist elements. Thus both the modes influenced upon each other with none of the two having the potential to radically change the other.

The ruling classes comprised of the comprador big bourgeoisie, which grew up with the blessings of the British, and the landlords. The feudal forces acted as a drag on the industrialisation of the country and hampered the pace of capitalist development.

An equally important factor that inhibited capitalist development was the dominance of foreign (mainly British) capital. The imperialist capital allied with the feudal (and pre-capitalist) forces on the one hand and the comprador industrialists on the other and had only one objective of subordinating the entire economy to the interests of the world capitalist economy. The imperialists adopted new methods and forms of exploitation after 1947. Direct colonial rule was replace by indirect neo-colonial rule in all the erstwhile colonial countries including India after World War II.

The developments which took place in the world capitalist economy and politics after World War II and the changes in the balance of class forces at the international level should be understood in order to understand the developments in India as the entire changes in India have been influenced by the former.

After World War II, American imperialism stepped into the world arena as the No. 1 imperialist power. Both the victors - Britain, France etc. - and the vanquished - Germany, Japan, Italy - became terribly weakened economically as a result of the war. The emergence of a powerful socialist camp and the advancing national liberation struggles in the various colonial countries had further weakened imperialism on a world scale and altered the balance of class forces. Imperialism had lost the ability to maintain its grip on the colonies through direct rule. It is with the intention of utilising the unfavourable situation in its favour that imperialism embarked upon new form of exploitative indirect rule - neo-colonial form of rule.

Britain and France, weakened by war and unable to face the rising tide of peoples' struggles in their countries, entered into agreements for transfer of power with the comprador big bourgeoisie - big landlord classes in their colonies on condition that their capital in these countries was safeguarded and their exploitation continued without any hindrance in future. Having no colonies of its own, US imperialism began to draw the ex-colonies of other countries into its fold through neo-colonial methods. In order to achieve this aim, US imperialism declared that it was opposed to colonial system of rule and that it stood for democracy. It entered the colonial markets in the name of free market, free trade, free competition and free access well before World War II itself and began to enhance its grip on those economies. With the end of the colonial rule after World War II, the US capital gradually began to exercise the dominant influence in these erstwhile colonies.

The emergence of the socialist camp with the end of World War II also had a great influence on the development in former colonies like India. These countries could take the help of the socialist countries to some extent for the development of their economies. Weakening of imperialism and the emergence of socialist camp thus helped the ruling classes in these countries to exhibit some assertion and to increase their bargaining power vis-a-vis imperialism. But this was a short-lived phenomenon. The disintegration of the socialist camp and the degeneration of the Soviet Union into an imperialist country drove these countries more and more into the clutches of imperialism. But in the bi-polar world that emerged by late

Sixties and continued upto mid-Eighties, these countries enjoyed some manoeuvreability and could switch loyalties from one Super Power to the other although remaining subservient to imperialism as whole.

It is in the above background that we have to see the developments that have taken place in India following the transfer of power.

CHAPTER-IX

1947-1966
STATE-LED INDUSTRIALISATION WITHIN A SEMI-FEUDAL AND SEMI-COLONIAL STRUCTURE

India at the time of transfer of power faced -

(i) the problem of feudal oppression

(ii) the stranglehold of imperialist capital on the Indian economy

(iii) lop-sided and a distorted industrial sector that had developed in accordance with the needs of British imperialism

(iv) insufficient capital accumulation

(v) mass poverty and lack of home market

(i) The problem of feudal oppression

The overwhelming majority of the Indian people groaned under feudal oppression. The absence of an anti-feudal democratic revolution in India allowed the feudal classes to remain intact although the princely states were integrated with the Indian Union and the Zamindari system was abolished through legislation.

The feudal forces, whose alliance with the British was total after the 1857 rebellion, were an important force in the Congress party. The demand for land reforms was always opposed by the Zamindars who were also important leaders of the Congress. Even the so-called radical programme of 1931 was only a bourgeois liberal programme calling for lowering of rents, restriction on eviction of tenants by the zamindars, increase in wages etc. In 1936, Nehru declared that land reforms would be implemented but when the Congress party came to power in 8 out of 11 provinces of British India an year later, it did not even pass legislature on land reforms let alone its implementation.

After 1947, the princely states were integrated into the Indian Union and zamindari system was abolished. But the zamindars were paid due compensation and were allowed to resume self-cultivation on their land. The feudal rulers of the native states were accommodated into the new power structure and were allowed to retain most of their royal privileges.

By 1947, 40% of the land in British India was under the zamindari system, 57% under the ryotwari and the rest under Mahalvari system. In the zamindari areas, 70% of the land was in the hands of the zamindars. Even in the Ryotwari areas, 30 to 50% of the land was controlled by the landlords while in the rest of the land, the peasantry was severely indebted and was on the verge of losing the land.

The feudal princes and Nawabs were paid ‘Privy Purses’ amounting to Rs. 5 crore an year. Their lands, palaces and mansions, their bank balances in foreign banks, gold, diamonds etc., were left in their possession. Some of these feudal rulers like the Nizam of Hyderabad, Maharajas of Gwalior, Indore, Baroda etc., invested part of the their income in companies in the form of shares. The zamindars were paid Rs. 670 crores as compensation after zamindari abolition.

The landlords and feudal rulers were least interested in increasing the productivity in agriculture, in improving the inputs and ploughing back the surplus for reinvestment in agriculture. Whatever surplus was generated was used up for their conspicuous consumption on luxury goods or invested in loans or as shares in joint stock companies.

The feudal forces continued to dominate the rural scene inspite of their reduced power and wielded considerable power in the government. Their opposition to land reforms and continuation of feudal oppression kept the vast majority of the rural masses impoverished. As a result, agricultural production was at a low level and manufactured goods had a limited market.

(ii) The stranglehold of imperialist capital on the Indian economy

Foreign capital dominated the industrial sector and pervaded the other sectors at the time of transfer of power.

In 1948, India had Rs. 264 crores worth of foreign capital, three quarters of which was British and was concentrated in mining and processing industries for exports. Almost the entire foreign capital was privately owned. The foreign capital was organised into the managing agency system. Two-thirds of the foreign capital was engaged in traditional activities such as tea and jute (20%) which made up half of Indian exports, trading (17%), construction (12%), electricity and transport (12%) and mining (4%). The other 35% was in manufacturing and petroleum sectors. 2/5ths of the foreign investment in the manufacturing sector was in textiles, food and beverages and only one-third in the new industries, such as transport equipment, machinery, metal products, electrical goods and chemicals.

In jute, foreign control was about 85%, wood and hides 80%, coal and other mining 70%, gold and magnesium mining 100%, inland steamer services 80%, overseas shipping 100%; one-third of India's imports and two-fifths of her exports were handled by foreign firms, more than two-thirds of import and export trade financing was done by the foreign exchange banks, about half of non-life insurance business was in foreign hands (Kidron). Thus foreign capital in 1947 enjoyed a commanding position in the Indian economy. It was well-integrated, flexible and had the ability to mobilise vast amounts of domestic savings as well as resources from outside when necessary.

The British industries in India were controlled by about 80 British managing agencies. Each agency controlled, managed and performed all the banking and investment functions for a wide, diversified range of interested companies with a pyramidical structure. 61 foreign agencies were managing over 600 companies in addition to a number of foreign companies. The commanding position of foreign capital in the Indian economy placed severe constraints on the operations of Indian capital.

Thus the entire development of the Indian economy, given the strength of the various forces in 1947, rested on a compromise between the Indian comprador big-bourgeoisie, the feudal forces and imperialism.

(iii) Lop-sided and a distorted industrial sector

Indian industry had developed only as an appendage to British capital under the British colonial rule. At the time of transfer of power Indian industries were mainly agro-based and repair shops, rice mills, vegetable oil mills and general engineering (mostly repair shops) together constituted more than half of the entire industry. There was no capital goods sector.

The Indian bourgeoisie, originating from trade and banking background had little interest in production. They were more concerned with marketing and trading and considered industrial investment as an adjunct to their trading and banking interests. Their entire growth had been in collaboration with foreign capital and alliance with feudal rulers. Their inability to sever their historical ties with feudal, money-lending and trading activities manifested itself on their industrial activity for a long time. The big bourgeoisie could grow only with the assistance of, and within the limits set by, British imperialism. Thus its money-lending and trading background, subservience to British imperialism and alliance with feudal forces, placed it in a reactionary role vis-a-vis the national interests and people's struggles. It could not lead the anti-feudal, anti-imperialist struggle and compromised with imperialism and feudal forces. As a result, there was no scope of it pursuing a nationalist programme of vigorous industrialisation after the British left.

(iv) Insufficient capital accumulation

The development of capitalism in the west was preceded by a long period of primitive accumulation of capital through various means such as outright colonial robbery, piracy, extortion of the peasantry, wars, trade including slave trade, usury etc. Prior to the advent of the British, as we have seen, there was a considerable accumulation of capital in the hands of the merchants and moneylenders in India. The process of this accumulation was severely affected by the British conquest. Although some of the merchants amassed wealth by turning into compradors for the British, the fact was that the larger share of the Indian cake went to the British. Thus the British conquest acted as a severe constraint on capital accumulation by the bourgeoisie in India. The wealth drained out of India during the 200 years of colonial rule has no parallel in world history. It was one of the major sources for the primitive accumulation of capital by the British bourgeoisie and provided the social basis for the Industrial Revolution and for maintaining the economic supremacy of the British over the world for almost two centuries. Thus at the time of the transfer of power, the Indian big-bourgeoisie faced the problem of scarcity of capital. How to raise the capital for the industrialisation of the country ? There were two ways of doing this: one, by involving the inexhaustible human capital i.e., the vast reservoir of human resources available in the country; to develop industrialisation and agriculture basing on the local resources, technology and needs; the other methods was to depend on foreign aid. The first, of course, requires implementation of land reforms and cooperative farming which would increase the purchasing power of the peasantry and give a boost to industrial production. The most important thing in this model would be to establish more labour-intensive industries based on local technology, resources and needs and calling a halt to the drain of wealth out of the country, i.e., a self-reliant economy. The second model of capital-intensive industry based on foreign capital and technology would require large amounts of capital. It was the second model which was adopted by the Indian big bourgeoisie as it was not ready for any structural reform. To solve the problem of scarcity of capital, dependence on foreign aid, internal borrowings, deficit financing became the norm. Agriculture was neglected in the name of scarcity of capital.

(v) Mass poverty and lack of home market

This feature of post-'47 India is a continuation of the centuries-old problem facing India which was made worse during the period of colonial plunder. As we had seen earlier, the problem of home market, i.e., the demand for goods, had always acted as a severe constraint on the expansion of industry. Due to mass poverty, the purchasing power of the vast majority of the masses was extremely low and did not create a demand for the goods produced by industry.

In 1951, when the figures of the first census are available, per capita net food grain output in India was just 377 grams per day compared to the requirement of 550 grams in rural and 400 grams in urban areas. Official measure of poverty line was first defined in 1960-61. Basing on this, the percentage of people living below poverty line in 1951 was calculated as 47.37% in rural area and 35.46% in urban area. In 1960-61, poverty line was defined as consumption of less than Rs. 20 or below per capita per month in the rural and Rs. 25 in the urban areas which excludes expenditure on housing and education and which can guarantee an intake of 2400 calories along with other private consumptions. In 1961-62 the percentage of people below poverty line was roughly the same as that in 1951 in the rural area but jumped to 43.5% in the urban area. The real figures could be far higher as most of the poor were also heavily indebted and had to pay back the interest plus principal from their meager earnings. In absolute numbers, the official figure of the poor in 1960-61 was a staggering 19 crore and 70 lakhs out of the then total population of about 44 crores.

In such a situation, industrial production had to be confined primarily to satisfy the demand for luxury goods for the rich and for the needs of the world market. Mass poverty itself is the result of feudal relations of production in agriculture as the vast majority of the population-nearly three quarters - were dependent on primitive agriculture and the surplus generated by the majority of the rural producers was sapped by the landlords and the comprador big-bourgeoisie - imperialist combine. It is clear that without bringing about a radical change in land relations, i.e., without implementing radical land reforms based on the slogan of 'land to the tiller', the purchasing power of the majority of the rural population cannot be raised and a home market cannot be created.

This alternative was, infact, proposed by the Planning Commission which stated that such a redistribution of land to the landless and the poor peasants could result in the utilisation of surplus manpower as well as increase the production. This conclusion was drawn based on the farm management surveys conducted during the 1950s. The surveys showed that the small farmers cultivated their holdings more intensively, devoted a greater percentage of their earnings to foodgrains and reaped more output per acre than the large farmers. Thus redistribution of surplus land was expected to raise the productivity per acre through use of intensive family labour thereby increasing the production of foodgrains. The foodgrain production was expected to increase by 50 lakh tonnes per year. A 'note' circulated by V.T. Krishnamachari, the Deputy Chairman of the Planning Commission, cited the Chinese experience and stated that agricultural production could increase to the extent of 40% without increasing investment outlay by extensive utilisation of local resources and labour through the community development and the national extension programmes. But such a programme, obviously, did not find favour with the rural elite. They knew that land reforms and cooperative farming could only weaken their economic, social and political power. They held power in the various state governments as well as in the Ministry of Food and Agriculture and could successfully abort the proposal. A meeting of the state food ministers was convened and it was concluded that increase in foodgrains production was possible without additional investment outlays in agriculture.

The planning commission as well as the Ministry of Agriculture sent their own teams to China to study the agrarian programmes. Both came to the conclusion that radical land reforms and cooperative farming could increase agricultural production. The states reluctantly agreed to organise 2000 cooperatives - a fifth of the number proposed by the planning commission - and to launch the national extension schemes and land reform programmes. But in practice, the ruling classes aborted the implementation of land reforms. As a result, the agricultural production fell drastically. By 1957, production was below the 1953-54 level and prices increased by 50% in just 18 months despite importing 20 lakh tonnes of food grains. Another agreement for importing 40 lakh tonnes of wheat had to be signed in 1957-58. This also resulted in a severe foreign exchange crisis. The comprador big-bourgeoisie which was the dominant partner in the ruling alliance at the centre tried to appease the rural elites who dominated the state governments by downplaying the land reforms programme and instead made attempts to regulate prices blaming that hoarders and speculators were responsible for the price-rise. But the state governments opposed the implementation of price controls and state trading in foodgrains.

As there were neither investment outlays in the agricultural sector nor agrarian reforms, the food grains production fell drastically and by the mid-fifties, the growth rate in population began to exceed the growth rate in food production and the food gap began to widen considerably. Growth of agricultural output began to decelerate from plan to plan. Growth rate during the First Plan was 4.6% per year. It declined to 3.9% in the Second Plan and to a negative one percent in the Third Plan. The poor performance of agriculture restrained the rural demand for industrial goods. The government had to import foodgrains on a massive scale from the late Fifties reaching a peak of about 10 million tonnes in 1966. Most of the foodgrains came from the PL-480 (Public Law-480) agreement with the USA signed in August 1956. In fact, the food imports from the US started in 1951 itself when the Government of India received 2 million tonnes.

Land Reform Hoax

Several resolutions were passed by the Congress party and recommendations made by various commissions for the redistribution of surplus land prior to and after the transfer of power.

The "Congress Land Reforms Committee" under J.C. Kumarappa recommended that 'Land to the tiller' should be implemented, that there should be no intermediaries between the state and the peasant and that pattas should be given to the tenants who are tilling the land for six years at a stretch. Earlier in 1935 itself, Indian National Congress passed a resolution stating that "there is only one way of improving the living conditions of the rural masses... that is cultivator himself becoming the owner of the land without the mediation of zamindar, Talukdars etc., and building a system of paying revenue directly to the government."

Although land ceiling legislations were made in several states during the First Five Year Plan period, most of the land was transferred in the name of the relatives of the landlords and servants and in some cases in the name of dogs. Most of the land could thus be retained by the landlords as 'Benami' transfers. Moreover, exemption was given for plantations like coffee, tea, rubber, fruit orchards, animal husbandry, cane plantations under sugar factories and the land that is being cultivated through modern methods. The landlords declared themselves as self-cultivators and rearranged their relations with the peasants : many evicted their tenants or rotated their tenancies so as to prevent them from exercising their legal tenancy rights. There was hardly any land, which was declared surplus, to be distributed.

Worse still, hardly any records were kept of the tenants who have been tilling the land for years. Most states declared that there were no such records and that there was not much surplus land above that specified in the land ceiling acts. Gujarat, Maharashtra, UP and the Union territory of Delhi declared that 2 crore tenants have now been freed from intermediaries and have direct relations with the state and that 1.7 crore acres have been distributed to these tenants. As the land ceiling laws allowed the zamindars and other landed intermediaries to retain the land for self-cultivation, it led to large-scale eviction of the tenants in the name of self-cultivation. Thus the number of peasants evicted from the land after the introduction of land ceiling acts far surpassed those driven out of land in the previous 100 years. In states such as Andhra Pradesh, Uttar Pradesh, Punjab, Kashmir, Orissa and West Bengal, individual instead of family was taken as a unit for imposing land-ceiling. Using this as a pretext, landlords distributed their land among their family members even to those who were yet to be born or those who were already dead. Thus, in AP, a family could retain 1620 acres in accordance with the land ceiling laws. In Madhya Pradesh, a family could own upto 730 acres and in Punjab 300 acres. A Congress leader like Moopanar was able to retain over 3000 acres in Tamil Nadu even to this day.

The machinery responsible for implementing the land ceiling act was filled with feudal elements or their paid henchmen. Thus in many regions, the land ceiling act remained only in paper. In one district of Bihar three-quarters of the land in about 4000 villages was in the control of a zamindar. The zamindar got himself elected as an MLA and became a member of the Select Committee which was to implement the Zamindari Abolition Act. He even started an organisation called “Kisan Agragami Dal” comprising all his family members, kith and kin and servants. The district administration was totally in his hands.

The Third Five Year Plan (1961-66) declared that 2 crores of tillers received land, that Rs. 670 crores was being planned to be given as compensation to the zamindars and that Rs. 164 crores has already been paid while the rest is being paid in the form of long-term bonds.

The Mahalanobis committee in 1955 declared that 6.2 crore acres were surplus and available for distribution. By the end of 1970, the ‘declared surplus’ was only 24 lakh acres and land distributed was just half of that or 0.3% of the total cultivable land of 40.7 crore acres in India. The land reforms turned out to be a big hoax. This was put most aptly by Prof. M.C. Dantewala, who served in 23 different departments of the central government when he represented India as a delegate at the seminar conducted by UN in 1965 to discuss the implementation of reforms worldwide :

“If you ask me what is the chief characteristic of the land reforms in India, I would say only one answer - that is its non-implementation.”

Wolf Ladejinsky, an American expert in land policy had this to say about the meagre land that was distributed amidst much fanfare : “the quality of some of that land is so poor is not to be worthy of distribution, that an undermined acreage of the distributed land could fall into the category of wasteland. Looking back, the entire ceiling episode was one of evasions of commission and omission.” Later on, in its working paper entitled “Land Reforms” distributed in its annual session in 1974, the World Bank had to admit that : “security of tenure appears in general to have worsened, however, actual rents have not come down. In some states, they have even increased ....unreported casual tenancy and share agreements have multiplied.”

It is clear that the land reforms were not intended to bring about any structural changes in land ownership but were just an eye-wash. Nehru himself said in a speech at the Nagpur session of the Congress held at the end of the Fifties that “though the imposition of ceilings would affect only an infinitesimal minority of landlords, and though its actual practical gains would not be such, the sentimental gains would be tremendous”. It was for these sentimental gains which, in turn, were sought to be converted into political gains, that the ruling classes created a euphoria over the land reform programme.

Consequently, by 1961, the bottom 80% had wealth that was equal to that owned by a mere 5% of the top layer. The Mahalanobis Committee which was constituted in 1960 to study the changes in the living conditions of the people in the two Five Year Plan periods stated in its report submitted in 1964 :

“Although Land Ceiling Acts were made on a large-scale between 1953-54 and 1959-60, there ia no noticeable reduction in inequalities among the people.” Such has been the land reforms hoax under Nehru during the first three Five Year Plans.

Semi-feudal relations thus continued to be dominant in the countryside which narrowed down the market for manufactured consumer goods mainly to the upper classes of the Indian society. Moreover, the lack of any industry worth the name had resulted in overcrowding in the agricultural sector and created surplus rural labourers which further constricted the market.

To sum up, non-implementation of land-reforms, increasing income inequalities and mass poverty, poor performance of the agricultural sector-all these led to a reduction in effective demand for industrial products thereby affecting the pace of industrialisation. This was the single most important factor (and not lack of capital) responsible for the slow pace of industrialisation during this period and which holds good even today. In fact, the percentage of consumer expenditure on industrial products declined between 1952 and 1964, according to Ranjit Sau.

The lack of demand resulted in growing underutilisation of manufacturing capacity and acted as a disincentive to the industrialists to invest. Estimates of excess capacity upto 1966 range from 12% to 75%. The effect of the lack of demand on new investments could be seen in the number of industrial licenses sought by the capitalists. From a high figure of 1900 in 1960, the industrial licenses declined sharply thereafter to 1400, 1100, 974, 786, 530 and 423 over the next six years.

Centralised Planning on a Semi–feudal base : The First Three Five Year Plans

It was on such a semi-feudal base that the Indian big-bourgeoisie drew-up plans for industrialisation of the country and for rebuilding the Indian economy. As we have seen earlier, the bourgeoisie, in alliance with the feudal forces and imperialism, maintained the statusquo in agrarian relations, and consequently, failed to create a home market for consumer goods as the backward production relations tied down the vast majority of the population to subsistence levels. This affected their plans for industrialisation of the country. On the one hand, the narrow home base dissuaded them from investing heavily in consumer goods while on the other, the capital at their disposal was insufficient to start long-term projects that required long gestation periods. Moreover, their greed for quick profit did not allow them to invest in heavy industry or in infrastructural projects. They confined themselves to the same old tradition that has characterised the Indian economy for centuries : production of goods for the upper income segment of the population unmindful of the needs of the majority of the population. They invested more in industries producing luxury goods than goods of mass consumption such as automobiles, two-wheelers, refrigeration, electronic goods, home appliances or chocolates. They also went into speculation and finance as they faced the problem of overproduction even in those initial years of industrialisation. At the same time, the Indian big-bourgeoisie sought to solve the problem of infrastructure and high risk, high-capital heavy industry involving long gestation periods through the public sector by mobilising resources through government taxes and borrowings. Towards this end, a central planning commission was setup to initiate Five Year Plans on the model of the Soviet Union.

Planning in the Soviet Union was proved to be a big success. It was able to eliminate mass poverty and unemployment in a short time through planned development of the economy. Planned Industrialisation in the Soviet Union and later China after the success of the revolutions in these countries was possible only after smashing the feudal relations of production, redistribution of land to the poor and landless and introduction of cooperative farming and freeing the peasantry from indebtedness. As this laid the basis for the development of the productive forces and the creation of a home market by increasing the purchasing power of the masses at large, industry received a boost. Industrialisation in turn helped the development of agriculture increasing the productivity to unheard of levels. While the Soviet Union relied more on heavy industry, the heavily populous China adopted the strategy of walking on two legs i.e., taking agriculture as the base and industry as the leading factor. Emphasis was given to developing agriculture first basing on which industrialisation could develop. In both models, however, the key factor and prerequisite for development has been the liberation of the mass of the peasantry from the clutches of feudal oppression thereby laying the basis for the creation of a huge home market.

In India, on the other hand, the feudal structures were left intact and industrialisation through the Five Year Plans was planned on such a semi-feudal base. They had obvious limitations in the form of effective demand and even on mobilisation of capital and resources. The human factor was completely absent. There was no involvement of the people in rebuilding the society as in the Soviet Union and China. The planned development therefore became lop-sided and distorted development in the Indian context. Moreover, the development was based on western model, western technology and capital and was divorced from the Indian realities. There were no innovations or local adoptations of borrowed technology. This resulted in high production costs of many industrial goods, besides draining resources out of the country.

In fact, there are differing viewpoints on the development strategy to be adopted in post-1947 India: at one extreme was the free enterprise school proposed by Rajagopalachari's Swatantra Party while the communists advocated a basic change in the institutional setup. The first school campaigned for non-participation of the government in productive enterprises; non-interference of the government in private investment, production and marketing decisions barring health and safety; and moderate levels of taxation only to meet the requirements of administration and defence. The free enterprise school did not find favour with the Indian big bourgeoisie, which due to its inherent weakness, was in need of state help for their faster growth. They knew that free and unbridled competition would not allow them to grow given the strength of their foreign counterparts.

As in all erstwhile colonies, in India too, the capitalist class relied on manipulation of the political apparatus rather than on free market to further its class interests. It was dependent on exchanging individual concessions from the license-permit raj by supporting the ruling party.

Among the other important plans proposed were :

(i) the draft plan of the National Planning Committee chaired by Nehru which was formulated as early as 1938

(ii) the Bombay Plan or Tata-Birla plan of 1944

(iii) people's plan of M.N. Roy

(iv) Gandhian Plan of Srimannarayan

The targets and allocations to various sectors by those plans can be seen in Table No. 5.

The Gandhian Plan comprised village self-sufficiency, decentralised production in small units, austerity and trusteeship. It considers controls as leading to competition.

The most important of these plans was the Bombay Plan the first part of which appeared in the form of "A Brief Memorandum outlining a plan of economic development for India" in January 1944 and the second part in December of the same year. The authors of this 15-year plan were Sir Purushotham das Thalukdar, Sir J.R.D. Tata, G.D. Birla, Sir Ardeshir Dalal, Sir Shri Ram, Kasturbhai Lalbhai, A.D. Shroff and John Mathai. Ardeshir Dalal, M.D of TISCO, was appointed a member of the viceroy's executive council and placed incharge of the new planning and development department of the Government of India. The Bombay Plan recognised the need for state intervention and control in the economy, state ownership and management of basic industries, public utility etc. It visualised a "mixed economy" i.e., the existence of both private and public sectors, the latter helping the growth of the power. Advocating for a strong, centralised state, it stated that "practicing every aspect of economic life will have to be so rigorously controlled by government that individual liberty and freedom of enterprise will suffer a temporary eclipse." The plan also stressed the need for imperialist assistance for capital goods, technology and loan capital. The Bombay Plan became the model for India's Five Year Plans. H.V.R. Iyengar, the joint secretary, Department of Planning and Development in 1944-46 and later the governor of the Reserve Bank of India, himself stated that the Bombay Plan was the inspiration for the Planning Commission.

"It is all there in the Bombay Plan - the concept of massive state intervention in the economy, of a mixed private and public sector enterprise, the emphasis on heavy industry, the need for foreign capital and need for deficit financing. Indeed, there seems little difference between the basic approach of the Bombay Plan and the approach of the Planning Commission of the Government of India and it would by no means be far-fetched to say that the Planning Commission actually got its inspiration from the Bombay Plan."

It is this 'mixed economy' package conceived by Tatas and Birlas that Nehru branded about as "socialist" and applauded by the revisionist CPI, CPI(M) and other so-called left parties which hail the public sector and the Five Year Plans as progressive.

Infact, it was the colonial government itself which underscored the need for government intervention and control in the economy as well as the need for a public sector.

As early as 1942, two Representatives of the British War cabinet, Cripps and Belin proposed a plan underscoring the need for a mixed economy for India. The plan appeared even more progressive than the Congress plan of Nehru. It called for encouraging the development of agriculture and for setting up industries jointly by private and state capital; thus the plan for British India proposed by the colonial masters was even more "progressive" and "socialist" than Nehru's plan for post-British India !!

The "Statement of Industrial Policy" issued by the Government of India's Planning and Development Department in April 1955 declared that "in future government should play an active part in the industrial development of the country" and that it should bring under the control of the central government twenty industries of 'vital importance to the country's development' and even nationalise them "provided adequate private capital is not forthcoming", and that the government "must have power to license industrial undertakings." The Viceroy's Executive Council adopted the following resolution : "Apart from ordinance factories, public utilities and railways, basic industries of national importance will be nationalised if adequate private capital is not forthcoming, and if it is regarded as essential in the national interests to promote such industries. For the purpose of Government policy basic industries can be defined as including aircraft, automobiles and tractors, chemicals and dyes, iron and steel, prime movers, transport vehicles, electric machinery, machine tools, electrochemical and non-ferrous metal industries."

Ardeshir Dalal stated that "the objectives of the government plan and the Bombay Plan are the same."

A.M. Hanson, in his book "The Process of planning; A study of India's Five-Year Plan 1950-64" wrote that “There is really very little to distinguish this statement of intentions [Statement of Industrial Policy of April 1945] from the Industrial Policy Resolutions of 1948 and 1956; and it might equally well have guided the actual practice, in matters of industrial development, of the government of independent India.

From the above, it is clear that the entire process of planning in India was in accordance with the needs of the Indian comprador-big bourgeoisie and their imperialist mentors and its socialistic jargon was a mask to dupe the masses and winover the left sections.

The theoretical framework for the centralised planning and state interests was provided by Keynes who advocated the decisive role of the state in economic development. Keynesian economics laid emphasis on state providing and creating effective demand through public spending and creating employment opportunities and ensuring minimum wages which would increase demand for industrial goods. The fund-starved governments, according to the Keynesian model, could resort to massive deficit financing to meet its requirements. Keynesian theory was meant to bring crisis-ridden western economies out of the crisis of overproduction (recession) by creating effective demand. Unemployment doles, huge state subsidies on education, health and other social welfare programmes were initiated in the capitalist countries along with nationalisation of important industries. These states were christened as “welfare states.” In India, the massive deficit financing by the state was advocated by the bourgeoisie and the imperialists not for improving the lot of the masses but for financing their own industries. The Bombay Plan proposed deficit financing to the tune of Rs. 3,400 crores out of the total plan expenditure of Rs. 10,000 crore or about 34% to help the capitalists to setup industries.

Main Features of IPR, 1948

The main features of the I.P.R., 1948 :

1. Classification of Industries. The industries were divided into four groups :

(a) The first category of industries consisting of the manufacture of arms and ammunition, the production and control of atomic energy and the ownership and management of railway transport, were exclusive monopoly of the central government.

(b) The second category of industries consisting of coal, iron and steel, aircraft manufacture, ship building, etc., could henceforth be undertaken only by the state, though the existing private units were allowed to continue.

(c) The third category was made up of industries of such basic importance that the central government would feel it necessary to plan and regulate them. It comprised some basic industries of importance including salt, automobiles, heavy machine tools, heavy chemicals, fertilisers, etc.

(d) The fourth category comprising the `remainder of the industrial field' was left open to private enterprise.

2. Foreign Capital. The I.P.R., 1948 recognized the need of foreign capital and enterprise to speed up the pace of industrialisation of the economy. The importance of foreign industrial techniques and knowhow was specially emphasised. However, it was laid down that as a rule the major interest in ownership and effective control should always be in Indian hands and that facilities be provided in foreign concerns to train Indians so that they could eventually take independent control themselves.

In 1956, at the start of the second Five Year Plan, IPR 1948 was replaced by a new IPR.

Main Features of IPR, 1956

1. The new classification of industries. The IPR 1956 classified industries into three categories having regard to the role which the state would play in each. These three were as follows :

(a) Schedule A. Exclusive responsibility of the state. This includes seventeen industries, mostly public utilities, basic and strategic industries and essential services requiring heavy investments.

(b) Schedule B. Progressively state-owned. It lists twelve industries and includes such industries as machine tools, antibiotics, sea transport, etc.

(c) Schedule C. Other Industries. Industries falling outside the Schedules A and B are included in this schedule. These industries are left open for the private enterprise : but private enterprise is subject to the control and regulation of the state.

Apart from the above, proposals were placed to create facilities such as power, water, transport etc.

in backward areas in order to encourage the development of industries in thes areas. By this regional disparities were sought to be removed. There were also proposals for the development of the technical and managerial cadres and personnel at supervisory levels; direct subsidies to cottage and small scale industries and restricting the production in the large scale industries.

The Essence of these industrial resolutions :

It is claimed by the so-called left and democratic sections and individuals that the Industrial Policy Resolutions of 1948 and 1956 were progressive and had a socialistic content. And that by placing the public sector has the commanding heights of the economy, the role of the private capitalists was being drastically restricted. Revisionist CPI, CPI(M) while praising these government policies, propagated that nationalisation of industries and banks and setting up public sector units itself meant socialistic pattern of development. Nationalisation of every sector became their war cry and believed that it would alleviate poverty and reduce the share of surplus value going to the big capitalists. There was a wide-spread myth that the Indian state was acting in favour of the poor and was reducing the sphere of exploitation by the private capitalists.

But whose interests were actually served by these Industry Policy Resolutions that gave the principal role in the economy to the public sector? Is there any difference as regards class interests between these and the new Industry Policy Resolution of 1991 that aggressively advocated public sector disinvestment and privatisation? A deeper analysis would show that all these policy resolutions whether they advocate nationalisation or privatisation; the various five year plans eversince the transfer of power; and the entire public sector are only meant to serve the comprador big bourgeoisie and imperialist interests. Whatever changes have taken place in these policies over time only reflect the changing needs of the compradors and imperialists.

In the initial years after the transfer of power, as the Indian bourgeoisie was incapable, as well as unwilling, to invest in infrastructure as well as heavily capital-intensive industries which they badly needed, the state took the lead. Thus high-risk, long-jestation projects and those that required heavy capital investment were brought under the public sector by the Indian bourgeiosie. This was originally laid out in the Bombay Plan (Tata-Birla Plan) of 1944 itself. This was even called by some as a fascist plan since it sought to utilise the chief infrastructure as well as products of heavy industry set up by the state through mobilisation of resources from the people. Thus the strategy adopted in the five year plans was to develop the capital goods sector which was virtually non-existent in 1951 as well as the necessary infrastructure like transport, communication, power and other public utilities.

Public investment in these sectors was also expected to expand the domestic market for the capitalists without going in for land re-distribution.

By ensuring the development of the infrastructure and the capital goods industries (i.e. machine manufacturing industries) through the state sector, it became profitable for the bourgeoisie to setup consumer goods industries at low production costs and earn massive profits. The public sector only served the private sector.

The public sector plan outlays were financed through four main sources. 1. Additional taxation, 2. Internal borrowings, 3. Deficit financing, 4. Foreign aid. During the second and third plans, deficit financing and foreign aid together accounted for as much as 43% of total plan outlays. All these sources of finance only squeezed the vast masses while leaving the wealthy untouched. Moreover, the benefits accruing from the plans went to the rich. The share of the indirect taxes in total tax revenue, for instance, which was 58.8% in 1953-55, went upto 70.7% in 1966-68.

Deficit financing also led to the printing of more money by the RBI as it was forced to lend to the union government against short-or long-term government securities. This led to high inflation again reducing the real wages i.e. the purchasing power of the masses. Thus while the majority of people became pauperized and had to cut back on their consumption expenditure on even essential items, the wealthy used the bulk of the surplus value in luxury consumption and unproductive investment.

Productive investment by the public sector was thus sought to be raised at the expense of people's consumption thereby ultimately leading to the stagnation in the home market. In fact, the poorest section of the people are the most affected by the indirect taxation. According to the Indirect Taxation Enquiry Committee Report, as much as 55% of the total indirect tax revenue in India in 1973-74 was paid, directly or indirectly, by households with a monthly per capital expenditure of Rs. 100 or less.

The state sector should be seen as only complementary to the growth of the private sector. The main role of the state has been to increase the share of the surplus value going to the big bourgeoisie and helping the latter to accumulate more capital. While helping the private sector by supplying goods and services at a cheap price, the public sector has also intervened whenever private capital was in trouble. Such as taking over sick private units as seen in the case of the take over sick textiles mills by the National Textile Corporation. The public sector also left out the most profitable sectors to private capital taking up only areas unattractive for the private sector. The loses of the public sector are thus actually due to massive transfers of the profits to the private sector.

The First Plan (1951-56) allocated 38.9% to the public sector while the same increased to 55.8% in the Second Plan (1956-61) and to 63.1% in the Third Plan (1961-66). See Table No. 6 for the allocation to different sectors in the various Plans. Thus we find that what the government did through the centralised planning and making public sector the "commanding heights of the Indian Economy" was to provide basic infrastructure to the capitalist class totally at people's cost and to handover capital goods and products of basic industry at dirt cheap prices which is the chief cause for losses in the public sector.

Reliance on Foreign Aid

The entire model of industrial development envisaged by the comprador Indian rulers was heavily dependent on foreign "aid" in the form of foreign capital, technology, machinery and loans and grants. The alliance between the Indian comprador big bourgeoisie and imperialism that was struck at the time of the transfer of power in 1947 guaranteed unhindered profits for foreign capital and laid the basis for above cooperation between Indian and foreign capital in establishing industries in the country. In fact, as early as January 1945, British Secretary of State, Amery wrote to Viceroy Wavell :

"United Kingdom business interests fully accept that their future in India lies in cooperation with Indians. They are anxious to assist India's industrial expansion which they believe will, if properly organised, carry the hope of considerable profits to themselves as well as to Indians by expanding the market in India for United Kingdom goods.... United Kingdom businessmen are.... at present extremely disposed towards India's industrial ambitions.... I believe that there are a number of negotiations going on between United Kingdom and Indian commercial interests for the establishment of joint enterprises in India."

A memorandum circulated by the Federation of British Industries among its members stated :

"United Kingdom firms may also find it desirable, in view of the rapidly changing circumstances in India, to manufacture in India those items which can economically be made there and which, otherwise, would be manufactured in any event by Indian concern, probably under American or Continental guidance.... This movement towards local manufacture as a necessary adjunct to the retention of the market for as wide a range as possible of a manufacturer's production has developed rapidly during the past ten years, partly as a profitable investment per se, but mainly as the only means of maintaining and expanding a firm's trade in its staple, higher grade items imported from the United Kingdom and of guiding domestic production in the interest of both countries....

"The advantages of an alliance with Indian capital, influence and enterprise are self-evident."

The American, French and other imperialists too adopted the same strategy of establishing local manufacture in India either on their own, where they can, or in collaboration with the Indian capitalists. Thus a new phase of exploitation, the neo-colonial phase of exploitation, began in post -British India in place of the old.

A period of collaboration between the Indian compradors and their foreign capital in setting up joint venture in consumer goods industries as well as capital goods industries began after 1947. This is a new development, a new phase in the international division of labour in place of the old where India had been a market for the industrial needs. Under the new dispensation, guidance and overall control would be in the hands of the transnational corporations of the imperialist countries.

Bombay Plan as well as Nehru's Plan envisaged the need for foreign capital and technology for the industrialisation of India. As early as July 1948, Nehru declared :

"Since rapid progress of the new state required capital and trained personnel, any national government will welcome the cooperation of advanced countries, especially America, in supplying capital goods and experts."

The First Five Year Plan stated :

"In securing rapid industrial development under present conditions, foreign capital has an important role to play. A free flow of foreign capital should be welcome because it will ensure the supply of capital goods and of technical know-how."

It further said : "It is of the highest importance to ensure to the foreign investor the prospects of a fairly good return and the certainty of fair and equitable treatment."

As regards joint ventures the first plan stated that "The system of joint enterprises under which a number of foreign concerns have established new industries in collaboration with Indian industrialists appears to be suitable for securing the employment of equity capital".

In the First Five Year Plan, the foreign aid component of the total plan outlay was 9% of the total while it increased (see Table 7). As both the private and public sectors in India depended heavily on the imperialists for the import of machinery, components, spare parts, industrial raw material, technology and loans, a foreign exchange crisis erupted. The import content of new investment remained more than 60% throughout the Third Plan period. The dependence on external alliance grew to such an extent that for the first two years of the Third Five Year Plan atleast, even repayment obligation had to be discharged from the proceeds of new borrowings from abroad.

At the time of transfer of power, India was not a net debtor in the international money market. As on 31st March, 1948 it had a sterling balance of Rs. 161.2 crore.

But in the same year World Bank loan was taken for the modernisation of Indian railways. The loan was accompanied by technical and other advisors. By 31st March 1951, India's outstanding debt was around Rs. 49.8 crores. What was more serious than this indebtedness was the adoption of technologies as dictated by imperialism with the least concern for the local needs and resources.

For instance, diesel locomotives were introduced in place of the steam engines in the railways thereby switching over from coal-based to petroleum-based technology. Similar technological transformation was witnessed in the fields of fertiliser production, electricity generation etc. All this inspite of the fact that we had shortage of petroleum but self-sufficient in coal. This was the basis for continued deficit in balance of trade. To meet the foreign exchange commitments arising due to trade deficit, foreign loans were taken which in turn required additional foreign exchange in future on account of debt servicing. More foreign loans were thus taken to meet debt-service obligations.

Increasing trade deficit - increasing foreign debt - increasing debt servicing - further increase in foreign debt and Balance of Payment crisis - such has been the vicious circle of debt the country had landed into due to the distorted pattern of planned development.

Yet, during the Nehru years, "Foreign Aid" was projected as the kingpin of development strategy. The 'grant' component of foreign aid dominated in the early years of planning and later, as India moved into the debt trap of the imperialists, loans became dominant upto the end of the Second Five Year Plan, grants constituted 34.8% of total foreign assistance. By the end of the Third Plan, it came down to 7.5%

The trade deficit increased from 42 crore in 1950-51 to Rs. 100 crore in 1960-61.

After 1947, while British capital in India began to decline sharply, the American investments grew rapidly. The US investments in India increased ten-fold in one decade from Rs. 40 crore in 1958 to Rs. 400 crore in 1965; its share in total foreign investment rose form 9% to 25% while the share of British investment fell to one-half from 82% to 42%. The growth of German and Japanese investment was more spectacular than that of the US capital but starting form a small base in 1955 their shares remained less than one-tenth in 1968. In the mid-Sixties, foreign MNCs directly controlled 18% of the corporate assets surveyed by the Industrial Licensing Committee. The Licensing Committee reported that there were 112 big (Indian and foreign) companies in 1966, each with assets of Rs. 10 crores and above. Of these 48 were either foreign branches or Indian subsidiaries of foreign companies. In addition, 14 Indian companies had extremely heavy foreign loans and equity capital and, therefore, were virtually foreign-controlled. These 62 companies have Rs. 1,370 crores worth of assets, which constituted 54% of the total assets of India's corporate sector. Moreover, many Indian companies had foreign technical collaborations and were entirely dependent on foreign firms, which were transferring technology in exchange of equity ownership as well as creating a captive market for their machinery and spare parts. International financial agencies too exercised tight control over several firms. Thus in the mid-Sixties, western foreign capital dominated the country's industry. Based on technological superiority and financial clout, western capital played a decisive role in shaping the economic policies of the Indian government particularly at critical junctures when the Indian economy faced severe crisis. The sharp deterioration in Balance of Payments in 1958, the border wars of 1962 and 1965 and the severe food shortage culminating in the unprecedented food crisis in 1966 provided ample opportunities for the western capital to regain the position earlier occupied by British prior to 1947. Thus India was transformed from a British colony to a semi-colony dominated by several imperialist powers after 1947.

Soviet Capital :

In sharp contrast to the operation of western capital, the growth of Soviet Union's influence was through loans and collaborations. The Soviet Union and East European countries provided aid to state enterprises and supplied defence equipment. Though their support created some room for manoeuvre to the Indian ruling classes vis-a-vis western capital, it could not prevent the growing domination of the latter. Soviet capital was mainly concentrated in the public sector, defence and crude oil extraction. This was not out of any inclination of the Indian ruling classes towards the Soviet Union but because the western aid agencies and credit investment did not extend support to the public sector initially. For example in 1959 India had rejected the Soviet arms offer in favour of the more costly American and British firms. It was only when the latter did not materialise that they went into the establishment of a jet factory with Soviet aid. In fact, in several other industries where western capital was interested to enter, Soviet Union was not allowed. In 1956, for instance, Soviet Union offered liberal credit and technical expertise to the public sector pharmaceuticals industry. But the American firm, Merck, succeeded in barring Soviet Union's entry. Instead, a collaboration agreement was signed between Hidustan Automobiles and Merck under which production costs were almost double those of the Russian proposals - Rs. 267 a kg. of Streptomycin compared to Rs. 157. Likewise, the Soviet Union was denied involvement in the steel projects of Rourkela and Durgapur, were refused entry into the chemical and raw film industries and so on.

Initially, until the foreign exchange crisis of 1958, the ruling classes of India, despite their overall subordination to western capital, could take the help of Soviet Union in making some bargains and get concessions from the west. A trade pact was signed with the Soviet Union in 1953 for the first time. In 1955, an agreement was signed for a thousand tonne steel plant in Bhilai. Soviet Union also supplied equipment for coal and oil drilling and offered to undertake oil prospecting on a large scale, supply of 200 oil technicians and training facilities for Indians, manufacture of heavy machinery, coal mining equipment, fertiliser plants and an oil refinery in 1957. They also setup pharmaceuticals projects in UP, AP and Kerala a thermal power plant in Tamil Nadu, an oil refinery in Bihar, a glass project in West Bengal and so on. By the end of December 1957 the total Soviet assistance to India amounted to about $270 million, making it one of the largest donors to India. East European countries too offered Rs. 437 crores in rupee-payable loans. Trade between India and the Soviet bloc countries also increased from Rs. 11 crores in 1954 to Rs. 233 crores in 1963-64. The State Trading Corporation was set up in 1956 to oversee the growing volume of trade. Though most of the aid from the Soviet bloc countries was directed towards the public sector, there were also some collaboration agreements with the private Indian firms. For instance, it sold eqipment on deferred payment terms to Birala's Hindustan Gas Co. Ltd. Soviet Union entered where India failed to negotiate western loans on acceptable terms and conditions. It tried to dominate India's weapon trade in the mid Fifties but west acquired most of the... orders.

The manoeuverability of the Indian ruling classes was seen in the case of petroleum. Until 1956 American, Dutch and British companies dominated petroleum production and supply making the regulation of petroleum prices an impossible task. In 1956, the government initiated intensive oil prospecting programme with the help of Soviet and Rumanian experts, equipment and credit. The Soviet Union also offered crude oil prices at 15.25% below those prevailing in 1959 which made it possible for the Indian government to bargain with the private oil companies on reducing the oil prices. But after the severe crisis in 1960, the Government of India had to yield to the pressure of World Bank and Aid India Club whom it approached for credit and far-reaching concessions were given to the US oil company Shell.

Indian big bourgeoisie invited Soviet capital for the development of the public sector as it only helped the expansion of the private sector. Moreover it helped win over the so-called left and waterdown the TU movement.

American capital :

If Soviet capital fulfilled the requirements of the public sector, the American capital became extended to the private sector especially after the serious crisis of 1958. When the Government of India asked the US and the World Bank for assistance to meet her trade deficit, US declined to give loans and grants and offered conditional help based on licensing for investment arrangements for mutual profit between US and Indian private enterprises. Eugene Black, chairman of the World Bank in his letter to Krishnamachari, wrote in March 1957 :

"India's interest lies in giving private enterprise, both Indian and foreign, every encouragement to make its maximum contribution to the development of the economy particularly in the industrial field. While I recognise that the Government of India itself must play an important role in India's economimc development, I have the distinct impression that the potentialities of private enterprise are commonly underestimated in India and that its operations are subjected to unnecessary restrictions there.... We feel that we would have to consider the pace and scale of our further loan operation in India from time to time in the light of economic conditions and propects and taking into consideration the economic policies by your Government."

Under pressure from World Bank, the government abandoned the "51 per cent rule" i.e. majority Indian ownership of joint ventures, signed a convertibility agreement with the US providing for .. in dollars, permitted a permanent World Bank mission in New Delhi, made several tax concessions to foreign firms affecting salaries, wealth tax and super tax and invited foreign firms to take up the more profitable parts of state-reserved industries. Aid India Club - a creditors' consortium- was set up. And India got the first large injection of credit, more than $600 million from the US, West Germany, Britain, Japan, the World Bank and IMF. In addition the US signed an agreement on 18 March 1959, whereby India was to receive a wheat loan to the extent of $1.5 million to help finance fourteen river valley projects, bringing the total US aid for India's development projects, since 1947, to $1.6 billion. Thereafter the influence of western capital has steadily increased.

Private foreign capital significantly expanded its operation in India, particularly in manufacturing. The share of manufacturing sector in the total foreign capital increased from 28% in 1948 to 38% in 1966. The expansion was significant in food, transport equipment, machinery and machine tools, metals and metal products and chemicals and allied products which consisted of newer, technologically complex and patent-protected industries with large, uncontrolled profit margins. Hindustan Lever, Bata Shoe Company, Dunlop, Firestone, Swedish Match Company etc. acquired key positions in their sectors. The western MNCs acquired dominating, oligopolistic positions in these newer, technology-intensive and patent-protected industries such as food processing (Hindustan Lever, Britannia Biscuits), Cosmetics (Ponds, Colgate Palmolive), drugs and pharmaceuticals, synthetic fibres (Imperial Chemical Industries) and electronic and engineering industries.

To sumup the developments in this phase of Indian economy; the Indian comprador big bourgeoisie after acquiring state power in 1947 in alliance with imperialism and the feudal forces embarked on a path of industrialisation based on centralised planning under state control and supervision without dismantling the semi-feudal structures. Its promise of land reforms proved to be a big hoax and agriculture as a whole was totally neglected with hardly any fresh government investment outlays. In the initial stages, Soviet and East European capital came on a considerable scale for the development of the public sector. But as the economic crisis deepened in the later half of the 1950s and especially after the foreign exchange crisis of 1958, American capital began to dominate the economy. Indian bourgeoisie entered into foreign collaborations with the American and other western capital in a big way from the later half of the Fifties and the Indian ruling classes exhibited a decisive tilt towards US imperialism depending on it even for the import of foodgrains. The semi-feudal colonial economy of the pre-1947 period become transformed into semi-feudal, semi-colonial economy dominated by several imperialist powers. The lofty objective of rapid industrialisation as declared by the Three Five Year Plans and the various Industrial Policy Resolutions floundered resulting in massive underutilisation of industrial capacity due to lack of effective demand owing to low purchasing power of the vast majority of the people who are tied down to the land in semi-feudal bondage.

By 1966 (end of the Third Plan), the Indian economy as well as the society and polity was caught in their deepest crisis after the transfer of power.

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CHAPTER-X

1966 – 1969 : THE CRISIS YEARS
Naxalbari & Green Revolution

By 1966, after the completion of the Three Five Year Plans, Indian economy was in shambles. Every sector was affected by the crisis : industry faced severe crisis of realisation of its products and most industries were running well below their installed capacities or closing down retrenching lakhs of workers; agriculture was stagnant and there was a sharp decline in foodgrains production due to successive droughts; trade deficits were high and there was a severe Balance of Payment crisis. No new funds were forthcoming unless the Government of India implemented the conditions imposed by the World Bank and the imperialists. Two wars - one with China in 1962 and the other with Pakistan in 1965 - led to severe resource crunch and high inflation. At this point, the World Bank applied pressure on the Government of India to reorient its strategy to suit the new requirements of international capital, particularly US capital.

The World Bank, in fact, had been pressing India to reduce investment in public sector and increase allocations to agriculture. It was only from 1965 when the country was reeling under severe food crisis that the World Bank could succeed in pursuing ahead with its new agricultural policy in India.

The World Bank along with the US AID presented a package of economic reforms to the Indian government as the condition for substantial inflows of aid. The World Bank's objectives were :

1. To get the Indian government to reorient its national priorities in favour of agriculture and thereby create demand for chemical fertilisers and other agricultural inputs supplied by multinational corporations.

2. To get industrial licensing and controls (including import controls) liberalised for allowing a greater role to private capital.

3. To force a devaluation of the rupee to increase foreign investors' command over Indian resources.

The interests of the World Bank coincided with the interests of the landlords in the country. Both insisted on greater allocations of funds to agriculture and opposed land reforms. The World Bank sent the Economic Mission, known as the Bell Mission to India in 1965 which emphasised Intensive Area Development Programme (IADP) and played down structural reforms in rural areas. The essential features of the new agricultural strategy were : A reorientation of overall investment priorities toward agriculture; incentive prices at levels high enough to guarantee profitability to individual farmers using the most advanced techniques; and concentration of modern inputs-seeds, pesticides, power and fertilisers- in areas with assured irrigation.

These required a huge foreign exchange for imports of modern inputs, especially chemical fertilisers. The foreign exchange component of the new agri-strategy for the proposed Fourth Plan period (1966-71) was Rs. 1,114 crores as against the total amount of Rs. 191 crores allocated to agriculture during the Third Plan period.

The second objective of the World Bank- import liberalisation and liberalisation of industrial licensing - was accepted by the Government of India without a whimper. The World Bank and the USAID argued that liberalisation of imports would lead to an increase in capacity utilisation of industries generating an additional output of $1 billion. The government liberalised the terms and conditions for the import of foreign capital especially in the fertiliser industry. Any foreign company signing a contract before 31 March 1967, would enjoy the freedom to set its own prices and establish its own distribution apparatus for a period of seven years; subject to the qualification that the Indian collaborator would have majority control over equity, and the government would enjoy the option to buy 30 per cent of the annual coutput at negotiated prices. The Birlas, Tatas, Standard Oil, Philips Petroleum, American International Oil Company, etc. expressed interest in participating in the new fertiliser projects. Foreign companies, however, wanted majority control.

Shastri's government had conceded the private sector and MNCs a right to entry into areas hitherto reserved for the public sector; the new agricultural strategy was formally accepted; and the ambitious Fourth Plan was abandoned. The demand for devaluation of the rupee by the World Bank and the US was accepted by Indira Gandhi who became the Prime Minister after Shastri's death. On 6 June 1966, the value of the dollar was raised from Rs. 4.80 to Rs. 7.50 and within 10 days of this announcement the US resumed economic aid to India. At one stroke, devaluation enhanced the value of foreign investment in India without requiring additional funds from abroad. Foreign official liabilities were upvalued by about 35% (from Rs. 4,256 crores to Rs. 5,707 crores) and foreign private loans by 40% (from 577 crores to Rs. 780 crores). The value of FDI which was in the form of fixed assets mostly dominated in rupees, was enhanced by about 5%. Thus the rupee burden of the then existing foreign investment in India increased by Rs. 1692. 6 crores. The devaluation also attracted fresh flows of foreign capital into India. It helped foreign capital to tighten its grip on the Indian economy. Based on expectation of foreign aid from the World Bank and the US on account of the devaluation, the Planning Commission proposed a new draft outline of the Fifth Plan in August 1966. The foreign aid component was $8.5 billion; $7.5 billion from the west and $1 billion from the Soviet Union. The Indian big bourgeoisie welcomed the resolution and pressed for the complete dismantling of government regulations and controls over the economy. The FICCI called for scaling down the Plan's public outlay from Rs. 16,000 crores to Rs. 10,500 crores and urged the government to leave industrial development to the private sector in cooperation with foreign capital. There was opposition to the plan both from the Indian and foreign capital. The draft outline of the Fourth Plan was scrapped and there was a three-year plan holiday from 1966 to 69. During the annual plan funds were drastically cut for community development, panchayats, transport, irrigation and flood control. But funds were allotted for importing high-yielding variety (HYV) seeds from Mexico and fertilisers from the US and credit incentives were provided to farmers to sink private tubewells at the rate of 70,000 annually. Between 1965 and 1968, imports for the modern agricultural sector as a proportion of the total import bill increased from less than 3% to more than 10%. The much-promised foreign aid, mainly the US aid, was not forthcoming as the US was too preoccupied with the war in Vietnam.

The shrinkage of tax revenue, increase in non-plan expenditure and shortfall of foreign aid had a depressing effect on investment which declined from 18.4% of the national income in 1966-67 to 13.9% in 1968-69. Compared to the 1966 version of the Fourth Plan Draft outline which provided public outlay of Rs. 16,000 crores, the March 1969 version reduced outlays to Rs. 14,398 crores despite a 30% increase in WPI between 1966 and 1969 i.e. the original Fourth Plan's outlays were slashed by about one-third. It was the public sector industry which bore the main brunt. The role of the private sector expanded which received a wide range of concession; forty-one industries were exempted from licensing provisions and basic controls on all commodities (with the exception of drugs, kerosene and vegetable oil) were lifted. The proportion of investment in the public sector to total investment declined from 0.63 in the Third Plan to 0.50 in the Fourth Plan. The final version of the Fourth Plan fell in line with the proposals of the World Bank and FICCI. The Planning Commission was divested of its decision-making authority and reduced to an 'advisory' body.

Until 1965 the state turned out to be the single biggest capitalist in the country, with a 60% share of the investment made in the public sector. The state created industrial infrastructure and provided the capitalists with risk-free source of capital by undertaking all the nonprofitable investment in basic and infrastructure industries and supplied most of the products at administered prices to private industries.

The economic crisis also spilled over to other spheres after 1966. The balance of political power also changed. Upto 1966 the Congress party controlled the central government as well as every state government. The 1967 elections revealed a dramatic decline in public support for the Congress. It lost control of nine states to opposition coalitions and found its strength drastically reduced in parliament.

Unemployment and mass poverty peaked in 1966-67. The backlog of unemployment increased from 50 lakhs in 1956 to one crore in 1966, with a similar growth in underemployment. The percentage of population below poverty line in rural area increased from 45.40% in 1960-61 to 64.30 in 1966-67 and in the urban area from 44.65% to 52.24% in the same period. Prices of essential commodities rose steeply. All this created a social explosion. Food riots swept the urban areas. Anti-price rise agitations took place in several parts of the country and most important of all the restless peasantry took up arms against the feudal forces as well as against the state which came in support of the landlords. Agrarian revolts broke out in over ten states in the country.

Green Revolution

The objective of the Green Revolution were two-fold; one to serve as an alternative to the red revolution unfolding in the vast rural tracts of India in the later half of the Sixties; and two, to provide a captive market to the imperialist goods like agricultural machinery, chemical fertilisers, pesticides, HYV seeds etc. which were glutting the market. It was these two imperatives before the Indian comprador big bourgeoisie -feudal forces and the imperialist MNCs that brought it into the agenda by 1965-66.

The severest food crisis in 1966 following a two-year consecutive drought placed the very legitimacy of the system and the ruling party in crisis as witnessed by the brewing unrest and the defeat of the Congress party in nine states.

Several rural schemes preceded the Green Revolution strategy right from the time of the transfer of power as an alternative to radical land reforms. The World Bank and US imperialists made attempts to push through community development programme from 1948 itself.

A pilot project covering 64 villages was first taken up in 1948 in Etawah in Uttar Pradesh by Albert Mayer, an American architect and town planner. Nehru expected it to serve "as a model for meeting the revolutionary threats from left-wing and communist peasant movements demanding basic social reforms in agriculture." With US financial and technical assistance it soon became the model for an all-India programme. The community development programme, it was claimed, would bring about an all-round development of the villages in India through mutual co-operation and self-help of the villages themselves through land reclamation, irrigation, farm management, crop protection, application of scientific methods of cultivation like the use of improved seeds, chemical fertilisers, pesticides and better agricultural implements as well as improvement in health and education, social welfare, road construction, formation of cooperative societies and so on - everything except land redistribution.

The entire community development programme was initiated and guided by American imperialists. The Ford and Rockfeller Foundations, the USAID (United States Agency for International Development) and the US Department of Agriculture etc., provided funds for the implementation of the programme. A national extension scheme was created under the Community Development Programme. The Ford Foundation trained around 50,000 extension workers for the community projects. The US land-grant universities and the Rockfeller foundation were invited by the Government of India to render help in setting up Indian agricultural universities and agricultural research stations. Institutes like the Indian Statistical Institute, the National Council of Applied Economics (NCAER), the Delhi School of Economics and the Gokhale Institute in Pune worked in collaboration with the Massachusetts Institute of Technology in the US and were provided funds by the Ford Foundation.

As the status quo was not disturbed in the realm of agrarian relations, the same semi-feudal relations continued inspite of the community development programmes. Whichever new institutions cameup such as the village cooperatives, credit societies, panchayats etc., and whichever rural schemes were implemented, they only served the big landowning classes and the privileged rural elites that control money-lending and trading in the villages. The cooperative society only became another device for reinforcing the authority of the rural gentry. Daniel Thorner, who undertook field studies of 117 cooperatives scattered throughout India during 1958/59, brought out this fact in clear terms :

“Firmly lodged in the chief positions of village power today, the dominant families stand ready to seize the lion’s share of the vast programme of cooperative development. Cooperatives are only one of the several means by which the more powerful families exercise influence and authority over the mass of smaller holders and labourers.” He also pointed out that “the success of the rural cooperatives presupposes a modicum of social equality, political democracy and economic stability among the villagers. These pre-conditions have not been present in village India and are still not present today.” In the absence of these pre-conditions, the village cooperative societies were doomed from the very beginning and became yet another instrument of exploitation in the hands of the rural rich.

It was dear to the imperialists and the Indian ruling classes that only a radical transformation in the semi-feudal agrarian relations through structural land reforms i.e. redistribution of the land of the parasitic landlords to the rural poor would really provide the basis for the real development of the productive forces both in agriculture and industry. And it was precisely to avoid such a radical restructuring of the property relations in the coutryside and to achieve a peaceful transformation of rural India that all these rural schemes were initiated by the Government of India with the instigation, assistance and guidance of the imperialist governments and agencies.

The most important strategy evolved by the Indian ruling classes and their imperialist mentors in order to check the agrarian revolution was the Green Revolution strategy.

During the mid-Sixties, the economy of India, especially agriculture, was in a deep crisis. Successive crop failures brought down food grains output drastically which fell from 89 million tonnes in 1964-65 to an annual average of only 73 million tonnes in the next two years.

It was in the background of such a food crisis in India that US imperialism found it easy to force through the Green Revolution strategy upon India. Even food shipments to India were held up by the US to force the Indian government to capitulate to the demands of the oil companies which were eager to establish fertiliser plants in India.

Infact, in 1959 itself, Ford Foundation released a “Report on India’s Food crisis and steps to meet it.” The report prepared the ground for the Green Revolution in India and for the penetration and control of Indian agriculture by US and other transnationals. It criticised the entire approach of institutional change as the keystone of the agricultural strategy and recommended a technocratic approach based on price incentives to individual farmers, higher investment in modern inputs especially chemical fertilisers. The report also recommended an intensive and selective development strategy through a combination of improved seeds, chemical fertilisers and pesticides in irrigated areas of the country-in about 25 districts of Punjab (which then included Haryana, and parts of Uttar Pradesh, Madhya Pradesh and Bihar. By the late Fifties, giant agri-chemical corporations of the US were seeking expanded markets for fertilisers, pesticides etc of which there was a glut in the western markets.

With financial assistance from the Ford Foundation, an Intensive Agricultural Development Programme (IADP)-also called the ‘Package Programme’- was introduced by the Government of India in 1961 wherever there was adequate irrigation. The IADP concentrated on the rich peasants in the irrigated areas and provided them with subsidised inputs, substantial credit, price incentives for the agricultural produce, technical advice and marketing facilities. IADP, however, failed to fulfill the expectations since it lacks an important ingredient, namely, a genetic strain which can respond well to irrigation water and fertiliser application.

It was during the early 1960s that an intensive research by scientists like Dr. Norman Borlaug who was chosen by the Rockfeller Foundation in 1944 for the work, produced HYVs capable of responding to very high doses of chemical fertilisers and irrigation by incorporating dwarfing genes into these varieties through his experiments in Mexico. These were insensitive to day - length and remarkedly resistant to common wheat diseases. In March 1963, Dr. Borlaug visited India and 250 tonnes of wheat seed was imported from Mexico in 1965. In 1966, another 18,000 tonnes of wheat seed of the dwarf varieties were imported from Mexico. Thus the HYVs in wheat were quickly spread all over the country from 1966.

“It was the first time in history that such high quantities of seed had been imported from distant lands and grown successfully in their new home. These importations saved from three to five years’ time in reaping the benefits of the Green Revolution.”

The success of the cooperative wheat and maize programme undertaken by the International maize and wheat improvement centre (CIMMYT) in Mexico encouraged the Rockfeller Foundation to launch a similar research programme in rice in which the Ford Foundation joined. As a result, the International Rice Research Institute (IRRI) was established in 1959 near Manila. By 1960s, the rice breeders at IRRI made 37 crosses. A new rice plant, that is insensitive to day-length, which grows in 100 days instead of the usual 160 days hence making it possible to grow 2 or even 3 crops in an year was developed by the IRRI known as IR-8, this first new variety of rice seed released in 1966, yielded two to three times the yield of conventional varieties. In December 1968, a new cross named 'Jaya' which yielded more than IR-8 was released along with 'Padma', a summer crop recommended in parts of Bihar and Orissa. The Central Rice Research Institute of Cuttack and the All India Coordinated Rice Improvement Project (AICRIP) at Hyderabad along with a few other agricultural research stations, took up the breeding programmes from the late 1960s.

Thus it was from 1966 that the HYV programme in wheat, rice, maize, sorghum and pearl millet was takenup in India. It was the Rockfeller, Ford and Kellog Foundations which played an active role in exporting the Green Revolution to India and other Third World countries. Based on the HYV seed, the 'package programme' was thrust into irrigated areas like Punjab, Haryana and western UP.

The so-called HYV seeds are not really high yielding by themselves but are highly responsive to large doses of chemical fertilisers and pesticides and require adequate supply of water. In the absence of all the required inputs in adequate quantities, crop failure will become extensive.

The so-called Green Revolution greened only certain areas in the north and benefited only the better-off sections of the peasantry; while the small farmers, for lack of access to credit, were unable to make use of the HYV seeds and fertilisers to raise their incomes, the big landowners used cooperative credit, adopted HYV seeds and other forms of inputs, reinvested part of the surplus and exerted pressure on the government to raise the procurement price of the produce. The combination of productivity improvements and attractive prices enlarged the incomes of the rich farmers.

The Green Revolution strategy for agricultural development is actually a programme for the aggrandizement of the American TNCs. For most of the TNCs which breed HYV seeds and dominate the seed business, also dominate fertiliser and pesticide industries. Their only objective is to develop such plant varieties which are able to stimulate maximum chemical sales and enable them to materialise their profits. These TNCs, backed by their imperialist governments vigorously advocated the myth that hunger and malnutrition problems of the Third World could be solved by applying the technologies of the Green Revolution. The motives for foisting the Green Revolution strategy on Third World countries were not based on a concern for the problem of hunger faced by the people of these countries, but on the need to get rid of their huge stocks of excess fertilisers, pesticides and farm machinery and to create a captive market for these products. The USAID, World Bank and other imperialist agencies financed the implementation of the Green Revolution technology in Third World unconcerned with the long-term hazardous consequences.

The success of the Green Revolution strategy depended on liberal imports of fertilisers and agricultural machinery. The food grain production in the first year of Green Revolution strategy, 1967-68, was 10 crore tonnes. But as foreign aid dried up in 1968 and 1969, the regional spread of the agricultural technology was halted and growth of food grain production tapered off. In 1975 the grain output of 10 crore tonnes was the same as that in 1967-68 and lower than that in 1971.

Thus although agricultural productivity (output per acre) increased rapidly in the initial years of the Green Revolution, it began to decline from the mid-1970s. It took more than a quarter of a century to double the level of production. In 1960-61, the land in which more than one crop was grown was 19.6 million hectares and it increased to 41.6 million hectares by 1989-90. The following table No. 8 & 9 indicate the total land in use and the percentage of irrigated land.

Until 1960-61, the trend in Indian agriculture was to bring more and more land under cultivation thereby leading to an absolute increase in the cultivated. While the total land under cultivation was 118.8 million-hectares in 1950-51, it increased to 133.2 millions hectares in the next decade. But in the next 30 years (from 1960-61 to 1992-93) it grew to only 139.5 million hectares. The additional land brought under cultivation was almost negligible after the mid-sixties and the stress was on increasing agricultural productivity through the use of Green Revolution technologies. The Double-cropping was practiced increasingly over the years. This trend could be seen in Table No. 8. The crop intensity i.e. the proportions of Gross to net cultivated land shows aprogressive trend increasing from 111.1% in 1950-51 to 114.7% in 1960-61, 118.2% in 1970-71, 123.3% in 1980-81 and 129.8% in 1989-90.

The increase in irrigation was achieved not due to any government efforts (though the rural banks provided loans to individual farmers for sinking tube wells) but due to the individual efforts of the farmers. Obviously, it was the landlords and rich peasants (and a small section of the middle peasants) who were able to avail the credit or raise enough resources for sinking tubewells and use other farm inputs.

The following table No. 10 shows that the irrigation provided by the government through government canals and tanks has not increased over the five decades after transfer of power.

On the contrary the percentage of land under canal irrigation decreased. Its proportion in total irrigation was 34.4% in 1950-51, remained same in 1990-91 (34.5%) and even came down to 33.1% in 1992-93. Tanks which provided 17.2% of total irrigation in 1950-51 came down over the years to 13.1% in 1970-71 and 6.4%. In 1992-93. Over the same period, the share of tube wells increased from almost zero in 1950-51 to 0.8% in 1960-61 to 14.4% in 1970-71 and 30.3% in 1990-91. Thus irrigation by private sources comprised 60.3% of the total and increased from 1.01 crore hectares in 1950-51 to 3.02 crore hectares in 1992-93 while the government canals provided irrigation for 1.66 crore hectares and tanks another 32 lakh hectares in 1992-93. Such has been the poor performance of the government in spite of its tall claims of having constructed huge irrigation and multi-purpose projects and dams in the past five decades. The poor and middle peasants who are unable to invest capital in sinking tubewells are compelled to sell their lands to big landlords, money lenders and the agri-business corporations of the Indian comprador bourgeoisie and imperialists.

The total land irrigated by the various sources increased from 2.09 crore hectares in 1950-51 to 3.12 crore hectares in 1970-71 to 4.88 crore hectares in 1990-91 and to 5.01 crore hectare in 1992-93. Net area sown increased from 11.94 crore hectares in 1950-51 to 14.25 crore hectares in 1992-93 as seen in Table No. 10.

The Green Revolution strategy increased the consumption of fertilisers and the area under HYVs on a massive scale. The area under HYV and its percentage to total cropped area under each crop is seen from Table No. 11

It increased from 15.4 million hectares for all areas in 1970-71 to 75.0 million hectares in 1995-96 or almost 6 times. The percentage of HYV area of the total cropped area increased from 15.1 in 1970-71 to

75.4 in 1995-96. It has almost reached the saturation point for wheat (92.4% in 1995-96) and over three-quarters for rice, jawar and bajra.

Fertiliser production and consumption from 1951-52 to 1996-97 is shown in Table No. 12

The consumption of nitrogenous fertilisers jumped from 59,000 tonnes in 1951-52 to 2,10,000 tonnes in 1960-61 to 14,87,000 tonnes in 1970-71. By 1996-97, it reached a figure of 1,12, 48,000 tonnes. Phosphatic fertilisers consumption increased from 7000 tonnes in 1951-52 to 37, 09, 000 in 1996-97 and fertilisers from zero to 14, 65, 000 tonnes in 1996-97.

But inspite of such massive increases in the use of fertilisers and other farm inputs, foodgrains production has increased from 55 million tonnes in 1947 to only 185 million tonnes/hectare in 1995-96 while that of China is 4.5 tonnes / hectare and Japan 6.5 tonnes /hectare. India's total agricultural production could not cross 230 million tonnes while that of China with less cultivable land of about 100 million hectares (as against India's presently not sown area of 142 million hectares) has crossed 400 million tonnes long ago. Thus inspite of increases in modern inputs and machinery, the productivity of land is abysmally low. Table No. 13 shows the increases in yield of selected crops from 1970-71 to 1995-96.

In fact, even in some parts of Africa, the yield per hectare is above 2 tonnes.

The Green Revolution, which was brought forward as an alternative to land reforms by the Indian ruling classes in alliance with imperialism, has not only failed to bring about the desired levels of productivity in agriculture but has increased the income inequalities among the rural population, increased unemployment in the rural areas, increased the regional imbalances and pollution of the water and air.

Negative effects of Green Revolution

(i) Decreasing rates of growth in productivity

Although there has been considerable increase in productivity in the first decade of Green Revolution, gradually, the rate of growth of productivity began to decrease while the costs of agri-inputs and machinery shot up drastically. Table No. 14 gives the rate of growth of agricultural products in the first two decades upto the implementation of the Green Revolution strategy. The comprador big-bourgeoisie-imperialist combine amassed vast profits by selling the inputs and machinery to the peasantry at exorbitant rates and on the other hand offered cheap prices for the agricultural produce. The rate of increase in input costs far outstripped the increase in prices of the agri-output thereby making cultivation unremunerative for the middle and a section of the rich peasants. For instance, between 1970-71 to 1983-84, of the total costs of production, the share of fertilisers was 28.1%, diesel-electricity 10%, HYV seeds 12% and other inputs 17%. Ground water is being depleted at a fast rate. This was one of the chief causes for the peasant agitation in Punjab.

It was the big landowners and the agribusiness corporations which could make the maximum profits. Small and medium holdings have become unviable due to the huge costs of inputs.

(ii) Increase in inequalities between the rich and the poor

The Green Revolution strategy has only helped the enrichment of the landlords and a section of the rich peasants apart from the agri-business MNCs and big bourgeois companies. The lot of peasants has worsened further as they have no access to institutional credit to meet the expenses towards increasing cost of inputs. Institutional credit, has of course, increased sharply in the rural sector but most of it has gone to the rich farmers in the Green Revolution belt. Table No. 15 shows the total credit extended by the cooperatives was Rs. 214 crores in 1960-61 to Rs. 679 crores in 1970-71, to Rs. 2,126 crores in 1980-81 to Rs. 3,923 crores in 1990-91. By 1995-96, it increased to Rs. 12,766 crores. The credit extended to agriculture by the banks increased from almost zero in 1960-61to Rs. 206 crores in 1970-71, Rs. 1,263 crores in 1980-81, Rs. 5,010 crores in 1990-91 and Rs. 12,083 crore in 1995-96. The total flow of institutional credit to agriculture increased from Rs. 214 crores in 1960-61 to Rs. 24,849 crores in 1995-96.

In the absence of land reforms, it has been the rural elites who are able to grab the overwhelming proportion of this institutional credit by their dominant hold in the rural power structure. Moreover, in order to use tractors and other machinery, landholdings should be large to make them viable. Hence while the poor and the middle peasants had to sell their lands in the irrigated parts of Punjab, Haryana and western UP, the capitalist landlords grabbed these lands and became wealthier. This fact becomes clear by examining Table No. 16.

From the table we find that where as in India as a whole the number of operational landholdings increased sharply between 1970-71 to 1985-86 from 6,99,93,000 to 9,77,31,000, in Punjab on the other hand, they decreased from 13,76,000 to 10,89,000 during the same period. The marginal landholdings in Punjab decreased by almost half from 5,18,000 to 2,56,000 and the small holdings from 2,60,000 to 2,08,000 while the same for India increased from 3,56,82,000 to 5,67,48,000 for marginal and from 1,34,32,000 to 1,78,81,000 for small landholdings. It was the big and medium landholdings which gained from the pauperisation of the small and marginal farmers in Punjab. The capitalist landlords increased from 69,000 to 74,000. In India as a whole, the number of big landlords decreased from 22,66,000 to 19,29,000 during the same period. Where as the most part of India, it was the small and marginal farmers who took land on lease from landlord, in Punjab, there was ‘reverse tendency’ i.e., the landlords and the rich peasants themselves taking land on lease from the small and marginal farmers. Thus in the Green Revolution belt, there has been more pauperisation of the poor peasantry than in rest of India.

(iii) Growth of Unemployment

Due to extensive use of tractors and other types of farm machinery in the Green Revolution areas, there has been an absolute increase in the number of unemployed in the rural areas. This trend is most conspicuous in Punjab. Agriculture is unable to absorb the pauperized peasantry and the already existing mass of landless labourers. Thus capital-intensive agriculture and absence of other opportunities has rendered a considerable chunk of the rural population unemployed driving them to the verge of starvation. It is these that sections that played a prominent role in the Punjab people’s struggle during the 1980s. This is bound to increase due to large-scale usage of machinery.

(iv) Increase in disparities between regions

Regional inequalities have grown significantly due to Green Revolution. This strategy involving modern technology, could be implemented only in the irrigated parts which comprise one-third of the total cultivated land in the country. Its influence is partial in the rest of the country. As most of the institutional credit to the rural sector and other government subsidies such as the huge subsidy in fertilisers went to those selected pockets, meagre funds are allotted to the rural areas in the rest of the country which therefore remained backward. The regional imbalances arising out of the neglect of the rural sector in the non-Green Revolution areas is one of the causes for the growth of the regional movements for separate statehood, autonomy and so on.

(v) Pollution of Environment

The land which is addicted to chemical fertilisers and pesticides needs ever-increasing doses of the same in order to get satisfactory volume of output. Thus the quantity of chemicals has to be increased progressively over time. Such heavy doses of chemicals lead to pollution of the entire environment, water, air and the very land on which they are used. Land becomes less fertile overtime losing the nutrient-content. Crops are prone to diseases and become resistant to pesticides.

The Green Revolution strategy also requires enormous amounts of foreign exchange for the import of the inputs from abroad. These imports are an important cause for the chronic trade deficit and the Balance of Payment crisis. Inspite of these enormous costs involved, the per capita availability of foodgrains is still short of the requirements.

As seen from table No. 17, the availability of cereals per capita increased by less than 100 grams in the four decades from 1951 to 1993 and pulses in fact decreased from 60.7 grams to 36.28 grams. Even to this day, India has to import foodgrains to meet its requirements. In 1975 it imported 7.41 million tonnes of foodgrains, 6.5 million tonnes in 1976, 1 million tonne in 1983-84, 2.3 million tonnes in 1988-89 and 1 million tonnes in 1991-92 shows the claims by the government of having achieved self-sufficiency in foodgrains.

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CHAPTER-XI

PRO-SOVIET TILT (1969-1985)

As we have seen in the foregoing, mass poverty, growing unemployment, near-famine conditions in several parts of the country, rising prices of foodgrains and other essential commodities placed the very legitimacy of the system to question. People began to seek non-parliamentary alternatives to solve their problems. The most crucial problem was mass hunger and destitution in the rural areas. People began to take up arms for achieving land, livelihood and liberation. The Naxalbari revolt and spread of armed struggle in Srikakulam, Debra-Gopivallabhapur, Birbhum, Mushahari, Lakhimpur-Kheri and several other parts of the country after 1967 created a severe shock to the entire system.

It was at this juncture that Indira Gandhi's Congress government representing the major chunk of the Indian ruling classes, took a shift to the left as a pre-emptive strategy to offset the growing influence of the Marxist-Leninists. As stated by Mrs. Gandhi herself to a journalist : "If I don't do anything to take the wind out of the sails of the communists, the entire country willgo red.... we have no option. Either we do these things peacefully ourselves or we will be overtaken by a violent revolution." But the leftward shift was not sufficient to consolidate the political position. There was a vital need to tighten the reins of administration. Indira Gandhi's government posed as a 'leftist' upto 1972 and then turned dictatorial suspending all democratic norms and civil liberties of the citizens during the Emergency.

In order to establish her legitimacy Indira Gandhi took a pro-Soviet position in matters of foreign policy and leftist positions in domestic policies.

Another important factor that prompted the ruling Congress to take a pro-Soviet position politically was the failure on the part of the US to fulfill its promise of aid after forcing a sharp devaluation of the rupee in June 1966. Throughout the country, there were widespread anti-American feelings both on account of its bombings in Vietnam as well as its bullying, arm-twisting policy towards India. Adopting a pro-Soviet and anti-American stance was politically advantageous to the ruling party. Most important of all was the growing might of the Soviet Union and its emergence as a counter-weight to the US in world politics. Whereas American policy was not to allow any country (barring Israel) to grow into a regional power, the Soviet Union, as a late-comer into the imperialist dinner-table, was ready to grant concessions very liberally to the Third World countries like India in order to gain a foothold to counter the US in its contention for world hegemony. Hence it was prepared to recognise India's role as a regional power in South Asia, support it on the issue of Kashmir and stand by its side in its dispute with Pakistan and China. Moreover, the Soviet Union was ready to render all possible assistance to the Indian ruling classes in their attempts to industrialise the country.

Indira Gandhi visited Moscow in July 1966 and signed a joint communique demanding an immediate and unconditional halt to American bombing in North Vietnam, contrary to the position taken earlier during her discussions in Washington. The Soviet Union signed a trade agreement with India envisaging a 100% in crease in trade by the early 1970s. They also promised massive increases in the aid required for heavy industries in the public sector. They agreed to supply defence equipment on a large scale and to setup plants for manufacturing a wide range of modern arms, including advanced fighter aircrafts, ammunition and spareparts.

Shortage of foreign exchange and the criticism of the licensing policy by R.K. Hazari Committee in 1967 and the Dutt Committee in 1969 also contributed to adoption of leftward -appearing policies on the domestic front by Indira Gandhi government.

The Dutt Committee revealed that in 19 major industries licensed capacity was as much as five to nine times greater than the installed capacity and that even the latter were not fully utilised. The government called a halt to the granting of new licenses to the big business houses. This ensured Indira Gandhi the political support of the Congress Forum for Socialist Action as well as the support of the CPI. With the help of the Forum, she divided the party and consolidated her position in the party.

Several popular measures were adopted from 1969 to win legitimacy and political credibility for the party led by Indira Gandhi. 14 major commercial banks were nationalised; privy Purses and the managing agency system was abolished; company donations to political parties were done away with; taxes were raised sharply; all the previous exemptions of 41 industries from licensing requirements were withdrawn; restrictions were placed on larger industrial houses and foreign firms; financial institutions were encouraged to insert concession (into equity) clauses into loan agreements, exercise voting rights on shares pledged to public institutions as well as to opposite direction on the boards; the Monopolies and Restricted Trade Practices Act (MRTP) was passed and so on.

These policies established the image of Indira Gandhi as a populist leader. The strength of the Swatantra Party and the conservatives within the Congress party were greatly weakened. The nationalisation of banks conferred a virtual monopoly over the nation's funds on the government at the centre. A part of the bank deposits were lent to party supporters and later waived off. By 1971, Indira Gandhi succeeded in defeating her opponents in the old Congress as well as the leftists by means of her radical-sounding populist slogans. Using the mass popularity she won through her leftist jargon and the victory in the 1971 Indo-Pak war, she began to further tighten bureaucratic control and centralise political power. 60 of the 100 sections of the Home Ministry, the IAS, the IB, the CBI were transferred to the Cabinet Secretariat. The Research And Analysis wing (RAW) was enlarged to carryout domestic political surveillance. The concentration of authority in the PM's office, which began during the regime of Shastri, received a big impetus during Gandhi's rule. This made it easier for her to impose Emergency in 1975.

The state apparatus, particularly the oppressive machinery, was strengthened considerably. Between 1969 and 1974, in order to curb the activities of the CPI (ML) in West Bengal, Bihar and AP, the armed police forces were increased by more than 27 percent while the civil police in all the states grew by 17 percent. The para-military forces expanded even faster. The CRPF which had only 6 battalions in 1964-65 possessed sixty by 1972-73 i.e. a ten-fold increase. The BSF was also enlarged and was used not for protecting the borders of the country but for maintaining internal order. During 1973-74 alone, it was used in as many as 13 states.

Import Substitution Strategy

The FDI in India more than doubled from December 1956 to March 1965 from $51,007 million to $2,014 millions. The FDI in the manufacturing sector increased from 20% to 40%. This was primarily concentrated in light consumer industry. The foreign exchange crisis of 1966 and the suspension of US aid after the Indo-Pak war in 1965, prompted the Indian government to opt for import-substitution strategy. This meant liberalisation of industrial licensing to encourage investment in industries such as fertilisers, chemicals, petroleum & natural gas, farm machinery etc. which constituted an important component of the import bill. The Planning Commission under DR Gadgil proposed to restrict industrial licensing to only basic, strategic industries involving significant investments of foreign exchange. Industries requiring marginal foreign exchange, less than 10 percent of the total value of capital equipment, were to be exempt from licensing.

The Fourth Plan Policy (1969-74) was an important step in the direction of creating new space for the growth of the large business houses. In February 1970 the government specified a list of eight industrial groups constituting the core sector, three of which with Schedule A of the IPR 1956, four with Schedule B and one was new. Reservation in the small-scale sector was confined to eight industries and the exemption from licensing provision was raised from Rs. 25 lakhs to Rs. 1 crore of fixed assets. Between the few core industries and the reserved industries for the small-scale sector was the free medium industrial sector, subject to market forces and fiscal and monetary devices. Following this demarcation of the various sectors, there was a jump in the industrial licenses issued in 1971 to over 600 and crossed the thousand mark in 1973 when the government enlarged the list of core industries to 19 and clarified that no company would be nationalised.

After the Bangladesh war in 1971, the government announced further relaxation of the licensing policy with respect to 72 priority industries. The objective was to increase the utilisation of production capacity installed by the big business houses in the large industries. The large companies falling in this category were allowed to work three shifts and to increase their production by 100 percent as against the earlier stipulation of 25 percent without obtaining a fresh license.

Until 1971, larger industrial houses were required to obtain a formal clearance under the MRTP Act for increasing their production but with the relaxation in licensing policy they were permitted the utilisation of unauthorised capacity without being asked to explain how they acquired it. Thus, the three-shift criterion legitimised the illegal expansion of many industries.

While the regulatory mechanism was released to provide space for expansion of large industrial houses, the government also simultaneously centralised its discretionary authority to grant new licenses. This led to increasing nexus between the politician-bureaucrats and the big business. Corruption and large-scale funding of the ruling party leaders became the norm as clearance could be obtained by approaching the political levels of decision-making. Whereas political parties were legally debarred from accepting donations from companies, the ruling Congress party filled its coffers through illegal deals under this licence-permit raj.

Rapid Growth of the Comprador Big Bourgeoisie

The relaxation of industrial licensing, the permission for utilising unauthorised capacity without limits, has led to rapid expansion of the large industrial houses controlled by the comprador big bourgeoisie and the TNCs. This was in sharp contrast to the stagnation affecting the industrial sector as a whole during the decade after 1966. These factors helped the expansion of the large industrial houses of both Indian and foreign :

(i) decline in real wages

(ii) squeezing the smaller industries through their monopolistic hold and access to state capital. (iii) expansion of exports and demand from the rural elites.

The share of wages in the output of large Indian companies declined from 62.77% in 1966-67 to 57.50% in 1974-75 and in the branches of foreign companies from 69.98%, to 65.35%. The level of employment in the organised private sector remained constant at 68 lakhs during this period but productivity increased thereby allowing these companies increased profit margins. The ruling Congress government under Indira Gandhi allowed the big bourgeoisie and the TNCs to squeeze the working class and amass huge profits under left garb and slogans like Garibi Hatao.

Small companies on the other hand, experienced a rise in the share of wages and a decline in profits. The share of wages increased from 71.73% in 1966-67 to 77.22% in 1973-74. The monopoly enjoyed by the big business in several commodities and their access to huge funds from the banks and other financial institutions as well as subsidies from the government made it possible for them to squeeze the small enterprises and grab the latter's share n the domestic market. Sickness in the small-scale sector became a permanent feature.

The third factor - the expansion of demand by the rural elites and export sector- was utilised by the large enterprises of the big bourgeoisie and foreign capital. The Green Revolution, as we have seen, raised the productivity of land rapidly in the initial years. The prices of the agricultural produce too rose considerably during the decade following the implementation of Green Revolution strategy. This increased the purchasing power as well as the needs of the landed rural elites thereby creating a market for industrial products. It should be noted that the vast majority of the rural masses, however, remained outside the reach of these products and that it is the top 10-20 percent of the rural population who constituted the new market for these industrial goods. The international commodity boom until 1973-74, depreciation of the rupee against major foreign currencies, the export promotion policies of the government and slack in domestic demand boosted the exports of several large companies, particularly in the engineering and chemical industries.

The Monopoly Enquiry Commission (1965) revealed that in 1964 the top 91 industrial houses (both Indian and foreign) controlled 51% of the aggregate assets of all corporations. The share of large Indian houses was 38% and that of foreign houses was 13%. The top two houses, Birlas and Tatas, controlled 12% of the aggregate corporate assets of Rs. 5,552 crores in 1964. In 1966-67, Birlas controlled Rs. 447 crores of assets and Tatas Rs. 521 crores:but in 1972-73 the assets of Birlas went upto Rs. 726 crores, and Tatas assets to Rs. 686 crores. By 1975-76 Birlas' assets further jumped to Rs. 1,085 crores and that of Tatas to Rs. 975 crores. Thus during the decade market by economic crisis, these big houses raced ahead while the smaller enterprises became sick. Among the big business houses it was again those having connections with the top political and bureaucratic functionaries and capacity to bribe and manipulate, who made the most. As described by Ranjit Sau :

"Mafatlal which ranked 10th in terms of assets in 1963-64, raced to the third position in 1966-67 and has remained there ever since. J.K. Singhania was 6th in 1963-64, went down to 11th in 1966-67, came up to 8th in 1972-73, and then to 4th in 1975-76. The fortunes of Scindia, Thapar, Sarabhai, ICI, etc. have fluctuated. The fate of ACC became worse and worse.... When big houses vie with each other in a protected market, and compete for favours from the executive which has enormous discretionary power in a network of licensing, quota, credit and subsidy, the bureaucracy of the country gets a wider scope for being corrupt and arbitrary."

Its rapid growth during the period of industrial stagnation notwithstanding, the big business perceived its growth to be inhibited by the existing institutional framework, particularly its bureaucratic regulations. It wanted free play of the market forces, less bureaucratic control and regulation of the economy, and suppression of the working class as well as abundant supply of cheap labour. It also desired greater investments by foreign capital in India and to collaborate with them in joint ventures to gain access to sophisticated technology and international markets.

While encouraging the inflow of foreign capital, the government also sought to regulate it through the Foreign Investment Board established in 1968 and the Foreign Exchange Regulation Act (FERA) in 1973. FERA stipulated that the branches of the foreign companies operating in India should register themselves as Indian companies in place of the previous practice of making registration outside the country. It also asked the foreign companies to reduce their equity shares to 40 percent. This move was intended to encourage foreign capital to establish joint ventures with the Indian comprador big houses instead of setting up 100 percent subsidiaries. But in priority high technology and high export industries foreign companies were allowed to retain 51% and 74% foreign equity ownership respectively. A new Patents Act was introduced in 1970 which revoked the product patents in foods, chemicals and drugs but reduced the time limit for process patents in these items from 16 years to 7 years while for other products it was fixed as 14 years.

During the 1970s, the flow of FDI into India declined considerably. Between 1974-80, the total FDI entering India was only Rs. 16.30 crores. Most of the FDI flows from the imperialist countries to Third World during the 19760s went into Latin America and East Asia (Asia-Pacific region). The Indian ruling classes depended more on the Soviet Union and the Soviet -bloc countries for technology and capital. The Soviet Union, which emerged as a super power by 1970, offered attractive terms of trade (and rupee payable loans) and set up turn-key projects in India to win over a powerful Third World only in its drive for world hegemony. Thus the Indian big bourgeoisie could continue to expand their activities and amass profits inspite of the drying up of FDI from the west. Although FDI flows were minimal during the 1970s, the share of FDI in the manufacturing sector increased qualitatively through reorganisation. Hence the share of FDI in the manufacturing sector (out of total FDI) increased from 40.5% in 1964 to 86.9% in 1980. The foreign capital in the non-manufacturing sector was bought by the government and nationalised by paying attractive compensation. The insurance sector was nationalised in 1971 and by 1976 entire petroleum sector was taken over. Coal industry was nationalised. The fresh flows of FDI were diverted to manufacturing sectors.

It should, however, be noted that the inflow of western foreign capital into India continued to increase rapidly during the 1970s also but this was more in the form of loans, grants and aid to Indian projects. The external debt increased from $794 million in 1970 to $2,058 million in 1980 and jumped further to $4,097 million in 1985. The total annual repayment for the loan (interest + principal) increased from $71 million in 1970 to $141 million in 1980 and $353 million in 1985. Interest as percentage of total repayment increased from 26.8% in 1970 to 45.4% in 1980 and 55.5% in 1985. (See table No.18 in the previous page)

The World Bank's lending to India too witnessed a massive increase, a considerable share of which went to finance the Green Revolution strategy. Whereas total World Bank lending to India was $2,094 million upto 1966, it jumped to $8,995 million between 1967-79. Table No. 19 gives a picture of the projects for which World Bank had extended loans. The loans for irrigation and agriculture which amounted to a negligible $104 million upto 1966 jumped to a massive $2,893 million between 1967-1979 and another $1093 million for fertilisers. (See table No. 19 in the previous page)

Thus we find that the overall dependence on the World Bank and the western imperialism continued to grow even during this so-called Import Substitution phase although the flow of FDI declined. There was a massive growth of the Public Sector where Soviet investments and technical assistance increased.

Growth of the Public Sector

The number of Public Sector Units (PSUs) increased rapidly during this period. In 1951 there were only 5 PSUs which increased to 74 by 1966 and to 233 by 1985. The total assets of the PSUs increased from Rs. 29 crores in 1951 and Rs. 2,150 crores in 1966 to Rs.30, 339 crores by 1985. Following liberalisation, it jumped to 1,06,000 crores in 1992. Table No. 20 shows the increase in the number and assets of the PSUs.

Until the Sixth Plan (1980-1985), the allocation of the public sector had been higer than that of the private sector. This was reversed for the first time in the Seventh Plan (1985-90); the share of public sector investment in total planned outlays declined from 53% in the Sixth Plan to 48% in the Seventh Plan. The size of the Public Sector Units could be gauged by the fact that the paid-up capital of just one PSU, SAIL, was more than three-and-a-half times that of the top 52 private companies taken together; the sales of IOC and ONGC were nearly equal to the aggregate sales of the same top 52 private companies. Even excluding railways, communications, air transport, defence enterprises and financial institutions, the public sector had 48 units amongst the 100 largest companies ranked according to sales in 1984-85; the public sector controlled 93% of the paid-up capital, 80% of net assets, 74% of sales and 76% of profits before tax.

The share of the public sector in the total Net Domestic Product increased from 10.69% in 1960-61 to 25% in 1985-86 and 26% in 1991-92. While that of the private sector dropped from 89.31 % to 75% in 1985-86 and 74% in 1991-92. The private sector includes the agricultural sector also. The share of agriculture in the GDP was around 31% in 1991-92. This means that the share of the non-agricultural private sector is around 43% only.

The share of public and private sectors in the NDP is shown in Table No. 21

The private sector comprises of agriculture, small-scale industry and the factory sectors. The entire agriculture and small-scale industry come under unorganised sector while the organised sector consists of all establishments inthe public sector ands all non-agricultural establishments in the private sector employing 10 or more workers. The organised sector contributed 25.6% of thenational income (NDP) in 1960-61 which increased to 29.72% in 1970-71, 35.80% in 1981-86, and 36.10% by 1991-92. In the organised sector it is again the public sector that contributes the largest share, over two-thirds of the total. The share of the private organised sector in the national income is a mere 10%. The shares of the organised and non-organised sectors in the national income are shown in Table No. 22

The majority of the factories in the private organised sector are small with those employing upto 10 workers constituting around 45% (50,183) out of a total of 1,10,332 privately owned factories in 1992-93. Another 25% of the factories employ between 10 to 100 workers (27,099 factories). Thus the larger units employing above 100 workers constitute just 30% of the entire private organised sector. Again it is a handful of companies belonging to the comprador big business houses and transnationals which control the largest share of assets of the private sector. And these handful of companies corner the largest share of the bank loans, funds from the public financial institutions and the government subsidies. They shape the policies of the government (whichever party is in power) and control the entire economy. the non-organised sector which contributes almost two-thirds of the national income remains grossly neglected.This is seen not only in the utter neglect of agriculture but also the small-scale industrial sector. The number of units that became sick or weak has increased from 24,550 in December 1980 to 2,64,332 in May 1996 and their outstanding bank credit has increased during the same period from Rs.1,809 crore to Rs. 12, 545 crores (See Table No. 23).

What is worse, the private organised sector, even after eating up the largest share of the public funds provided just 50 lakh jobs in 1961, 67.4 lakhs in 1971, 74 lakhs in 1981 and another 6 lakhs were added after 15 years. The share of private sector in total employment thus went down from 41.7% in 1961 to 38.6% in 1971, 32.3% in 1981 and 29.3% in 1995. The public sector's share in total employment went up from 58.3% in 1961 to around 67.7% in 1981 and 70.7% in 1995. Table No. 24 indicates the shares of the two sectors in employment in the organised sector.

The public sector provides basic infrastructure, and raw materials and semi-processed goods at dirt cheap prices to these handful of companies of the imperialists and the Indian big bourgeoisie. The entire centralised planning and the policies of the government serve these big business houses. It is to boost the demand for the products of these companies that public investment is undertaken by the government, liberalisation of imports and export promotion policies are adopted and devaluation is taken up from time to time.

Now let us see how the nearly 18-year old rule of Indira Gandhi helped the imperialists and the comprador big bourgeoisie.

Transfer of Incomes from Agriculture to non-Agricultural Sector

The gains from the Green Revolution petered out by around 1973. Until then, the economic position of the rich farmers improved significantly due to favourable terms of trade, rising productivity, subsidised inputs and credit at concessional interest rates. But after 1974, the net incomes of the farmers in all states and from all crops declined sharply. According to one estimate, the cumulative collective shortfall of farmers' incomes between 1971-1982 was around Rs. 45,000 crores i. e., an average annual loss for all cultivators of more than Rs. 4000 crores and for an average cultivating household it was nearly Rs. 700 per annum. In wheat producing Haryana, the net income declined from Rs. 611 in 1970-71 to a loss of Rs. 46 in 1978-79 i.e., an average annual rate of decline of Rs. 96. The rates of decline in UP and Punjab were Rs. 44 and Rs. 33 respectively. Among the rice-producing states, negative trend was the steepest in Bihar (Rs. 71 per hectare per year), followed by West Bengal (Rs. 47) and AP (Rs. 38).

The main reason for this decline was the adverse terms of trade for agricultural products. The prices of agri-inputs-power, fertilisers, tractors and pumpsets - rose faster than those of agri-output. Although the growth rate of industrial production was 2a times that of agriculture (which means the law of free market should have made industrial products even cheaper), the prices of industrial products continued to rise due to oligopolistic control of markets by the big business houses and the TNCs of the organised industrial sector. Government policy also helped in the movement of the terms of trade against agriculture after 1974. The government controlled procurement prices, maintained buffer stocks of foodgrains by making imports alongwith compulsory procurement and regulated agricultural prices while rolling back controls and regulations on industries and leaving the industrial prices to market forces. Even the prices of strategic industrial inputs like steel and cement were gradually decontrolled after 1981. All this resulted in a sizeable transfer of real income from the agriculture to non-agricultural sector.

Crisis of 1974 and Emergency

Food production declined from a high of 10.8 crore tonnes in 1970-71 to about 10 crore tonnes in 1974-75. The number of those registered with the employment exchanges rose from 26 lakhs in 1966 to 84 lakhs in 1974. Percentage of people living below official party line, which declined from 57% in 1966 to 41% in 1971, rose again to 50% in 1974. Inflation touched 28% in 1974. Poverty, hunger and political and social tensions became acute. With the setback of Naxalbari and the armed agrarian revolutionary movement led by the Marxist forces, there was no immediate threat to the established order. But the mass unrest and anger were utilised by sections of the ruling classes who were out of power to launch mass agitations and strikes.

The Railway Workers' Strike was launched from 8 May 1974. Earlier in 1973, the Provincial Armed Constabulary in UP revolted by siding with the students and demanded a pay rise. An agitation was launched by students and urban middle classes in Gujarat against corruption, price rise and unemployment under the banner of Nav Nirman Samity led by the leader of old Congress. When Chimanbhai Patel government collapsed in Gujarat in early 1974, similar agitations were launched in Bihar and MP. Jaya Prakash Narayan, who led the agitation in Bihar called on the armed forces to revolt. The situation in the country as a whole was explosive in 1974-75.

The response of the ruling Congress party led by Indira Gandhi was to unleash the forces of repression on the mass movements, strengthen the repressive arms of the state apparatus and further centralise the political power. 103 people were killed in police and army firings in Gujarat and 8000 were arrested. Defence of India Rule (DIR) was imposed a week before the Railway Workers' strike and 20,000 workers were arrested under DIR. 600 leaders of the railway workers including George Fernandes were detained under the Maintenance of Internal Security Act (MISA). During the 20-day strike period, the government which was till then posing as a champion of the poor under left rhetoric, revealed its ugly fascist face by arresting 50,000 workers and dismissing another 15,000. But even this did not satisfy the ruling classes. The working class had to be totally subdued and stability and order had to be established to make it easy for the big business to expropriate the surplus. As JRD Tata told a journalist in Bombay : "Things had gone too far, you can't imagine what we have been through here- strikes, boycotts, demonstrations. Why, there were days I couldn't walk out of my office on to the street. The parliamentary system is not suited to our needs."

It was against this background that 'Emergency Rule' was clamped on 26 June 1975. Though the Allahabad High Court judgment convicting Indira Gandhi for corrupt practices in elections was cited as the reason for the clamp-down, the real reason was to suppress the working class and to subdue the contradictions within the various sections of the ruling classes. Thousands of members of opposition parties were arrested, the right of habeas corpus was suspended, 26 political organisations including the RSS and Naxalite organisations were banned, strikes and public meetings were declared illegal, press censorship was imposed and amended the constitution to limit the powers of the centre.

According to a report in 'Business Standard' on 29 August 1975, "within a month of the proclamation of Emergency and the decision not to have strikes and lock-outs, nearly 20,000 employees have been either retrenched or laid off by various multinational houses." While the mandays lost in strikes declined from 336 lakhs in 1974 to 167 lakhs in 1975 and 28 lakhs in 1974 to 99 lakhs in 1976. The working conditions in the work places particularly the coal mines worsened with no safety measures; due to the intensity of work in hazardous conditions, the fatality and accident rate increased sharply in coal mines during the Emergency with the worst tragedy taking place Chasnala Mine.

Emergency : A Boon to the foreign and Indian Big Bourgeoisie

The entire system of administration was further centralised and the bureaucracy became quite powerful during the Emergency and had a free hand in awarding contracts. The Emergency was supported by the military and the bureaucracy who were given powers. The military and para-military apparatus was expanded and strengthened.

Open-door Policy and Capital Intensive Export-oriented Growth

While unleashing unprecedented repression on the working class, the private corporate sector was offered new incentives. First, 15 export-oriented engineering industries were allowed automatic expansion in capacity to the extent of 25% of the licensed capacity. Next 21 industries in the medium sector were granted blanket exemption from licensing on 25 October 1975. Foreign companies and large monopoly houses were allowed unlimited expansion beyond the licensed capacity in 30 other important industries. On 5 November, the procedure for regularising unauthorised capacity installed by the foreign companies and Indian big business houses was liquidated. Controls on cement, steel and other commodities were relaxed, corporate taxes and taxes on personal income were reduced. Import restrictions on spare parts and raw materials for industrial use were reduced. Tax incentives were also provided to stimulate production. Investment allowance scheme was further liberalised.

FERA of 1973 was liberalised to offer a 'new deal for foreign capital'. In priority high technology and high export industries foreign companies were allowed to retain 51% and 74 % foreign equity ownership respectively. The tax on royalties earned by foreign companies was reduced and the tax burden on dividend received by foreign companies was eased, including exemption from surcharge in some cases. The government relaxed norms for non-resident investment in India, liberalised trade policies as an incentive to foreign business and rationalised taxation on foreign companies. The TNCS were obviously happy with these policies of the Indira Gandhi government. Ooville Freeman, the US chairman of the Indo-

US Joint Economic Commission stated that the "current budget and new policies initiated by the Indian government promise a fairly exciting and growing market for foreign investment." The World Bank president, Robert Mc Namara hailed the direction of the economic policies of the Indian government :

"The reason for the turn in the country's aid fortunes has to be sought in the changes in the government's economic policies. Industrial licensing has been diluted through a series of relaxations and exemptions, the restrictions on large houses have been rendered virtually inoperative, import policy has been relaxed, a variety of generous subsidies and concessions have been extended to exports, foreign companies are being encouraged to expand under the liberal provisions of FERA, personal income tax and indirect taxes have been cut and there is confident expectation of a cut in the rates of corporation taxation in the next budget. In other words, major advances have been made in the direction of an open, free market, private enterprise economy. The World Bank has never made a secret of the fact that these are the policies it favours. Private businessmen, whether American or British, have sought to cancel their preferences even less. So there is really no reason for the Finance Minister to be bashful."

Several measures were also initiated to boost exports such as providing export credits, subsidies etc.

Export credits from the scheduled commercial banks increased three-fold in one year (April-October 1975 to April-October 1976). Export control was modified through selective abolition of export licensing and simplification procedure. The export drive was led by industries suffering from lack of effective demand in the home market-engineering, machine tools, vegetable oils, fish, vegetable and fruits. Exports increased by 34% in 1976 over that in 1975.

Thus the fascist regime of Emergency became a boon to the comprador big business and the foreign TNCs, the military and the bureaucracy, while labour was repressed and social and welfare expenditures were slashed. It helped the exploiters to grab greater share of the surplus.

Industrial growth was reoriented to cater to exports and the demands of the top 5 to 10 percent of the country's population. This is the growth model which the Indian ruling classes and foreign capital chose to follow due to the narrowness of the domestic market. The perennial problem of the Indian economy - the problem of weak home market due to the semi-feudal relations - continued to shape the industrial and economic policies of the Indian ruling classes, policies that cannot see beyond the top 10 to 20% of the country's population and look outside to solve the problem of industrial stagnation.

Public investment also played an important role in helping the economy to come out of the deep recession of the early 1970s to an extent. Massive investments were made in the Fifth Five Year Plan in the power sector as well as steel, basic metals and chemicals. The share of power in the plan outlay has increased from 16.4% in 1973-74 to 18.7% in 1974-75. The growth of power industry gave a boost to the entire industrial sector. The basic metal industries which also witnessed an increase in the plan outlay, came out of the deep recession (its annual growth rate was -9% in 1973) and achieved a growth rate of 12 and 20% in 1975 and 1976 respectively. The chemical industry also experienced a revival in 1975 and remained above average in the post-1975 period. Consumer durables were slow to pickup but became the fastest-growing segment after 1982. Thus until the early 1980s, it was not 'demand-pull' factors that were crucial for industrial revival but investment in infrastructure and heavy industry by the government.

Government's policies in favour of big business led to rapid growth of the latter after 1974 while the vast majority of the masses became further impoverished. Price inflation during 1973 and 1974 at 14 and 28 percent respectively helped reduce the burden of debt on big business even as misery afflicted the masses at large. As the bank interest rates were in the range of 10 - 12%, it meant a negative real rate of interest, diluting the burden of debt by more than 16 percent in 1974. High degree of product concentration and monopolistic control of markets by a few houses helped them amass enormous profits. According to a study of 1,298 products by the Monopolies Inquiry Commission, 88% were in the control of oligopolists, 437 being produced by only one firm each and 229 by two firms each. Moreover, the large firms in the fast-growing sectors and adopted a defensive strategy in sectors where demand was growing slowly by preventing the entry of others. This was due to obtaining licences but not setting up the licensed capacity. Through their monopolistic control, they were able to raise the prices of their products even when there was overall industrial stagnation. They also took advantage of the various tax concessions by the government to enhance capital intensity. The Dandekar Committee on Direct Corporate Taxes in 1985 observed that for some companies investment allowance was as high as 35%. Thus several companies (6 of the top 10 and 26 of the top 100 private sector companies) like TELCO and Reliance were able to completely avoid taxes on their profits by rapidly expanding their investment in plant and machinery. It estimated that this scheme resulted in a potential loss of revenue to the government to the tune of Rs. 175 crores in 1981. This resulted in shrinkage of employment in the private sector which increased by 6% while real investment increased by more than 300%. Thus rise in the degree of monopoly and capital intensity helped the big business to shift the burden of the crisis to the peasantry, working class and small industries. It led to a shrinkage in demand for foodgrains by the working class. At the same time, in contrast to the lowering of the purchasing power of the poorer sections of society, the urban middle class incomes shot up.

The growth of the service sector after 1974 contributed to this rise. The annual increase in real incomes of service sector employees, i.e. those employed in administration, defence and other services, jumped from Rs. 500 crores (the average during 1975-80 period) to Rs. 1000 crores in 1982-83. In the service sector, incomes increased faster than employment. The real income per employee increased by 77% while employment increased by 56% from 1973 to 1984. White-collar workers and managers of the organised private sector also experienced improvements in their real incomes during this period.

The transfer of real incomes away from the agricultural sector combined with a growth in real incomes of the service sector employees led to a shift in demand from necessities like foodgrains and coarse clothes to consumer durables like fine synthetics, TVs, refrigerators, electric and electronic appliances and scooters. During the 80s, consumer durables became the front-ranking growth sector which was sluggish until the end of the 70s.

Expansion of the military and para-military apparatus and growth in defence production too contributed to the boost in consumer durables. The number of workers directly dependent on the military apparatus was 22.4 lakhs - 10 lakhs in the armed forces, 8 lakhs in para-military forces, 2 lakhs in the armaments industry and 2. 4 lakhs civilians employed by the armed forces - or about 44% of the 51 lakhs employed in manufacturing. Defence expenditure consumed 2.7% of GNP. The country ranked fourth in the strength of the armed forces. The Soviet intervention in Afghanistan in 1979 led to further arms race in the sub-continent and defence expenditure of India saw a further 20% jump.

The Janata Experiment

The Emergency, which sought to repress the workers and toiling masses in order to transfer real incomes from the industrial workers and the agricultural sector to the big business, foreign TNCs, and the urban elites, backfired. Likewise, the attempts by the Indira regime to put a lid on the contradictions among the different sections of the ruling classes, soon proved to be counter-productive and led to further intensification of the contradictions. The rural elites in the Green Revolution belt as well as the rich and middle peasantry, whose incomes declined sharply due to adverse terms of trade, displayed their wrath against the Indira Congress by trouncing it in the elections held in 1977. As a result, the Janata Party swept to power. The extreme centralisation of political power (the ruling party's socio-political base shrank to a coterie by the Congress party and the excessive interference by the powerful bureaucracy, also alienated a large section of the ruling classes from the Congress party.

The Janata government which was in power for 2 1/2 years, was a political coalition encompassing diverse class interests. One section which was opposed to the heavy industry-oriented, centralised model of growth tried to reorient the growth process in favour of the rural elites and small-scale industries with a view to expand the domestic market for industrial goods. Charan Singh advocated an alternative, Gandhian model of development with emphasis on agriculture and rural development, small-scale and handicraft industries and decentralisation. This experiment was, of course, tried without harming the interests of the imperialist TNCs. The number of products reserved for small-scale sector was increased from 180 to 504 and concessions such as preferential allotment of raw materials and credit at subsidised rates were granted. Big business was in favour of concessions to small scale industries provided they served as ancillaries to large-scale production. But when the small scaled sector also stepped in as a direct producer of goods, big business could not tolerate it. Moreover, the allocation of funds to agriculture and small-scale sector saw a decline in public investment in power, coal, transportation, communication and other infrastructural sectors. This along with higher taxation on urban incomes, affected industrial growth. This antagonised big business as well as the urban middle class. The Janata government however, collapsed owing to its own internal contradictions.

The policies of the Janata government were in no way basically different from those of the Congress in matters of import liberalisation and opening the doors of the economy to foreign capital.

Further Economic Liberalisation in the Sixth Plan Period (1980-'85)

The Indira Congress which came back to power in the beginning of 1980, introduced policy changes in the industrial sector in favour of liberalisation of imports and export orientation. In 1982, which was declared ‘the year of productivity’, the government enlarged the number of core industries in which large industrial houses and multinationals were permitted entry. Power and oil exploration were opened up for private investment and began to decontrol prices of several commodities. More than 100 items of raw materials, consummerables and 85 new items of machinery were put-on Open General Licence (OGL), which allowed imports without licence : 100% Export oriented Units (EOUs) were permitted to import all their requirements; import of technology was liberalised. Foreign Direct Investment (FDI) was also liberalised; TNCs were allowed to increase their equity in Indian Companies and collaborate with private and public sector units; the earlier option of converting loans of the nationalised financial institutions into equity was given up in the case of foreign companies. Moreover, the value of the rupee was devalued by over 20% against the major foreign currencies.

The FERA restrictions on foreign capital were relaxed. While claiming to regulate the activities of the TNCs operating in India, FERA actually served as an instrument for their expansion and diversification. FERA provisions stipulated that equity ownership of the TNCs be reduced to 40% in general and 75% in 100% EOUs or in special cases where advanced technology was being used. At the same time, the TNCs were allowed to start new businesses even in the ‘core sector’ of the economy which was earlier restricted. The government policy thus helped the imperialist countries, which were caught in a deep recession, to transfer their idle machines and obsolete technology. The IMF conditionalities were accepted by the Congress government when it took a loan of 5 billion SDR in 1980. In 1982, on the eve of the second installment of the IMF loan, further concessions were given. Export and technology-oriented units were allowed 100% foreign equity. 100% EOUs could be setup by foreign capital anywhere in the country contrary to the earlier policy of restricting them to the Free Trade Zones of Santa Cruz and Kandla. Foreign companies were allowed to enter certain areas on the hitherto banned list without any export obligation, provided 75% of their ancillaries were Indian.

The ‘open door policy’ for foreign capital resulted in a spate of new foreign collaborations : Suzuki with public sector Maruti, Good Year with Andrew Yule, Electrolux with Forbes, Tatas with Burroughs, Reliance with Du Pont, Hyderabad Allwyn with Seiko, Universal Electronics and Eicher Tractors with Mitsubishi and so on. The number of foreign collaborations increased year by year; 389 in 1981, 590 in 1982, 673 in 1983, 752 in 1984 and 1084 in 1985. Government approved foreign investment increased from Rs. 11 crores in 1981 to Rs. 62 crores in 1982, Rs. 63 crores in 1983, Rs. 113 crores in 1984 and Rs. 126 crores in 1985.

The IMF conditionalities of 1980 and the consequent liberalisation gradually increased the American influence over India and the latter’s dependence on the Soviet Union, politically and militarily began to show a decline. Indo-US relations were qualitatively improved and the long-pending Tarapur Nuclear Fuel issue was settled through a bilateral arrangement involving India, USA and France. That India and the US had a common interest in the security of Soviet Asia and the Persian Gulf was also recognised. However, it was not until 1985 when the Soviet Union became embroiled in deep economic crisis that India’s tilt towards the US and west became politically significant and its new economic policy regime could become consolidated.

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CHAPTER-XII

1985 - TO THE PRESENT : GLOBALISATION, LIBERALISATION AND PRIVATISATION

Although these policies become manifest with the IMF loan in 1980, they were consolidated into a coherent package only in 1985. A series of Reports from various committees emphasised the need for these policy changes : Jha Commission on administrative reforms recommended replacement of direct measures of industrial control by indirect fiscal measures; Narasimham Committee on industrial licensing and controls argued for the simplification of licensing procedures and relaxation of price controls; Chakravarty

Committee on the monetary and credit policy recommended the monetarist policies of a steady growth in money supply; Acharya Committee on black money established the link between blackmoney, tax evasion and controls; Tandon Committee and Hussain Committee on import and export policy considered import restrictions as the chief bottlenecks of industrial growth and exports;

Sen Gupta committee on Public Sector suggested that the public sector should conform to the management practices of the private sector and considered that public sector had become a drag on the economy. Thus by the end of 1984 an atmosphere was created against the policy regime of controls and regulations and in favour or deregulation of industries, decontrol of prices, liberalisation of imports, tax reductions and increase in deficit spending.

The criticism leveled by Vasant Sathe, a cabinet minister, against the inefficiency of the public sector sums up the new perception of the Indian ruling classes.

“Australia with 30,000 workers produces 145 million tonnes of coal, more than 6 lakh workers are unable to produce the same amount in India.... While 14,500 workers at the Pohang Steel Plant in South Korea produced 9 million tonnes of steel, a 125,000 work force in India is not able to produce even 6 million tonnes of steel.

“The causes of our dismal performance primarily lie with the adoption of a wrong concept of socialism which equated over-employed, top-heavy, inefficient and an unaccountable, public sector with socialism. We have left the public sector in the hands of an ideologically indifferent service which is not accountable for its performance and results... Thus, in the name of Indian socialism all that we have achieved is a stagnant, high cost, inefficient, non-competitive, irresponsible and unaccountable system of production. I said you cannot make the public sector a holy cow, which is not productive, which has ceased to be productive.... she sits in the middle of the road, stops your traffic, and yet people come and worship her and feed her. When such a thing happens it becomes a holy cow, which destructs progress and does not give any benefits. By calling it a public sector you cannot make it productive. That is what we have done in steel, coal, in every infrastructural field.”

The rise of the new professional elites (technocratic and managerial elites) from institutes of management and technology symbolised the new ethos under Rajiv’s regime. By early 1985, several former employees of the IMF and the World Bank became advisors in the Planning Commission, the Ministry of Finance and the Prime Minister’s secretariat. Those who argued about demand constraints on industrial growth were marginalised in policy-making bodies.

At the start of the Seventh Plan (1985-1990), the Rajiv Gandhi’s government, with two-thirds majority in the parliament, began to implement these policies with full vigour. The policy changes became manifest in three areas; taxation, industrial licensing and trade policy.

The union budget of 1985 reduced corporate tax from 57.7% to 52%, lowered wealth tax, slashed welfare expenditures and abolished estate duty altogether; exemption limit for personal taxation was raised from Rs. 15,000 to Rs. 18,000, reduced the personal income tax rate by about 25%, abolished the compulsory deposit scheme which was introduced in 1974, and scrapped the licence fee for radios and TVs. The huge budget deficit arising from these tax concessions was covered through borrowing.

Industrial licencing was substantially liberalised with a view to removing entry barriers and achieving economies of scale. The MRTP limits were raised to Rs. 100 crores of assets; 25 broad categories of industries, including electrical machinery, electronic components, machine tools and industrial machinery and 82 bulk drugs and related drug formulations were delicensed. 22 industries, such as pig iron, air compression and internal combustion engines, were delicensed for MRTP/FERA companies, provided they were willing to locate such industries in backward areas. Capacity was allowed to expand automatically by one-third per year. A new textile policy removed constraints on the production of synthetic fibres by the small sector.

Trade barriers were lowered to stimulate exports and update technology. Import of capital goods, raw materials and technology were liberalised.... by including them in the OGL list. In the case of capital goods for projects, customs duties were drastically slashed form 105% to 45%, with even sharper cuts for power (25%) and virtually no customs duty for fertiliser projects. Export duties were removed on several commodities such as iron ore and cotton. The 1985 budget also gave tax exemption to 50% of the profits from reports.

The NEP thus enlarged the area of operation for the private sector by eliminating or relaxing controls to the private sector, reducing and even delinking budgetary support to the public sector, diluting the planning process and allowing market forces an enhanced role. The share of public sector investment in the Seventh Plan outlay declined to 46% from 53% in the Sixth Plan.

The NEP drew vehement opposition from the trade unions. The public sector has the most organised trade unions at the All India level and as the workers in the public sector have job security, cheap accommodation, automatic promotion and educational and health facilities, any move to undermine their privileged positions naturally creates strong resistance. In fact, the real incomes of the public sector employees increased at an annual rate of 5% since 1975 and hence stood in the forefront to resist any erosion or deterioration of the benefits they had hitherto enjoyed. Even a section of the big bourgeoisie was interested in preserving the role of the public sector as it provided cheap infrastructure and capital goods to the private sector as well as created demand by providing employment. Starting with the slashing of budgetary support for the public sector it took another five years to venture into disinvestment i.e. privatisation of the PSUs.

Private corporate sector received further tax concessions throughout the first phase of liberalisation (1985-1991). The government first reduced the surcharge on corporate tax from 7.5% to 2.5% in 1981, then exempted it in 1984 provided an equal amount was deposited with IDBI, and dropped even that condition in 1987. Depreciation allowances were liberalised from 10% of the value of taxed assets to 20% in 1983 and in 1985 tax rates in all slabs of corporate profits were lowered by 5%. Exporters were allowed tax exemption on 50% of their export profits and in 1988 their entire profits were exempt from tax.

The big business and the foreign TNCs gained on three counts :

(i) Falling relative prices of agricultural produce and growing unemployment prevented the wage costs of industrial products from rising i.e., the cost of labour became cheaper thereby earning greater profits to the industrialists.

(ii) Relaxation of controls and industrial licensing strengthened monopoly control over product markets thereby enabling the big business to maintain the prices of industrial products at profitable levels. The bigger industrialists who were linked closely with the ruling party and enjoyed excessive state patronage, like Reliance and Chidambaram, gained the maximum. While assets of Reliance grew by 12 times in 7 years (between 1981 and 1988-89), those of Chidambaram group grew by 24 times.

(iii) Increasing Collaboration with foreign capital provided the Indian big business additional strength and access to new product lines and technologies. During the decade 1980-89, 7,295 foreign collaborations worth Rs. 2,100 crores of foreign investment materialised. Between 1984 and 1989 foreign collaborations increased from 9,024 to 13,369 with the foreign investment increasing from Rs. 2,477 crores to Rs. 3,374 crores. Total repatriations also grew from Rs. 144 crores in 1980 to Rs. 813 crores in 1989. As a proportion of outstanding foreign investment, they jumped from less than 20% during the early 1980s to 30% after the mid-80s.

The threshold limit of assets for MRTP companies was raised from Rs. 20 crores to Rs. 100 crores in 1985. The growth in assets and sales of the top 20 industrial houses during the 1980s was phenomenal as can be seen from the Table No. 25

Much of the increase in assets came from external sources mainly through public deposits and the capital market. New issues of shares increased from Rs. 200 crores in 1981 to Rs. 1,200 crores in 1990 and debentures and private loans from Rs. 200 crores to Rs. 5,400 crores. The total capital issues of private companies constituted 1.4% of the gross domestic savings in 1981 and increased to 7.3% by the end of the decade. The corporate shareholders increased from 10 lakhs to around 12 lakhs during the decade.

Intensification of the Economic Crisis in the first phase of Liberalisation (1985-1991)

The decade of the 1980s was marked by high inflation and unemployment i.e., stagflation, increasing industrial sickness, acute fiscal crisis and huge trade deficit.

The prices of manufactured products rose at an average annual rate of 9% in the 80s. They rose faster than the prices of agricultural products notwithstanding the higher growth rates of industry. The deterioration of the domestic terms of trade of agriculture led to an upsurge in the farmers movements led by the agricultural bourgeoisie.

In the organised sector as a whole, the growth rate of employment declined from 2.5% per annum in the 1973-78 period to 1.4% per annum in the 1983-88 period while the labour force grew at 2.3% per year. Industrial sickness, closures and lockouts led to this decline in the growth of employment in the organised sector. The share of the organised sector (both public and private) in total employment was in the unorganised sector, including agriculture. The proportion of casual labour within agriculture increased. In the manufacturing, construction, transport, storage and communication sectors, employment shifted to the unorganised sector. In the manufacturing sector, the share of unorganised sector in employment increased from 67% in 1972-73 to 76% in 1987-88 and in the transport sector form 24% to 51% over the same period.

To sumup, the trends in changes in employment in the 80s are : growth of employment decelerated as a whole with its relative composition shifting from agriculture to the non-agricultural sector, organised to the unorganised sector and permanent to casual work. Between 1980 and 1988, large sick units increased by 187% (from 409 to 1,172) and small sick units nine-fold (from 23,000 to 2.17 lakhs). Total funds locked in all sick units increased by 174% from Rs. 1,826 crores to Rs. 2,000 crores. The intensity of lock-outs, measured by the number of mandays lost, increased from 5 to 78% between 1979-81 an d1986-88.

Closures of industry increased as the big business houses resorted to several practices such as shifting production to new locations, subcontracting production, retrenchment of employees, voluntary retirement schemes, transfers etc. in order to bypass legal restrictions.

For example, Searle's unit in Thane was closed down by shifting its production to Gujarat; Hindustan Lever's Severee Plant in Bombay was locked out after sub-contracting its production to more than thirty small firms; Murphy in Bombay sub-contracted its production as well as imposed VRS, and BIFR declared the plant sick; Alembic Glass Works in Bangalore (with 150 acres of land and employing 1,000 workers) and its plant in Baroda (with 1,500 workers) were transferred to a sister concern, Dharak Company, leaving the workers with no choice but to accept VRS.

The big business and foreign companies could enforce such defacto closures despite the government regulation introduced in 1976 that no factory employing 300 or more workers can be closed without the permission of the state government.

All this led to an alarming increase in unemployment. In 1987-88, the 43rd round of national sample survey estimated that 1.24 crores of people were unemployed.

Trade and revenue deficits too increased sharply during the 1980s. The trade deficit was below Rs. 3000 crores until 1979, then reached the range of Rs. 5000-6000 crores during the 1980-85 period and Rs. 8000-10,000 crores after 1985 inspite of a massive growth of exports. In 1989090, the trade deficit stood at Rs. 14,000 crores. Even after adjusting for the remittances of Indian workers abroad and other invisible items, the current account deficit in 1989-90 was Rs. 11,000 crores which was about 28% of the foreign exchange earnings of about Rs. 40,000 crores. At the same time, exports increased at an annual rate of 16% during 1985-90 period reaching a high rate of 35% in 1989-90. But due to the steady depreciation of the rupee and rapid increase of imports, trade deficit showed a sharp increase. The value of the rupee declined at an annual compound rate of 11% between 1985 and 1990. While the Seventh Plan' target for trade deficit was around Rs. 4000 crores, it touched Rs. 14,000 crores in the last year of the plan (1989-90).

The reasons for this sharp increase were three-fold :

(i) Rapid increase in imports due to the import Liberalisation policy of the 80s. The import of capital goods, components, spare parts and raw materials i.e., non-bulk imports increased from about Rs. 9000 crores (45% of total imports) in 1985-86 to Rs. 21,000 crores (60% of total imports) in 1989-90. Most of the capital goods imported were meant for the production of goods for elite consumption and for projects set up under foreign aid programmes such as petrochemical complexes. Also export-related imports increased form Rs. 2,366 crores (12% of total imports) in 1985-86 to Rs. 6,803 crores (19% of total imports) in 1989-90. Thus the liberalisation policies led not to the strengthening of export production but the production of import-intensive elitist consumer goods. On the whole, the liberalisation policy and the industrial investment programme of the post-1985 period has only resulted in a capital-intensive and import-intensive pattern of industrial production that has led to severe Balance of Payments crisis by 1990 along with massive unemployment and industrial sickness.

(ii) The burden of external debt servicing also contributed to the trade deficit. External debt servicing increased from 18% of the export earnings in the mid-80s to 30% in 1989 as external debt rose form $41 billion in 1985 to $69 billion in 1990. Moreover, the composition of the external debt under went a change so that the proportion of commercial loans and NRI deposits which are fast maturing and costly, increased from 27% of total liabilities in 1985 to 43% in 1990. See Table No. 26

(iii) Massive increases in imports on government accounts, especially armaments. About $18 billion worth of military equipment was imported between 1985 and 1988.

Revenue deficit, which appeared for the first time in the union budget of 1980, continued to increase with every passing year since then, the reason being massive concessions in corporate tax, wealth tax, personal income tax etc, on the one hand, and sharp increases in government expenditure on defence, administration, subsidies and interest payments on the other.

Defence expenditure shot up by 24% in 1986-87 and continued to increase for the next few years. To meet the budget deficit, government resorted to public spending thereby increasing interest payments. Defence spending , subsidies and interest payments together increased by 660% from 1979-80 to 1989-90 while GDP increased by only 400%.

Thus due to increases in budget deficits, social services like education, primary health care, provision of drinking water, sanitation and rural infrastructure were neglected. Government has also been borrowing more and more to pay interest on its debt i.e., it is caught in a debt trap.

By 1991, when the second phase of liberalisation and globalisation began, India had Rs. 3,400 crores of foreign investment, 13,400 foreign collaborations and an outstanding foreign debt of $70 billion. Indian economy was further transformed to suit the needs of world capital accumulation and was all set to play the role of a junior partner of the international bourgeoisie and to sell out the country's interests totally to imperialism.

1991-Phase of Globalisation

The first phase of liberalisation which began in 1985 laid the basis for the further integration of the Indian economy into the world capitalist economy. It made India's economy vulnerable to external stresses and shocks as dependence on the external markets for both imports and exports increased in significance. The pattern of industrial production became capital and import-intensive with an orientation towards exports and goods for elitist consumption. The public sector was deprived of budgetary support thereby creating the conditions for the privatisation of profitable public enterprises. The interests of both international capital and the Indian big comprador capital required further liberalisation of the economic policies, privatisation of the public sector, total deregulation and a restoration of the market forces. Most important of all, the international capital, in conformity with its needs for further capital accumulation, needed the transformation of the Third World countries into bases for producing goods cheaply for the world market.

As rates of profits of the huge corporations declined during the 70s, they began to relocate industries to cheap wage areas of the Third World, where there were adequate infrastructural facilities. The World Bank and IMF launched massive programmes for developing infrastructure like roads and railways, telecommunications, power generation etc to facilitate the entry of transnational capital to the backward areas. Educational and literacy programmes, beautification of cities, drinking water and drainage schemes, sanitation etc., were also funded by the World Bank, IDA, ADB and other multilateral agencies with the same objective. The policies of Third World governments were changed to suit the new requirements of international capital. The rising wage costs in their own home countries, prompted them to shift their operations to Third World countries like India. But in order to facilitate their operations in these countries, the TNCs have to restructure the Third World economies, remove all restrictions on imports and exports, on repatriation of profits, reduction of customs duties and removal of all tariff barriers. In short, international monopolies required the free movement of its goods, technology, capital and labour - a world without borders - for exploiting every country at will. This is the meaning of globalisation. It is to achieve this objective that the Structural Adjustment Programmes of the World Bank were thrust on about 80 Third World countries during the 1980s.

Three major problems faced by international capital in the later half of the 1970s led it to dictate SAPs on third world countries.

1. First was the falling rates of profit of the giant industrial corporations and the consequent need to relocate production to cheap wage areas. Intense competition between the various TNCs in a near-stagnant world market too has pushed them to adopt the strategy of shifting production the third world while retaining total control over patents, technology and even ownership. Hence there was a massive flow of

FDI during the 1980s. It increased 4 times faster than world production and 3 times faster than world trade between 1983 and 1980. By 1990 the total FDI touched a figure of $1.5 trillion.

2. The second factor was acute debt crisis of the third world. Most third world governments borrowed heavily from various imperialist agencies, governments and private commercial banks during the 1970s and early ’80s. This led to repayment crisis for several countries starting with Mexican debt crisis in 1982. As the debtor countries were caught in a veritable debt trap (i.e. resorting to more borrowing only to meet the debt-servicing obligations), several banks faced the prospect of collapse. And to get back the loans with interest from crisis-ridden economies of third world, the only way in the eyes of the creditors was to reorient the economies of the debtor nations to exports so that the earnings from the exports could be used to meet the debt-servicing obligations. Simulataneously austerity measures are insisted upon i.e., slashing of government spending on social welfare, subsidies etc., as well as selling off public sector units and other government property so as to repay the debts. Loans are also sought to be converted into equity through what are called "debt-to-equity swaps". Thus it became the imperative need of transnational banks and other imperialist financial agencies as well as governments to force SAPs on the indebted third world countries inorder to recover their loans.

3. The third factor that drove internatinal capital to dictate liberalisationand globalisation policies on third world countries is there need to shift their short-term capital freely from one corner of the globe to another in search of maximum returns in the shortest possible time. The prolonged industrial stagnation and slow growth of the world market after 1973 has diverted an ever-increasing proportion of accumulated surplus in the hands of the banks, financial institutions and owners of finance capital, into speculative activity apart from loans to the third world. While fear of industrial collapses dissuaded the bankers and owners of finance capital to lend to the industrial corporations, the latter too had little need for borrowing as they were already operating at very low capacities. Thus during the 80s and 90s speculation and non-productive spheres attracted the largest share of the accumulated surplus. Trading in shares, bonds, currencies, futures etc showed spectacular increase in 1980s and 1990s. The value of the international bonds, for instance, jumped from $259 billion in 1982 to $1.65 trillion in 1991. The amount involved in currency transactions in 1991 was estimated to be around $900 billion a day.

Formerly, world trade was the dominant aspect in world market. World trade grew at an annual average of 8.3% during the 1960s but declined to 4% during the 1980s. At the end of the 80s, daily currency transactions in the big currency market equalled monthly world trade. The annual increase in banking transactions was 9 times that of FDI. In 1980, the loans advanced by the international banks was $32.4 billion or about 4% of GDP of OECD countries. By 1991 this increased to $7.5 trillion or 44% of the combined GDP of OECD countries.

Today international market means not the market of goods and services but that of securities, currency exchange, futures etc. Free market means a place where transaction of currencies and securities can be carried out freely with out any hindrance by government restrictions. The flow of foreign capital into the third world during the 1980s and 90s has been primarily on a temporary short-term basis and went into speculation and not as FDI into new industrial undertakings. This volatile capital also called Hot Money’ has gone into the buying and selling of shares and bonds in the secondary markets than into fresh investment in the productive sector. It would flow overnight from one capital market to another, from one country to another in search of greater and quicker profits. There has thus been a resuffling of assets than creation of new assets. The FII investments into the Indian capital market since 1993 are of this nature. They create havoc in the economies of host countries through sudden withdrawls from the capital market and also bring about sharp depreciation in the currencies through heavy selling. The Mexican crisis in 1994 and ongoing crisis in the entire south east Asia is due to the manipulation by these international currency and stock brokers. The globalisation of finance is made possible due to the rapid advances in communication technology during the 1980s by which electronic transfers of hot money can be made in the matter of a few seconds from one country to another. Liberalisation and globalisation are thus aggressivly promoted by these international financial swindlers and brokers.

So it is this trinity of huge TNCs and MNCs numbering around 37,000 with 1,70,000 branches all over the world; transnational banks that had lent massive loans to the third world; and the international financial brokers and currency speculators who are dictating policies of liberalisation, privatisation and globalisation to the third world governments through their agencies like the World Bank, IMF and WTO.

Using the severe BOP crisis that India faced in 1‘991, the newly elected Congress government began to implement these policies dictated by the imperialists in full swing from July 1991. Structural Adjustment Programme (SAP) has been thrust upon the country. The impact of these policies has been disastrous in every sphere of the economy. The trade deficit which was \$2.8 billion in 1991-92 increased to \$5 billion in 1994-95 and \$8.9 billion in 1995-96. This is due to the faster growth of imports over exports due to import-led-export orientation policies of the government. While exports increased from \$18.3 billion in 1991-92 to \$32.5 billion in 1996, imports over the same period jumped from \$21.1 billion to \$41.4 billion. The current account deficit increased from \$1.2 billion in 1991-92 to \$5.4 billion in 1995-96 i.e., 4 1/2 times in four years. Although foreign exchange reserves increased by about \$15 billion over 1991-92 to 1995-96, short -term liabilities i.e., net commercial borrowings (\$3.2 billion) + portfolio foreign investments (\$14 billion) + NRI deposits (\$5.3 billion) and other short-term capital flows (\$3.4 billion), increased by about \$26 billion. As on mid-February 1997, forex reserves were \$20.7 billion but short-term liabilities were \$39.6 billion. This indicates the extreme fragility of the BOP situation.

The period after 1980 is in some way similar to that of 1930s.The world economy sunk into neck deep crisis, massive unemployment, collapse of the British hegemony and no single imperialist power having absolute control, falling of Pound as international currency and emergence of no other currency to replace its position, exchange rates becoming more flexible and floating, the competition among various imperialist nations being intensified etc., are the important characteristics of the crisis in 1930s. Collapse of American imperialist hegemony, no other imperialist nation in a position to exercise absolute control, intensification of the competition, collapse of US \$ as world reserve currency, floating exchange rates coming into existence etc., came to forefront as major issues in 1980s. But the important difference as mentioned above is that while the Keynesian theory came forward to resolve the crisis in 1930s, it is the Monetarists theory which emerged to resolve the crisis erupted since 1970. Monetarists prescribed the reduction in expenditure, cutting down the subsidies instead of printing currency to reduce the budget deficit. They preach the same Adam Smith’s principle of “invisible hand” which says that the market forces will regulate the economy.

The free market, free trade policies which are supposedly introduced by Thatcher in Britain and Reagan in America are in fact the policies which reflect trade monopoly and control of monopolies over the market. The jargon free trade, free market are nothing but a garb of the monopoly of the international finance institutions and multinational companies. In spite of its many short comings this theory was acceptable during Adam Smith period when the situation was of the free competitive stage of capitalism. In the present situation when both capital and production are centralised as never before, the free trade economic principles are the most treacherous ones. Their sole objective is to allow the flow of the capital of multinational companies (TNCs & MNCs) to every corner of the globe. They intended to modify the policies of the various governments accordingly. With this the multinational companies earn immense profits by shifting the factories to the places where the wage level is low and reducing the wages further increasing the productivity of the labour by reducing the labour through the process of rationalisation etc. In the interest of multinationals only the international financial institutions like IMF, World Bank, IDA, IFC are pressurising the various governments to alter their policies.

The Globalization policies which were started in the middle of 1970s had brought sea changes in the international finance sector. As the whole world is brought few seconds apart through satellites and other modern information technology, it became possible to manage the business transactions from far off places with the help of remote control of computers and with modernisation and increase in the speed limit of transport facilities and since it is possible to divide the production process in large industries into small activities these large industries are shifting thousands of their activities to many countries. Depending upon the situation they are extending their production process world wide to increase their profitability. For this only the MNCs are making hue and cry for the creation of the “world without boundaries”. As per this world strategy of MNCs, the international imperialist institutions like IMF, World Bank are encouraging liberalisation, privatisation and Globalization policies in every country and demanding to establish the export-oriented industries. The factories set up by an MNC in various countries will produce one or more spare parts. They aimed to export them to the country where the final assembly takes place. Hence the production is not useful for the country in which they are actually located as it is not meant for the domestic needs.

For example the Pontiac car manufactured by the number one automobile industry in America i.e. General Motors is not completely produced in America. It is manufactured by assembling the different parts manufactured in various countries. Out of the total amount of 20000 dollars realised by the sale of this vehicle, 6 thousand dollars will go to South Korea where the final assembling has taken place, 3500 dollars will go to Japan for manufacture of advanced parts (engine, electronic spare parts etc.), 1500 dollars will go to West Germany for design engineering, 800 dollars for Taiwan, Singapore and Japan for manufacturing small parts, 500 dollars to Britain for advertising and marketing services, 100 dollars to Ireland and Barbados for data processing and the remaining 7,600 dollars will reach the bankers and lawyers in New York, lobbyists in Washington and share holders of the General Motors. Every country is forced to change its policies to produce and export the spare parts and raw materials for the goods produced by the multinationals like General Motors. The present liberalisation, Globalization, export oriented economic policies are part of this only. Various countries are providing tax exemption for the export oriented industries. If we keep in mind the fact that about 40% of the total world trade is carried between the subsidiaries of multinationals, it becomes crystal clear that the present monetarists theories are brought forward to safeguard the multinational institutions.

Only because of this there is a massive increase of FDI during the period between 1983 and 1990. Its growth was more faster than four times of the world production and three times of the world trade. By the end of 1990, it reached to 1.5 trillion dollars. By the beginning of 1990, the total MNCs world wide were 37,000 and were having 1,70,000 branches under their control. Some of them are so powerful that their turnover is more than the GDP of many countries. The turnover of single Royal Dutch Shell alone is more than the combined GDP of Chile, Peru and Singapore. In 1990, the 100 largest MNCs were having property US $ 3.1 trillion world wide. This was 16% of the total world productive assets. The assets and turnover of the MNCs like General Motors, IBM, Ford Motors, Phillips, Siemens, Sony, Nestle, Unilever, Asea Brown Boveri, British Petroleum, Ericsson, General Electric, Toyota, Mitsubishi etc., is more than the GDP of many countries. There is no need to mention separately that their control is some times absolute on various countries. In the interest of these multinationals only third world countries fallen into the trap of structural adjustments.

Without any concern to the domestic needs and resources and without having any co-ordination with the agriculture, they are setting up industries to produce spare parts and providing other incentives and service units required by the MNCs. We cannot understand the changes in India after the middle of 1980s without seeing from this background.

– The rapid increase of the finance sector. for example the value of the international bonds increased from 259 billion dollars in 1982 to 1.65 trillion dollars in 1991.

– In 1980 the total international bank loans were 32.4 billion dollars which is 4% of the GDP of OECD countries. By 1991 it increased to 7.5 trillion dollars or to 44% of the GDP of OECD countries.

– The currency business was estimated to be 900 billion dollars per day in 1991.

– In 1970 the foreign transactions in America were 3% of its GDP. This increased to 9% in 1980 and to 13% in 1990. In case of West Germany it changed to 3%, 8% and 58% and in case of Japan it changed to 2%, 7% and 19% respectively.

Besides this we have seen that the FDI has increased by three times. World is becoming closely integrated. Emergence of world capital markets is the important development during this period. Earlier global trade was the principle factor in world market. The aggregate global trade which was 8.3% in 1960s fallen to 4% in 1980s. Globalization does not mean the growth of world trade. It is the emergence of world capital market. Extension of MNCs taking the whole world into single unit is the essence of the Globalization. MNCs are bringing the total world resources under their control, cheapening of the labour power world wide, dislocation of factories freely to different regions as per their requirement, pressurising the nations to adopt liberalisation policies and not opposing their exploitation policies is the essence of this Globalization.

The real objective of MNCs is not to produce goods or to develop and transfer the technology to the third world countries. MNCs objective is to increase their profits by any cost. For this they can enter into any sector. Their search for profit is forcing them to enter into finance sector in a big way. According to ‘guru’ of big business, Peter F Drunker, the 90% of the financial transactions in MNCs are not meant for their economic needs. They are totally related to financial aspects and in essence related to speculative business. This speculative business boom started in America, Europe and Japan is extended to the remaining third world countries since 1980. The junk bonds in America display the ugliest form of this speculative business. Factories are bought and sold for profits with these bonds.

By 1990, 200 billion dollars were invested in junk bonds. They have nothing to do either with the profits or with the production of the company. This speculative business is growing without any limits in foreign currency transactions and secondary markets. It is not an exaggeration when we say that the MNCs, international banks and other service institutions are making profits only on this gambling. The role of banks now is more in buying and selling of bonds and securities than lending. The reason for the investment in securities is their price fluctuation. With the difference in values of various currencies and accordingly difference in securities prices, the buying and selling of securities is being done in crores of rupees daily. The changes in security prices affect the value of currency since 1980, the exchange value of national currencies are reflecting more the speculative business transactions than their respective economic strength. There is a clear demarcation at the international level with the real economy (trade, production and consumption etc.) on one side and finance sector on the other side. The finance sector started controlling the real economy.

By the end of 1980s the amount of foreign exchange business in large currency markets in a day equalled with the amount of world trade in a month. The growth in international banking transactions is more than nine times of the total FDI. Now the international market is not the market for goods and services. It is the market of securities and currencies. Free market is to be understood as a place where the securities, currencies are exchanged with out any obstruction from government.

This foreign finance capital works on short term preferences. It enters freely into the third world capital market for short term investment (this is known as 'hot money' and it will not facilitate the industrial growth) and withdraw immediately soon after they earn profit and enter into another country where the prospects of profitability are more. The governments in these countries have no control over the finance capital. Presently the MNCs are carrying out their activities in different forms. Important among them are:

i) *Vertical integration* method i.e. manufacturing the various spare parts and carrying out various operations in different countries under the centralised control. The manufacture of Pontiac car above mentioned or any other car is now done in this manner.

ii) *Horizontal integration* i.e. producing the same product in different countries simultaneously. With this method it is possible to close down a factory in one country and continue in other country as per their requirement. With the facility of producing the same product in different countries it is possible to export from one country to the other country and make huge profits. This is known as Transfer Pricing. Depending on the currency exchange rates MNCs export their products to their own industries in different countries. Multinationals are able to apply this method by establishing 100% subsidiaries in various countries. We know about the Union Carbide of Bhopal. There are many such. They are on the rise in the recent period. For example the Reebok shoe company has set up a 100% subsidiary in the country for producing sports shoes and garments. It is exporting the shoes manufactured from India. In the mean time it is manufacturing same shoes in other countries. With the subsidiary and subcontracting it is earning additional profits. It is also exporting the shoes manufactured by various Indian shoe manufacturers by labelling with them its brand. It also made an agreement with the domestic shoe company Phoenix for selling its products in Indian market. The number one shoe company Nike also entered in our country in the similar manner.

iii) *Sub Contracting* : This subcontracting is growing day by day in many third world countries. By contracting to local manufacturers (various ancillaries) for the manufacture of spare parts and other operations instead of manufacturing in their own factories, the MNCs are relieved of many risks. For example the Indian companies like Wheels India for Belgium's Cater Pillar, Bharat Gears for America's DANA, Bharat Forge for Germany's Mercedes-Benz. Breaks India for Netherlands' DAF, Sundaram Fasteners for America's General Motors are manufacturing radiators caps and other spare parts. The relationship between them is often described as strategic relationship. Naturally these companies who manufacture spare parts for the TNCs on long term basis acquire the comprador characteristics. Subjected to the mercy of the TNCs, they amend the policies accordingly. The strategy of export oriented growth was aimed to help these comprador subcontractors.

iv) Another easy method is to set-up *Joint Ventures* with comprador bourgeoisie. The control of Joint Ventures is with the MNCs. Whether it is subcontracting or whether it is Joint Venture, the strategy adopted by the foreign capital is to buy goods from the respective domestically established companies and label them with their trade mark. The agreement made between Parley and Coca Cola is an example for this. With an hope to sell their products in other markets many firms of the comprador big bourgeoisie affiliating with foreign companies placing their national markets in the hands of MNCs.

v) Another important method to continue their exploitation is buying out the local industries. This is also known as Take-Overs. There is no fresh capital flow in these take-overs. As there is only change in the ownership of the existing factories. With this the market of the local companies will also go to the TNCs. This is most secured and easiest way to enter into any country's market. And depending on the acquired share in the market it tries to capture the total national market with its global brand. Most of the foreign monopolies entering into India in the recent period belongs to this category. For example Parley company used to hold 60% of the national soft drinks market. Prior to 1991, TNCs were not allowed for 100% ownership in such consumer goods and hence in Pepsi company majority shares are not with Pepsi. Pepsi and Voltas had 44.35% each and the remaining 11.3% was with Punjab Agro Industries. Because of this the Pepsi could not drive away the Parle from the market. But by 1993, when the Coca Cola has entered, 100% ownership is allowed and Indian companies like Parle who cannot compete with it were forced to either close down or surrender to it. By selling its brands of Thums Up, Gold Spot, Maza, Citra and Limca for 60 million dollars, the Parle company was reduced to the bottling company for Coca Cola. To compete with Coca Cola, Pepsi had bought a local cold drink company Duke (It has 37% of the Bombay market which is more than Pepsi's) bought the Voltas share. We can easily understand the future consequences of the country when the companies like Duke and Parle with 60% of the market could not stand the competition from the TNCs. We can see the similar situation in many industries.

The group of Harbans Lal Malhotra was the market leader in shaving products. The world market leader Guillete was having only 10% of the market with its Indian partner of Indian shavings Products Limited. Prior to liberalisation Guillete was not allowed to acquire majority share. Recently when it was allowed to increase its share 51%, it had not only acquired the Willtech India belonging to RPG group. Now it is in a position to absorb HLM.

Quality company has 50% of the ice cream market in India. Recently the Brook Bond Lipton India belonging to Unilever group acquired the marketing network of Quality in Northern, Southern and Western part of India. Despite the Quality has the ownership of manufacturing unit it can produce only for BBLI. Meanwhile BBLI had bought another ice cream company Milk Food (belonging to Jagjit group). Presently another TNC, Nestle is trying to get the control of the marketing network of other ice cream companies (like Vadilal, Arun and Joy) to its control.

In soaps and detergent industry the Indian companies like Godrej, Tata Oil Mills Company (TOMCO), and Nirma are competing with multinationals like Hindustan Lever and Procter & Gamble for a long time. But as the government allowed for mergers they are forced either to surrender or to merge with them. Tata group has decided to give up its ownership in TOMCO and merge with Hindustan Lever. It has agreed to sell 51% of shares to Unilever at a cheaper price. Another TNC, Procter & Gamble (P&G) has struck a deal with their competitor Godrej Soaps Limited. They have decided to form a new company with 51% and 49% shares respectively. In this new company the Godrej will provide the production facilities and marketing network, and P&G will supply its international brands and technology. As part of this deal Godrej Soaps Limited agreed not to introduce another soap to compete with the soaps produced in company controlled by P&G.

Bajaj Electricals which is playing an important role in home appliance goods market formed a Joint Venture with an American TNC, Black and Decker and withdrawing its products from the market. From now onwards, Bajaj will market the goods produced by the new company. A Swedish firm Electrolax had bought 51% share in another home appliance company, Maharaja International.

One can understand easily, how dangerous these take-overs are, by observing the methods adopted by the world's largest electrical company, Asea Brown Boveri (ABB) in India. It has plans for investing one million dollars in the shares of Indian companies in the next 10 years. After taking over the sick ABL company, it is trying to buy the Karnataka State Government owned NGEP, which manufactures electric motors and transformers. It has completely taken over the affiliated company SAE India, which has a power transformer line production factory. If it succeeds in its efforts it will become the main competitor for Bharat Heavy Electricals Limited (BHEL). It has recently announced its willingness to buy BHEL either in parts or in total.

French company VIS, has set up a JOINT VENTURE for producing photographic and duplicating equipment with 50:50 partnership with Godrej.

Similarly many TNCs are trying to take-over small and big Indian companies in their sectors. With this the TNCs are trying to acquire full control of Indian national market. While the majority of the Indian comprador industrial houses had welcome this kind of policies, only a few prominent groups expressed their dissentment (how small they may be). For example Hariprasad Singhania belonging to Bombay club has said that the domestic companies should play a fundamental role in Indian development and asked to frame protective policies so that the foreign capital is restrained from acquiring the majority share. Similarly Thapar, Rahul Bajaj had openly criticised the policy of granting automatic approvals in most of the industrial sectors. They opposed when the government allowed automatic approval to TNCs for acquiring 74% share in many industries in December 1996. Expressing his objections to the government to its automatic approval to foreign capital, Adi Godrej the Managing Director of Godrej Soaps has said like this:

" In most of the sectors the international companies can automatically (without requiring government's approval) put 51% of the equity with in two days in any Indian company,. Where as government's approval is required for an Indian company when it wants to invest 51% share in any other Indian company it may take up to six months. Loans are freely available to international companies. There is no restriction for them. But an Indian company has to follow the RBI's guidelines to get loan."

But they all are not opposed for collaborating with TNCs. Their objection is only against allowing majority share to TNCs (not in all but limited to few sectors). The prime objective of majority bourgeoisie group is to collaborate with these TNCs and make profits by making use of their world famous brands and marketing network to the extent possible.

To beat their competitors in Indian market, every comprador is trying to tie up with any one of the TNCs. They also hope to get share in the foreign market how little it may be. Let us see them in detail with some statistics.

First we will see the foreign collaboration approvals from 1948 to till date.

From the table No. 27 in the next page it can be noted that while 58 agreements were made in 10 years period 1948-58, 1315 agreements were made in just two years 1991-93, i.e. 26 times. The aggregate annual foreign capital increased from Rs.5.36 crores between 1967-79 to Rs.442.80 crores for the period 1991-93, i.e. about 900 times.

TNCs pressing for the changes in the government policies to allow foreign capital into third world market does not mean that they are interested to enter into the country immediately. Before transferring their capital, goods, technology and services they look for a situation favourable to freely repatriate the profits earned there and export the goods produced to other places. Customs duty should be reduced on their goods. They demand incentives for exporting. Laws are to be modified to facilitate the use of cheap labour. This, they don't need in single country but require world-wide. It means they should be allowed to enter into or withdraw from any country at any time (it is need not mention separately that FDI flows to the place where profitability is more). Since all the countries are competing among themselves to attract the foreign capital, they are increasingly surrendering themselves and framing the policies as per the directives of the TNCs. Countries like East European countries, 15 Republics belonging to the erstwhile Soviet Union, China and Vietnam are also competing for foreign capital, the third world countries are placing their resources cheaply in the hands of foreign capital. Globalization of labour is gradually increasing and thereby reducing the wages of the labour on world-wide. From imperialist's point of view the meaning of Globalization is nothing but only this. We will see again how this situation has benefited the Indian comprador capitalists. The strategy of the TNCs can be understood if we see the difference between the approved foreign collaborations and the actual FDI flown into the country between 1991 and 1996. TNCs adopt the strategy of getting approvals in different countries and invest only in the countries where profitability is maximum. If any country defies its dictat then they will not start the projects even after it was approved.

For instance, while the total number of foreign collaborations approved during the period between 1991 and July 1996 are 9,333 amounting to Rs.78,240 crores, where as the actual inflow is only Rs.10,374 crores. It means only 1/5 of the approved capital came into our country. Foreign companies after getting approval pressurises the government to change its policies and threaten to withhold the investment.

RBI estimated that the total FDI as Rs.256 crores in the middle of 1948. Most of it came from Britain. When we see sector wise almost all FDI was in mines producing raw materials, plantations and commerce. 1/4 of the FDI was in Tea, Jute industries (combined together they were 50% of country's exports). 32% was in commerce, 9% was in Petroleum and 20% was in manufacturing sector. By 1964 the

FDI was doubled and reached to Rs 565.50 crores. In manufacturing sector it increased from 20% to 40%. But all this was in light industries only.

In 1968, Foreign Investment Board was formed to regulate the foreign capital. The 'import substitution stage' as often noted by revisionists was also seen in this second stage i.e. from the end of 1960 to the middle of 1980s. In this period restriction was imposed limiting the foreign capital in Indian companies up to 40% except in few high priority or high technology industries or tea and other exporting industries for which special approval of the cabinet committee is required. New Patents was introduced in the year 1970, giving product patents for foods, chemicals and drugs and reducing the process patent period from 16 years to 7 years (in others up to 14 years). New Foreign Exchange Regulation Act (FERA) was introduced. According to this the subsidiaries of foreign companies and registered outside were required to register as Indian companies and limit their total share to less than 40%.

In 1970s the flow of FDI was almost stopped. Between 1974 and 1980 only Rs.16.30 crores of FDI came into our country. Even in absence of fresh flow, the FDI in manufacturing sector increased from 40.5% of 1964 to 86.9% in 1980 with the help of the reorganisation of stock. Government allowed the foreign capital in manufacturing sector. It brought under its control the Petroleum sector during the period 1948-76 and insurance sector in 1971. It diverted all the new FDI to manufacturing sector.

Government also put restriction on export of capital from India. This can be understood by seeing the details of the capital exported from India to other countries. Till 1970 the total capital exported was 19 crores. This was invested in 14 JVs.

By the end of 1993, the total Joint Ventures made by the Indian capital were about 600. Out of this 344 were made during 1991-93. The total capital export was Rs 1504 crores out of which 80% was done in three years (1991-93). It shows the speed of the globalization.

Growing National Income - Declining Living Standards

All those who speak about the progress of Indian economy will quote the statistics relating to the growth of GDP. After transfer of power, national income has increased by five times and they claim it as a great achievement. It is true that the national income has increased. It increased from Rs.42,871 crores in 1950-51 to Rs.2,07,791 crores in 1990-91, i.e. it has gone up by five times. Similarly per capita income increased in the above period from Rs.1127 to Rs.2,199. The claim that the national income will be doubled with in 10 to 15 years made in various plans prepared by the Indian big bourgeoisie prior to transfer of power is achieved at least by 40 years. Per capita income is not the increase in income of every individual but the income arrived at by dividing the national income by the total population. Before analysing to what extent this is useful for the people we will understand the difference between GDP, GNP and NDP, NNP.

Gross Domestic Product (GDP)

GDP is the total value of the goods and services (expressed in monetary terms) produced in a year. It is to be noted that only new products produced in the year are to be accounted in GDP.

Gross National Product (GNP)

Every country exports and imports certain goods and services. The difference between the exports and imports is called as Trade Balance. When the exports are more than the imports (in value) the Trade Balance will be positive. When the imports are more than the exports the Trade Balance will be negative. It means the National Income is reduced to this extent. GNP is arrived after adding the Trade Balance to GDP.

GNP = GDP + (Exports - Imports)

The Trade Balance has been is negative for our country since 1950-51, i.e. our GNP is always less than the GDP. But in countries like Japan, Singapore, Taiwan, South Korea where the Trade Balance is positive GNP is much more than the GDP.

Net Domestic Product (NDP)

NDP is arrived after deducting the depreciation from the GDP. Depreciation means wear and tear. In the production process the capital goods like machinery, equipment, tractors, buildings, etc., which are used in production are subjected to wear and tear in the production process. Some machines may last 20 years while some other will become useless within 10 years. If they are not replaced with new machines the production will be stopped after some time. Similar is the case with the buildings. This wear and tear is called as the depreciation. By deducting this depreciation calculated on all these capital goods from the

GDP we get NDP.

NDP = GDP - Depreciation

Net National Product (NNP)

Net National Product is arrived by adding Trade Balance to the Net Domestic Product NNP = NDP + Trade Balance

NNP is also called as National Income. But to show the National Income high our ruling classes often mention GDP as national income. As the two factors of GDP (depreciation and Trade Balance) are suppressed, the national income will definitely appear more.

By dividing the NNP with national population we get per capita income. Depending on what they wished to prove, each individual tries to depict them differently (even when the statistics are same). The danger of twisting the facts is also not ruled out. Hence we should study the statistics carefully. For example let us assume that goods and services are produced in the same quantity as previous year. If the inflation is 10%, it appears that there is an increase of 10% in GDP. If we didn't take the price rise into account the GDP appears to increase many times compared to 1970-71. This will lead to wrong conclusions in wages or any other aspect. Hence we should take any one year as base and compare with it by taking into account of the price rise. The income seen like this is called as the Real National Income.

Similarly the national income statistics will not reflect whether country's economy is independent or it is colonial or it is semi colonial economy to the imperialists. In colonial country also the national income may increase every year. With the increase of plantations, mines excavations and foreign industries, GDP may go up by many times in these colonies.

The growth of national income in our country is mainly based on loans. We have already seen how the external debt has increased. In these 40 years domestic debts increased even more than the external debt. The total central government debt (including both external and domestic) is as under.

The debts of state governments in 1993-'94 is Rs 47,689 crores. The total debt of both centre and state governments in 1993-'94 is Rs 4,88,130 crores. The GDP in that year is about 6 lakh crores. It means the total debt is about 80% of the GDP. Hence we can say that the growth of GDP in our country is mainly based on the loans. The pressure of repayment is bound to affect the production. When the fact that we need to make loans to continue the production explains the real nature of our GDP growth. Today every Indian is having a debt equal to his per capita income. To repay this debt they already started selling the Public Sector companies. Most of this national income which is mainly dependent on loans is going into the pockets of imperialists and comprador bourgeoisie. The important question here is not how much the national income is increased but how many people are benefited by this. In the last 45 years per capita income is doubled but this per capita income is not with in the reach of 70% of population. 40% of this national income is with the 10% of rich people while the lowest 20% population is having mere 7%. It means 20% of population are living in acute poverty. The per capita income is Rs 733, i.e. Rs.2 per day. In the mean time the properties of the big bourgeoisie had increased by many times. The profits of the big 10 industrial houses in 1988-89 was Rs.1,600 crores. During the period between 1980 and 1989 their assets increased from Rs.4,964 crores to Rs.32,010 crores. In case of Birla family they increased from Rs.1,432 crores to Rs.8,475 crores. Tata's assets increased from Rs.1,539 crores to Rs.8,530 crores. Reliance Ambani's assets increased from Rs.160 crores to Rs.3,600 crores.

Big industrialists, businessmen, political leaders, government high officials, stock brokers and other brokers are hoarding black money which is many times more than their legal properties. According to an estimate there was Rs.400 crores of black money was in circulation in 1957-58. Enquiry Committee for Direct Taxes (this is also known as Wanchoo Committee), in its report submitted to the government in December 1971, had given its estimation about the tax evasion and black money.

It has estimated that black money be around Rs.700 crores in 1961-'62 and the same reached to Rs.1,000 crores in 1965-'66 and Rs.1,400 crores in 1968-'69. It means the black money is doubled in seven years. On this basis even if we consider on the basis of 1961-'62 rate, it will be around Rs.25,000 crores. Since the value of the rupee has fallen to 8 paisa in the past 30 years the same should be multiplied by 12. It means the black money in circulation as per the current rate will be at least 3 lakh crore (this is almost half of our GDP).

The three components of National Income :

i) **Primary Sector**:- Agriculture, fisheries, poultry and other sectors related to agriculture.

ii) **Secondary Sector:-** Industries, mines, quarries, construction etc.

iii) **Tertiary Sector (Service Sector)**:- Trade, banking, insurance,transportation, education, health, administration, defence etc.

Since 1950-’51 to till date, the composition of these three sectors has undergone significant change. The share of agriculture which was 52.2% in 1960-’61 had fallen to 29.7% in 1991-’92. In the mean time the share of the secondary sector increased from 19.1% to 28.14% and the share of the service has increased from 28.7% to 42.8%. These details are shown in Table No 28.

It is essential to understand the changes in the service sector. Service sector is not directly producing sector. Though it may facilitate the production indirectly to some extent, its unlimited increase is mainly in sectors like administration, defence, transportation and communications. This will not increase living standards of the general public in backward countries. If there is an increase in per capita income in service sector without the increase in national per capita income means the fixed per capita income in agriculture and industrial sectors is being distributed among different sections. Which means the reduction of real income of the workers.

When the increase of per capita income in srevice sectors is supplemented by huge increase in per capita national income, then it will be useful to the whole population, but when the per capita income in service sector increases more than agriculture and industrial sectors, the living standards of general public will fall relatively. Because of this reason only, the population below the poverty line is growing in spite of the growth in national income. Not only the total registered unemployment raised from 3.29 lakhs in 1951 to above 4 crores. The gravity of the problem is known by the fact that the number of unemployed exceeds the total employees in the organised sector (public and private sectors. In 1987 public sector has 184 lakh employees and private sector has 75 lakhs employees totalling to 259 lakhs) by more than 1.5 crores. Retarded growth in industry and agricultural sector and faster growth in service sector is a symbol of parasitic economy.

This becomes more clear when we observe that most of this service sector is in the unproductive sectors like administration, defence, etc. The growth rates in different sectors compared to GDP growth rate are shown in Table No. 29.

The growth unemployment from 1951 is shown in table No 30. In 1961, the registered unemployed muster was 18 lakhs. By 1971 it increased to 51 lakhs and by 1981 it reached to 1 crore 78 lakhs.

The total registered unemployed number in thirty years from 1951-1981 is doubled in the next 10 years (by 1991) and increased to 3 crores 63 lakhs.

Another important point depicted in the table is the steady decline of employment opportunities from 1981 onwards. While the employment opportunities were 3,51,000 in 1986 they declined to 2,28,000 by 1993. Due to the implementation of liberalisation policies and replacement of workers with machines in the name of modernisation, the employment opportunities suddenly dropped from 1985. But the root is with the semi-colonial and semi-feudal society which is an obstacle for the industrial growth.

The growth in service sector is accelerated only after reaching the higher stage in total goods production by producing enough to meet the needs of every citizen. This is the characteristics of developing capitalism. But as mentioned earlier, the capitalist production in our country from the period of British rule is done in artificial manner to meet the requirements of imperialists and after that the existence of semi-feudal semi-colonial system resulted in the unequal, lopsided growth. The emergence and growth of Indian comprador bourgeoisie class also facilitated for this change. Traditionally the comprador bourgeoisie is more interested in making profits through other sectors (goods distribution, interest business, real estate, speculative business etc.) than the industrial sector and it is the main cause for this artificial growth. We will study the reactionary role of the comprador bourgeoisie in the post 1947 period in the latter part.

The point to be noted here is that the growth in national income (particularly when the fact that it includes service sector which contributes 40% of it) or the growth of per capita income is not growth of people’s real net income. We have to expose the claims of finance ministers, government economists who try to cheat with the statistics of growth rates.

Another statistical jumble is the growth of per capita food grains, industrial products. Generally all bourgeoisie economists (some of those may claim themselves as Marxists) analyse in this way. Based on this, they claim that our country became self-sufficient in food grains production and presently there is no shortage for food grains as government godowns contain sufficient (23 million tonnes) food grains. They try to prove this by showing various statistics. But what is the real situation? They say that the literacy rate has increased in an unexpected rate. But this statistics will suppress the fact that the total illiterates in the country increased by 15 crores in the same period. Similarly they say the percentage of people below the poverty line has gone down to 29.3. But they suppress the fact that the number of people below the poverty line has doubled. According to government's statistics itself when about 30 crores of people (in fact they will be much more than this) are living below the poverty line. How it is useful to this large mass of people even when the food grains production is increased to be available 466 grams per day? If all of them have purchasing power to buy the sufficient food grains, the government stocks will disappear immediately and there will be a severe shortage of food grains in the country. It is nothing but a mockery to say that the country is self sufficient just because of the stock availability in the shops and government ware houses. These claims of economic development are made without taking into account of the needs of large mass of the public.

The present real situation is known from the table No. 31

In this table the quantity of per capita availability of foodgrains is shown by dividing the total production of essential commodities with total population. It indicates growth in each product from 1951 to 1993.

The situation where 375 grams of food grains was available per person was improved only by 71 grams till 1993. With this we can understand that if we distribute the total food grains production equally to all, every one will get 466 grams. It is not at all sufficient for a toiling worker. But in reality majority population do not have the purchasing power even to purchase this 466 grams. Because of this shops are always filled with food grains in addition to the reserve stock of 23 million tonnes in government godowns. And many times more than this are in the houses of rich people. In totality this is the situation. Per capita availability of cereals rapidly declined from 1981 to 1993. It has fallen from 61 grams to 37 grams. From the above table it can be seen that the per capita availability of potatoes and other root vegetables which are normally consumed by poor people also does not exceed 2 KGs (that to for those who have money). This growth in per capita production of goods is useful only to middle class and the classes above it. It does not reflect the improvement in the living standards of 70% of the people.

It is mere mockery in case of industrial products. There is no shortage for any consumer product whether it is cement, steel, cycles, radios, watches like this or for any other product. Production increased so much that many industries are working at 30% of this capacity. They are even exporting to other countries. But in reality, if the population who cannot afford to buy the food grains is 30 to 45 crores, the population who cannot buy the essential industrial products will be almost double of this. Currently, the industrial production is meant only for 10-15 crores of people (middle class and others above it) and the remaining 80 crores cannot afford. The trend of non elastic domestic market is continuing since the British rule period. It is impossible to achieve either industrial development or the agricultural development without the expansion of the domestic market. In all those countries which are currently recognised as industrialised countries the development is based on the growth of their respective national markets. Some of them transformed to imperialist nations and went in service markets. But even today home market is the base for them

To develop the domestic market, it is essential to abolish all the pre-capitalist social relations. Firstly the semi-feudal relations to be abolished through implementation of land reforms in agricultural sector and increase the purchasing power of the large mass of peasants who are 68% and see that they receive the due share in the national income, equal to their numerical strength. Without this it is impossible for the national economy to come out of its present severe crisis. Closing of industries and carrying the production at lower capacity level is bound to rise. For this there is no other way except throwing out the existing semi-feudal , semi-colonial economic social system.

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CHAPTER - XIII

SEMI-FEUDAL, SEMI-COLONIAL ECONOMY

After the transfer of power in 1947, the most important change that happened in the Indian Economy is its transformation from colonial status to semi- colonial status while continuing the semi-feudal basis. The country which was hitherto under the exploitation and control of the British imperialists alone was transformed into semi-colonial state to various imperialists.

The comprador businessmen of India who were acting as the agents for exporting the raw materials, food grains from our country to Britain and for selling the British industrial products in India during the industrial capitalist stage had turned into the agents for the finance capital of various imperialists after 1947. This was pointed out very clearly by the representatives of the Indian industrialists during their visit to America, Britain, Germany in 1957 under the leadership of G D Birla. *" India cannot progress without external capital. It is needed in large amounts for at least next 25 years."* (from the report submitted by the representation of the Indian industrialists to FICCI.)

As pointed out by Com. Lenin that the capital export which plays a significant role in the imperialist stage i.e. the final stage of capitalism, is acting like a lever in the hands of imperialist monopolies in exporting the goods and also the obsolete technology and technological expertise at high prices as never before. The export of capital inadvertently leads to creation of permanent market for spare parts, industrial raw materials, semi finished industrial goods.

The comprador bourgeoisie class has been playing a reliable role in the continuous flow of these investments and also the imported goods into the Indian market. The trends after 1947 will prove this point. The Foreign Direct Investments (FDI) in Indian industry and financial sectors which were Rs.264 crores in June 1948 increased to Rs.2500 crores (about 10 times) by 1981. The financial capital flown into in the form of loans and grants is known as Portfolio investment. The words of the Soviet economist Lekovysky on foreign capital are most significant.

"The amount and relative size of the foreign capital does not give the correct picture of the influence of the foreign monopolies. In fact their influence is much more, because these monopolies are working in the key sectors of the economy and has the concentration of capital in its highest form. They are controlling the significant portion of the Indian capital. They have high level contacts. They also have most advanced technological inventions and engineering expertise."

The easiest way adopted by these imperialist monopolies to keep the domestic market under their control is to form the joint ventures with the Indian comprador bourgeoisie. Instead of forming the companies with 100% equity of their own if they form joint ventures they will get the reliable agents who can do every thing from getting licence from the government to selling the goods in the domestic market. Prior to 1991 itself, and when there was restriction for the foreign capital to not to exceed 40%, the foreign monopolies formed joint ventures. Even when their share was less than 40% the actual control was with the foreign companies only. Indian comprador bourgeoisie is earning profits by acting as the agents to the international monopolies in these joint ventures. From the beginning of 1970s, the international monopolies (MNCs and TNCs) had reduced the whole world into their factory by introducing the New International Division of Labour and by extending the production of a commodity to more than a single country. The manufacturing of a single product is divided into production of many independent parts which will be produced in different countries and the final product will be assembled in another country. For example in the manufacture of a car it requires production and assembling of about 4 thousand different parts. These parts are manufactured in large scale in those countries where they can be produced profitably and then they are transported to the central place and assembled there. With this the monopolies are in a position to produce cars in lakhs which would not have been profitable without manufacturing the various spare parts in such a large scale. In the initial period the industries producing the spare parts were set-up in the backward regions (the place where the manpower is cheaply available) of the capitalist countries. Gradually the spare parts' industries and assembling units were started in third world countries. TVs, Computers, Radio, Tape records, VCRs, etc., are now assembled in the third world countries. The MNCs are making super profits as the wages of the labour are very less in these countries. They are producing in various countries either by establishing their own units or by forming joint ventures with local compradors or by giving sub contract to the domestic companies. Another advantage with this arrangement is that it is very convenient for them to shift from one country to the other country whenever they face some problems (strikes, change in the government policies, exchange rate fluctuation, etc.). It is not very useful for the countries even when they confiscate them as these are only the spare parts producing industries. To say precisely what is happening in India is not the real national bourgeoisie development. As part of the international division of labour of the international monopolies, industries are established here. They manufacture only to export. These products are not meant for our country. It is being claimed that the capitalist development is progressing very fast. In fact, this is not the independent development of capitalism but a semi colonial economy.

Now all the four types of capitals, i.e. foreign private capital, foreign loan capital, Indian comprador capital and government capital; have combined as never before and are circulating as the industrial capital under the control of India. Any large Indian industry whether it is chemical or automobile or electrical or fertilisers or pharmaceuticals or machine tools - these four types of capitals are combined inseparably. The Hindustan Motors of Birlas is acting as local broker to the American monopoly General Motors. The much claimed public sector product: Maruti car is manufactured by assembling the parts supplied by the Japanese monopoly Suzuki. None of the Indian large industrial firms is working with total Indian capital, indigenous technology and indigenous equipment. The assembling of the imported parts is the only production activity in many industries here. This is known as "Screw Driver Technology". The exporting industries now being established are assembling shops and not the new goods producing industries.

Let us see how the foreign loans flowing into the country are increasing and also their role. The foreign loan was only Rs.32 Crores in 1950-"51. After 10 years, i.e. in 1960-'61 it reached to Rs.782 crores. Further it increased to Rs.6485 crores by 1970-'71, to Rs.13,479 crores by 1980-'81 to Rs.54,100 crores by 1989-'90 and to Rs.3,50,000 crores by the end of 1996.

Lenin compared the imperialists' exploitation with these loans with "skinning the ox twice". Apart from charging interest the imperialist nations insist on the indebted nations to buy goods from them even when they are costlier (tied loans), force them to enter into economic and military agreements, take full control of the key sectors through joint ventures, export the machinery and other goods which are obsolete and not useful in their country, increase the interest rates and especially inflate the loan amount artificially through devaluation of currency and pressurise to change the national political policies of the indebted nations to their advantage. The international financial institutions like IMF, world Bank are directly involved in this in India. For example, they managed to devaluate the Rupee by 36% in 1966. This had turned the Indian economy into shambles. The prices in the country had gone up immensely. Again when the rupee was devalued in June 1991, the external loan has gone up from Rs.1,40,000 crores to Rs.2,10,000 crores, though there was no change in the external loan of US $ 70 billions. It was because of the decline of value of rupee from Rs.20 per dollar to Rs.30 per dollar. Apart from this as the shares, land and other assets of Indian companies were cheaply offered to foreigners (if they can buy shares worth Rs.20 lakhs with one lakh US dollars, they can now buy the shares worth Rs.30 lakhs with the same amount) their acquisition gradually increased. The prices of the imports have gone up by suddenly.

With the increase in the external loan this kind of consequences is bound to become severe. The IMF is adopting the similar policies adopted by the British colonialists prior to 1947. Commenting on this subject Thomas Bellore had said *"The neo-imperialism will not depend on the direct control. The economic relations between USA and South America are no different in the essence from the relations, which Britain had with its colonies in Africa. IMF is playing the role of colonial rule by changing the rules of the game forcefully."*

The developed donor nations will impose many conditions. They are like buying the goods from the supplier recommended by them, buying at the price quoted by them without murmuring, using the transportation agencies suggested by them, etc. These are known as tied loans. The amount of tied loan in the first five year plan was about 82.5% of the total external loan.

By giving this type of loans America was able to sell the food grains to India at rate above 200% of the world market prices. Barring the two commodities all the 77 commodities which America sold, were at higher than the market prices.

Economically backward countries like India can export only agricultural products and other commodities which requires minimum manufacturing (raw materials). There are above 140 countries in the world like this. Where as the number of companies marketing the products of these countries are just six. It is known that even now they will not exceed 15. The prices of the goods exported by the developed countries have gone up by more than 10%, and the prices of the goods exported by the less developed countries have increased by just one per cent.

To understand the main sectors benefited by these loans let us see the loans given by IDA. The IDA (International Development Agency) has formed as an affiliated institution of World Bank in 1960. Its objective is to sanction loans without or with little interest for providing the infrastructure facilities to the industries which will be set up by the input of finance capital from the imperialist nations. It provides funds for construction of roads railway lines and electricity, educational institutions, drainage schemes, telecom, small scale industries, irrigation schemes, fertiliser production, rural development, fisheries, flood control, etc. The total IDA loan to India from June 1961 to June 1984 was $12.53 billion.

That the IDA loans are without interest or with nominal interest is for namesake only. Before granting the loan, IDA will decide what is to be brought, from whom and at what price etc. The prices are usually two or three times of the normal market prices. One cannot question even when they are more than 10 times.

To understand the semi-colonial economic status of India one has to know its dependency on various imperialist countries. Out of the total loan of Rs.202 crores during the first five year plan (1951-'56), three quarters was contributed by America alone. In the latter period India depended mainly on the six imperialist nations (America, Britain, USSR, Japan, Germany and Canada) and financial institutions like IMF, World Bank etc.

The details of the loan capital flown into our country from various imperialist countries and financial institutions are shown in the Table No 32 & 33.

From the above table we can understand that the loans are increasing every year. By March 1993 the total loan has reached to Rs.1,34,858 crores and by end of March 96, and authorised was Rs. 1,60,481 crore and aid utilised was Rs. 1,16, 652 crores. World Bank, IDA are the top lenders with 22.2% and 20.8% respectively in March, 1996.. When we see country wise Japan with 16.1% is the biggest lender. The loans are 8.7%, 5.1%, 3.9%, 2.6% for USSR, West Germany, UK and USA respectively. But if we see from the utilisation point of view they are Japan - 9.5%, America - 8%, Germany - 7.1%, Britain- 5.5%, USSR - 3.3%.

Starting with 34 million dollars in 1949, total 42 billion dollars of World Bank loan was flown into India. India alone has received 15% of the total loans sanctioned by World Bank. The role of the World Bank in various sectors has already been illustrated in Table No. 19.

The imperialist countries have been draining out in the form of interest, more wealth than what Britain had taken when India was its colony. Day by day India is being trapped into this vicious circle as it had to pay interest along with some principal amount every year. That means it has to borrow afresh to pay the interest and principal amount. For example the loan taken in 1991-'92 is Rs.11,615 crores, and the repayment made including both interest and principal is Rs.6,656 crores. The repayment amount increased to Rs.9,102 crores by 1992-'93. India had to borrow Rs.10,885 crores to pay of this amount. In this way the situation in which a country is made to take fresh loans to repay the earlier principal and the interest on it, is termed as the debt trap. It is impossible for India to get out of this debt trap. The situation will continue till proletariat seizes the political power. Till that time thousands of crores of wealth will be drained out of the country. The conditions imposed by lender has to be implemented. With this, apart from making India to remain under semi-colonial status and draining out the wealth of the toiling Indian masses, the IMF, WB and various imperialist nations are playing a decisive role in shaping the Indian political, military and economic policies.

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APPENDIX –I

INDIAN MONETARY SYSTEM

There was no uniform monetary system in pre- British India and also in the early period of British rule. During the Mughal rule there used to be about 1000 varieties of different silver, gold coins were in circulation. They vary significantly in both weight and quality. As there was no integrated market and many local markets were in existence, different rulers, feudal lords printed their own coins to show their sovereignty.

Lack of uniform monetary system and no fixed exchange rate for different coins was main hindrance for monetary transactions and for the development of commerce. This situation was favourable to Shroffs (money exchangers) who made huge profits in these transactions.

Even though East India Company made silver rupee as a standard coin in 1806, the system of printing coins with different quality and weight continued for some more time. For the first time in 1835, silver coin was declared as the only legally valid money in British controlled part of India. The weight of this silver coin was 180 troy grams and quality was !!/12. When we see for whole of India, the varied currencies were continued till 1947. But we can say that the uniform currency was in existence in the British controlled India (major portion of India) from 1835 and there were continuous changes in the standards of these British coins till 1947. Precisely speaking, they are :

1835-1893 – Silver Standard.

1893-1899 – Transitionary phase for consumer standard of gold

1899-1916 – Consumer standard of gold in practice.

1916-1925 – Consumer standard of gold was collapsed due to the First world war, but it came into practice again with efforts made in same year 1925.

1925-1931 – Consumer standard of gold

1931-1947 – Consumer standard of Sterling

In spite of the changes occurred in the monetary system as mentioned above, there was almost uniform monetary system in the British India which had facilitated the growth of external trade, centralisation of government treasury, development of modern banking and all types of monetary and commercial transactions. This uniform monetary system explains the emergence of the integrated market nation wide. This whole development reflects the destruction of self sufficient economy, integration of the major part of the national economy and integration of the same with world economic system. But one thing we have to keep in mind is that it does not mean that the total economic system was monetarised. Because, even till 1947 more than half of the rural products were meant for self consumption and there was no need for them to exchange with money. RBI has put the monetarisation of economy as 84%, in 1960s. That means about 16% of the national income will not come to the market. In fact they (products which will not come to the market) will be more than this. From the same RBI statistics it can be seen that during the fourteen year period from 1961 to 1975, the amount of surplus products that come to market never exceeded 38.4% of the total food grains. It means in the food grain production more than half is meant for self consumption. In an economy where the food production is the main component, it explains the range and hold of the natural economy.

Banking Sector :

The most important and key factor in the monetary system is banking sector. In every country banks and industries stay together. Banking capital is also known as finance capital. The merging of finance capital with industrial capital is characteristic feature of the imperialism. The work of the banks is to mobilise money from the public and made available to the government, industries and feudal lords. Rural lending is only for the name sake. Occasionally even if they give financial assistance to the small industries, their main objective is to accumulate funds for the big bourgeoisie and feudal lords.

We have seen that there were local bankers (Shroffs) in the country before the advent of British. Their activities were like exchanging the silver, gold brought by Europeans with the local coins, exchanging the coins of different regions in the country and providing capital to the businesspersons. But these Indian bankers weakened by the end of 18th century as the European agencies started conducting these activities.

The establishment of modern banks started in our country in 19th century. Bengal Presidency Bank and Bombay Presidency Bank were established in 1840 and Madras Presidency Bank was established in 1843. The East India Company was having the majority share in them. These banks issued notes till 1862. The total government funds were with these banks till 1876. With the Presidency Bank's Act 1876, the major portion of the government funds were transferred to the government treasury and sub treasuries in Taluques. The management of government funds was separated from the management of banking funds. While the European commercial banks did the foreign exchange business, the Presidency banks were mainly limited to domestic trading. These three Presidency banks were merged in 1921 and formed

Imperial Bank of India. The funds of the government treasury were deposited in the branches of Imperial Bank of India. Government loan was also managed by it. The Imperial Bank acted as banker for the government till the establishment of Reserve Bank of India in 1935. But the currency was wholly controlled by the government. As the custody of the government funds and management of government loans was transferred to RBI in 1935, the Imperial Bank was transformed into the major commercial bank. The restriction on Imperial Bank for carrying out the foreign exchange business and drawing foreign loans was removed in 1935.

During the British rule all the banks (including RBI) were under the private ownership, but RBI was acting as government banker and also central banker. Even though the RBI was a private bank, it worked under the strict control of the government. It was given the monopoly of issuing of notes. There was rapid development in Banking system after 1947.

The deposits with the RBI were increased from Rs.320 crores in 1950-'51 to Rs.65,495 crores in 1993-'94. There was rapid increase in RBI deposits from 1990-'91. In two years the deposits increased from 38 thousand crores to 65 thousand crores. The depositors in the RBI are only the governments and banks and not the individuals. Out of the total deposits of 65 thousand crores in 1993-'94, 53 thousand crores belonged to Scheduled Banks. RBI managed deposits in these large amounts because of the condition that every bank should deposit minimum amount with RBI as per the Cash Reserve Ratio. The currency issued by RBI has increased from 1247 crores in 1950-'51 to 83,825 crores in 1993-'94.

Growth Of Commercial Banks:

In 1960-61 there were total 89 banks with 4166 branches. By 1992-'93 the number of banks rose to 272 and their branches to 61,630. The growth of banking sector is shown in Table No 34.

Banking sector expanded country wide only after the nationalisation of major banks in 1969. After this the commercial banks extended to rural areas. The proportion of rural branches in total branches has increased from 17.6% in 1969, to 44% in 1979 and to 58.2% in 1990. Numerically speaking there were total 8187 branches in the country out of which 1443 were rural branches in 1966. In December 1979, total branches were 32,219 and rural branches were 14,171. In March 1990 they were 59,897 and 34,687 respectively. As the non profiting branches were being closed every year from 1990 onwards, it has fallen to 55.7% by September 1995. Even it seems that there is a significant increase in the rural branches (they are more than half), their role is not very important when it is seen from the deposits or disbursement point of view. While the total deposits in September 1995 were Rs.3,91,811 crores the deposits in the rural branches were only Rs.61,124 crores. i.e. 15.6%.

Similarly the total loans sanctioned were Rs.2,32,265 crores and the share of rural branches were mere Rs.29,979 crores. In the mean time the number of branches in 100 big centres (towns) were 12,453 (19.9%) and the deposits in these branches were Rs.2,35,303 crores and the loan sanctioned is Rs.1,70,066 crores (72.3%). In the Metropolitan cities where more than million population live, the total branches were only 6113 (9.8%), but the deposits were Rs.1,58,424 crores (40.4%) and loans sanctioned were even more of Rs.1,25,383 crores (53.3%).

From the above it can be observed that not even half of the deposits collected in rural area is utilised in rural areas. On the other hand we can see the disbursement of 72.3% of total loan in 100 towns which is absorption of more than 70% of the deposits collected there. A few number of metropolitan cities are absorbing more than half of the loans. This means the money collected from rural areas is being diverted to urban centres. In recent times specially with the introduction of new economic policies this division has been intensified. Despite the extensive expansion of commercial banks to rural areas in the recent times, the needy people in the rural area have not got enough loans from the banks. Hence they are forced to depend on money lenders and other private finance companies to meet their requirements. The non banking loan of the rural area which was Rs.900 crores in 1956 increased to Rs.4,000 crores by the end of 1970s. Now it is estimated that it will be above Rs.10,000 crores. In 1979, the banking loan was only 29% of the total rural loan and the remaining 71% was from non banking sector i.e. money lenders, land lords, businessmen, relatives and friends. The role of bank loans was relatively more in states like Maharashtra, Kerala Gujarat where the Co-operative banking made some progress. In these states extensive loans were given through primary agricultural societies for buying seeds as part of the strategy of the "green revolution". But as these Co-operative loans were not cleared, now they are depending more on the money lenders.

According to the official survey conducted in 1974-'75, the share of the different sources in the rural credit is money lenders - 48%, co-operative societies - 5.3%, banks - 4%, friends and relatives - 26.5%, land lords - 10.2% and shop owners - 6%. The bank loans increased significantly in the past two decades. Yet the rural population money lenders credit is more than the bank loans.

Statutory Liquidity Ratio (SLR) :

All the public sector banks should compulsorily lend certain percentage to the government. This percentage is called SLR. How less the interest may be, they must buy the bonds (they are also called as securities) issued by the government. The same rule is applicable to the other financial institutions i.e. insurance and provident fund companies. It is applicable to certain private banks also. The deposits in the banks keep varying. Holding the government bonds is same as having cash in hand. They can be encashed in any bank. In the recent security scam banks lost thousands of crores of rupees in the transaction of these government securities. Brokers like Harshad Mehta, bank officials and politicians earned crores of rupees. The major part of the government domestic loans consisted of this money taken from banks and financial institutions. Apart from the statutory requirement banks and other financial institutions use their reserves to buy the short term government securities. The profit will be decent even when the rate of interest is less because of the large quantity. But now due to the mushroom growth of mutual funds and since the banks are allowed to enter into stock market, the purchase of government bonds is not done above the required SLR. Reason for this the profit from other sources is more. It also decreased with the reduction of SLR from 18.5% to 10.5%.

Money Supply - Role Of RBI :

RBI performs the following important functions :

1) Issuing the currency 2) Acting as government banker 3) Acting as the central bank for the bankers and regulating the banks 4) Regulating the money supply and loans 5) Acting as custodian for the foreign exchange reserves.

Only rupee notes, coins and other small coins will be released by RBI on behalf of the finance ministry of central government. Two rupee note and all the other above value notes are issued by RBI on its own.

From its inception in 1935 till 1956 the RBI used to issue notes on notional basis. For this it was needed to keep minimum of 40% of the value of the currency issued in the form of either gold or in the form of Sterling securities. This means in the assets of the Issue Department should contain gold reserves or foreign securities of 2/5 value. The other 3/5 will be in the form of rupee notes, rupee securities, bills payable to GOI and promissory notes. The Act of RBI was amended in 1956. In this amendment it was decided to have Minimum Reserve System which includes Rs.115 crores worth of gold and Rs.1,885 crores worth of foreign securities. In this way the Issue Department should have Rs.2,000 crores of reserve funds. RBI was allowed to issue any amount of currency on the directive from government of India. It was again amended in 1957 so that it need not use the foreign securities as minimum reserve and it can use this money.

But RBI must have assets equal to the total money in circulation. RBI always keep rupee securities of the government equal to the issued currency. The particular of the reserves with the RBI in the form of government's rupee securities, gold coins, bullion, foreign securities etc., equal to notes issued by the Issue Department of RBI as shown in the Table No 36.

The currency in circulation which was Rs.1,259 crores in 1950-'51, increased to Rs.53,807 crores in 1990-'91 and to Rs.83,832 crores in 1993-'94. In the three year period between 1991 and 1994 a currency of more than Rs.30,000 crores released for circulation. The government of India's rupee securities increased from Rs. 487 crores to Rs.73,496 crores during the period 1950-'51 and 1993-'94.

The regulation was introduced in 1962 making every commercial bank to keep certain percentage of its cash balance with RBI. RBI may ask the banks any amount ranging 3% to 15% of the total deposits to deposit with it. This is known as Cash Reserve Ratio. Any bank which is facing bankruptcy can ask for assistance from this CRR.

As the government banker, RBI performs the function of receipt, payments and exchange of money in government accounts and supervising the public loans. RBI has the right to manage transactions between central and state governments and keep their balances without any interest. Similarly it also sanctions fresh loans to the government. As a member of IMF, India should follow the fixed exchange rates with currencies of the member countries as acceptable to IMF. The official exchange rate of rupee with other currencies is also regulated by the RBI. We can understand Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) by studying the Table No 35.

Regulating the money supply and loans is also an important function of RBI. When the money supply exceeds the goods in the market, it leads to inflation and the prices will go up. Then the currency has to be withdrawn from the circulation.

Though it is the fundamental rule preached by all economists; it will not be same in the practice. It is quite common that printing of notes will be done whenever the government needs. From 1950-51 to till date every year we had deficit budget.

Let us see how RBI controls the money supply. When the money supply is more it increases the interest rates of the banks. Takes measures to correct the maximum money possible in the forms of bank deposits, saving certificates, post office savings and other fixed deposits. In this way it withdraws certain money from the circulation. When the money is in short supply it prints notes. Reduce the interest rates so that loans will be increased and more money put in for circulation. As the interest rates are low many would like to spend. In this manner RBI controls the money supply. Total money in circulation is called M_3 .

M_3 means : Currency with public; current deposits in the savings bank; deposits in the post office savings bank and time deposits in the banks.

The currency with public which was Rs. 4,371 crores in 1970-71 increased to Rs. 82,198 crores in 1993-94. Fixed deposits in the banks increased from Rs 3,646 crores to Rs 2,83,266 crores. The details are given in the table No 37.

The most striking feature in the development of banking in India is the inequality between states and regions. This can be understood to some extent by studying the credit deposit ratio (CDR) of different regions. Excluding South and Western India, the CDR for the remaining country is less than the national aggregate. Credit Deposit Ratio will indicate the percentage of loans sanctioned to the total deposits. The national CDR which was 79.8% in 1970-'71, decreased to 62.9% in 1990-'91 and to 53.6% in 1994. CDR in Tamilnadu, Andhra Pradesh, Karnataka and Maharshtra are 85%, 79.5%,65.8% and 63.7% respectively. The lowest CDR is in Bihar (35.7%). It is 41.5% in Uttar Pradesh. It means more than half of the deposits from the states like Bihar and Uttar Pradesh being diverted to other states. In March 1993, Karnataka was the only south Indian state with lower CDR (46.8%).

The CDR is very less in the rural areas. Every region should utilise the maximum percentage of its deposits. More loans should be given in places where the deposits are more, or else the regional disparities will increase. Similarly, though there is a rule that the 40% of the bank loans are to be given to the priority sectors it was never implemented. It is 37% in the year 1995-96. In spite of the governments rule that 18% from the funds allotted to priority sector are to be spend for agriculture, it was never implemented. In the mid 1980s the proportion of the rural branches in the total bank loans was 15%. By 1996 it has fallen to 11%. According to the Narsimham Committee reports the priority sectors' lending are to be reduced to 10% from 40%.

Other Finance Institutions – Their Origin and Growth :

Finance institutions means the banks and other institutions which carry out money transactions. The first non banking financial corporation (NBFC) formed in India was the Industrial Finance Corporation of India (IFCI). It was founded in 1948. Its main objective is lending loans to the industrial institutions and sanctioning long term loans to the public limited companies.

In 1951 the State Financial Corporation Act was passed. Lending to the small and medium scale firms whose equity and reserve funds is up to one crore rupees is the objective for these State Financial Corporations (SFCs). They will be assisting the IFCI.

In 1955, Industrial Credit Corporation Of India-ICICI was formed. Indian government, WB and other international financial institutions contributed funds for this. In 1964, Industrial Development Bank of India (IDBI) was formed as the highest development bank. It co-ordinates various national level and state level financial institutions which includes National Small Scale Industries Corporation, The Finance Corporation and State Industrial Corporations.

UTI, LIC, GIC are the other major financial institutions. UTI was formed in 1964, LIC was formed in 1956 and GIC was formed in 1973. IDBI gives financial assistance to all types of industries. The “economic reforms” started in the middle of 1991 have brought important changes in the finance sector. Particularly it is more striking in Non Banking Financial Corporations (NBFCs).

In the past two decades the NBFCs have increased significantly. While there were only 7,063 NBFCs in 1981, they increased to 25,085 by 1991. It means there is an increase of 14% per annum since 1981. Out of this 20,200 i.e. 84% companies are private limited companies. Only 745 are registered with RBI and with more than 50 lakhs of investment. Out of this only 100 are worth mentioning. Some of them are 20th Century Finance, Kotak Mahindra, Credit Capital Finance, SBI Capital Markets, Infrastructure Leasing and Financial Services, I -Sec of ICICI. Some of them are as large as medium size banks. In India, NBFCs are doing the role of investment banks (providing funds to the industrialists) in America and Europe. Though the leasing companies started recently their relative importance is increasing. They were very few in the early 1980s, but they increased very much in the recent past.

The NBFCs, which are under the control of RBI are divided into many categories. But with the economic liberalisation this difference is gradually decreasing. In may 1992 the ‘study group’ formed by RBI had framed the regulatory frame work for the development and control of NBFCs. These regulations are being implemented from April 1993. According to this new policy, various controls restricting the growth of NBFCs are removed. The study group opined that the growth of NBFCs is a must for the economic development. It recommended the abolition of the nine categories and implementation of uniform regulations to all NBFCs. From 1993 onwards this policy is being implemented in stages. A regulation requiring the compulsory registration with the RBI for all companies with Net Owned Funds (NOF) more than 50 lakh rupees is imposed. NBFCs are to keep 15% of their deposit as SLR. In this 10% shall be in the form of government bonds and securities. As per the rule, the interest rates of the NBFCs are not to exceed 2 to 3% of the bank interest rate. The present interest rate is 2% more than bank rate. The time period of the deposits in NBFCs is reduced from 24 - 120 months to 12-60 months. They can give 2% incentive to the minimum 12 months deposits. But in practice they give more in the form of gifts and pocket expenses.

To arrest the flow of funds from banks to NBFCs, RBI has formed the following regulations: Banks should give loans to these companies only on long term basis. As per the new credit policy circular issued in April 1995, the NBFCs whose more than 75% income comes from leasing capital can borrow bank funds up to three times of their NOF.

It is two times whose 50 to 75% income comes from leasing capital and it is one time in case other companies.

According to the new monitory policy, the main objective of these NBFCs is to expand financial market and capital market and to provide competitive and choice to the investor. In reality it is to bring the savings of the public to market by opening special and attractive schemes such as :

The Services Provided by Finance Corporations are:

- Leasing and hire purchase financing
- Consumer finance to meet the market requirement of individuals and institutions
- Investment banking
- Mergers and amalgamation including take-overs
- Bill discounting
- Inter corporate deposits
- Lending against securities
- Restructuring of capital
- Port folio management
- Forex advisory services etc.

Mutual Funds :

It can be said that the mutual funds in India here started with the Unit Trust of India Act (UTI Act) in 1963. The monopoly of the mutual funds is with the UTI from the beginning. Even till today it maintains the largest share. The public sector banks established their own mutual funds between 1987 to 1992 and government allowed the establishment of mutual funds in private and joint sectors from 1992.

The amount in mutual funds increased rapidly from 1990-'91. This can be established by going through the table. The figures mentioned in the parenthesis indicate the percentage in each sector of the total mutual funds.

Though it is very difficult to establish the exact amount of the house hold savings which is invested in mutual funds is, the amount spent on shares, debentures, UTI and other mutual units which was 3.7% in 1980-'81 has increased to 14.7% and to 22.1% in 1991-'92. But later it declined to 17.8% later with the fall in savings rate. In America about 38% of the household savings is going to the mutual funds. The mobilisation in mutual funds when compared with bank deposits is 8.78% in 1990-'91 and increased to 15.9% by 1994-'95. While in America, the investment in mutual funds is 90% of the bank deposits. In America the largest financial means after banks are mutual funds. Their total value will be US $ 2.16 trillions.

Though the mutual funds sector in India is in the infant stage, it is picking up the speed very fast in recent times. The amount in mutual funds increased from Rs 24.67 crores in 1964-'65 to Rs 74,517 crores in 1994-'95. This growth, starting with liberalisation process in 1985 and picked up momentum after 1990-'91. While in the decade of 1974-'75 to 1984-'85 it increased by 2 thousand crores and the increase is more than thousand crores in the next one year alone. Again in the year 1990-'91 it increased by more than 14 thousand crores. In the following four years the total mutual funds increased from Rs 23 thousand crores to Rs 74 thousand crores. It is to be noted that even in 1994-'95, the UTIs share is 82.6%. What is the reason for this rapid increase of the mutual funds in the last decade specially from 1990-'91 onwards? Firstly the household savings in India increased from 13.7% in 1985-86 to 20.2% in 1990-'91. In their search for security and attractive return, household savings find these mutual funds are most convenient. Because the return from the banks is not very attractive. On the other hand through the return on buying the stock exchange shares and debentures is more, but the risk involved is also very high. The return on shares may be more than 30% at times and it may result in losses. Apart from this, it is not possible for a single investor to study the financial position of all companies and make appropriate decision where to invest. Where as the mutual funds with the help of the financial experts can invest in 10 to 15 companies and earn profit more than bank interest rate. By investing in all types of sectors the possibility of loss is also relatively less. When a person invests Rs 1,000 in mutual funds his money will be invested in different companies ranging from car industry to cigarette industry. Even when there is loss in the car industry due to the recession in the automobile sector, there will not be over all loss as the 90% of money is invested in 10 to 15 other companies. But the mutual funds incur loss when the share prices have gone down in all the other industries either due to overall crisis or for any other reason. As the mutual funds appeared to the investors specially belonging to middle classes as a source to earn more profit with less risk, their total savings in the last decade is going to mutual funds.

On their part, the mutual funds in our country keep their investment in equity shares and to some extent in government securities. Recently this money is being invested in other money market instruments like debentures, government bonds and securities. The amount invested in the shares increased from 29.18% to 49.44% between 1990-'91 and 1993-'94. In the mean time the share of mutual funds in other public sectors share increased from 38.67% to 60.38%.

By March 1995, apart from UTI another 20 mutual funds came into the market. In this 11 are in private sectors, 7 are in banking sectors and remaining 2 in insurance sector. They all put together introduced 167 schemes. They are 52 income funds, 49 growth funds, 26 income and growth funds, 37 tax benefit relating to shares and 3 central capital funds.

The role of mutual funds in the Indian Economy is increasing day by day. In UTI alone there were 2.34 crores share holders in 1991-'92, and with in three years (by 1994-'95) it was more than doubled and reached 4.8 crores. In the meantime the share holders in other mutual funds increased from 40 lakhs to one crore sixty lakhs. In total the share holders in the mutual funds increased to about six crores. It is estimated that by 2000 AD, the mutual funds will increase by 2 to 3 times, i.e. from the present 75 thousand crores to 1,50,000 crores. It may be an overestimation but the fact is clear that the role of mutual funds is increasing very fast. Let us see how this growth of mutual funds affect the total economy.

The growth of mutual funds will first result in the significant reduction in bank deposits. This will have an impact on the loans given to the poor people. As the large money is utilised for buying shares of monopolies, only majority industries find difficulty in mobilising funds. With this it is certain that many small and medium scale industries will become bankrupt resulting in deep routed consequence on total economy.

Secondly, as the mutual funds are controlling the shares, the companies are at the mercy of the mutual funds. As the crores of rupees of public is with few monopolies who act according to their wish. They indulge in nefarious activities of raising the share prices artificially and try to maintain their prices and in this process, the speculative business grows without any limits and the share index may crash when the crisis erupted. Finally few institutions without any role of the individuals will rule the stock market. As the foreign companies are also allowed in this mutual fund sector (presently they can invest 30% of their capital in share market), the hold of foreign financial institutions on the share market will increase. When they, as per their requirement withdraw the capital, the stock market will be subjected to severe crisis.

Another important aspect is that the Indian ruling classes are diverting the public money into speculation business through these mutual funds. With this preferring the secondary market to new shares (shares issued in the primary market) is bound to rise. This helps only in increasing the existing wealth artificially instead of creating new wealth. This is one type of gambling. This artificial growth is the cause for Wall Street crash and crises in stock exchanges of London, Frankfurt, Tokyo, Sydney, Singapore, Hong Kong etc. We know how UTI through massive buying, had pushed the prices of Reliance company of Ambani's.

The noted NRI, Swaraj Pal had shown with the statistics how these government financial institutions serving the Indian big bourgeoisie. Swaraj Pal is a noted industrialist in Britain and majority share holder of Apeejay group spelt out the real facts of the exploitation of the Indian big bourgeoisie when created obstacles to him for investing in India. He said that, only 11 Indian big bourgeoisie institutions with mere Rs 148 crores of capital are controlling the government financial institutions which had invested Rs. 27,000 crores in industry.. He also noted that the industrialists of these 11 firms are holding bank balance of Rs 25,000 crores in foreign banks and utilising the profits for their selfish interests and hence he described them all as traitors.

All the banks, insurance companies and other financial institutions (almost all of them are owned by the government) are directly providing funds for the big bourgeoisie institutions.

With 10 to 20% of share Tata, Birla or any other big bourgeoisie will have full control of the company. The higher middle class which contribute 40 to 50% of the capital will have no authority in practice. The representative of the government financial institutions who are on board of directors will also serve the big bourgeoisie directly. Some times the big bourgeoisie with 5% of the capital also control the related companies. In this way the government bureaucratic capital merged with private capital and formed comprador bureaucratic capital.

Out of the big 500 Indian companies in only 140 companies the promoters (who have floated the company) are having the majority share. In most of the companies their share is less than 20%. Financial institutions have 30% of share, thousands of public share holders have 35% and the remaining with foreign institutional investors.

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APPENDIX –II

INDIAN SHARE MARKET - SPECULATIVE BUSINESS

More than 120 years have lapsed since the establishment of first stock exchange in India. The first stock exchange in Asia was started in 1875 at Bombay. But for more than 100 years the role of share market in Indian economy was not significant. Major portion of the savings was always in the form of gold, plots, bank deposits or in other unproductive sectors. The role of share market started growing from the middle of 1980s, with the liberalisation policies started by the Rajiv Gandhi government. But the role of share markets increased significantly after 1991 due to privatisation policies adopted by government as per the directives of IMF and WB. Many industries reserved for public sector were opened up for the private sectors. Companies were given freedom to raise capital by issuing shares. earlier the public sectors worked mainly with the government capital and bank loans. Now they are allowed to raise capital by issuing their shares. Added to this as the Indian market was opened fully to international financial institutions and multinationals in the name of globalization, the foreign capital started flowing into Indian share market. Raising capital from international markets through GDRs, Euro Bonds is also started by the Indian comprador bourgeoisie companies. Let us study these aspects in detail.

During 1970s, various companies used to raise capital on an average of Rs.100 crores per year through primary markets (Fresh issue of company share and debentures, government securities is called Primary market). This has increased to Rs.41,300 crores by 1994-'95. It means an increase of 400 times. In the year 1995, IDBI alone collected Rs.2,000 crores by selling its shares.

Currently there are 21 stock exchanges working in India. They are Bombay, Ahmedabad, Calcutta, Madras, Delhi, Bangalore, Hyderabad, Cochin, Kanpur, Bhubaneswar, Guwahati, Jaipur, Ludhiana, Mangalore, Indore, Patna, Baroda, Pune, Meerut, Coimbatore and Rajkot. Apart from these, two other stock exchanges were also started. Over the Counter Exchange of India (OTCEI) started in August '89 and National Stock Exchange of India started in November '92. Where as in 1975-76 there were 1,852 listed companies, they increased to 9,890 by December 1997. The increase was phenomenal after 1991. Even in 1991 there were only 2856 listed companies. It increased to 3262 in 1993 and to 8800 by March '97. In no other country in the world, so many companies are listed. The reason for this large number of listed companies is due to allowing small companies for public issue. With minimum capital of Rs.30 lakhs, any one can go for the public issue. With these policies there is a mushroom growth of many companies who make lot of money by tempting the public. In total value traded, India ranked 17th in the world with 109.5 billion in 1997 and is ahead of Italy. The comparative... for the US and Japan are $7.12 trillion and $1.25 trillion.

The total market capitalisation (total value of their shares) exceeded Rs.5 lakh crores by 1995-'96 though it come down slightly in 1996-97. In 1979-'80, it was mere Rs.5000 crores. It means an increase of 100 times. The value of the total market shares now is more than the total deposits in all the banks.

The number of share holders increased from 10 lakhs in the beginning of 1980 to 1.5 crores in the beginning of 1990 and to 4 crores by March' 97. Out of this 4 crores significant number is from middle class but the total amount with them is very less. Most of the shares are with private capitalists, government financial institutions, politicians, land lords, black marketers, smugglers and the other rich classes. The ruling classes are putting all their efforts in various types like advertising, creating broker network in the rural areas, increasing the share prices artificially through mutual funds, government policies to tempt the middle class to divert their savings into share market, etc. The point to be noted here is that it is only 12% of the savings that is going into share markets (including mutual funds). Most of the savings (88%) are in the form of gold including ornaments, fixed assets like land, buildings, etc., bank deposits and others. In spite of the rapid growth of share markets in the last decade, we should keep in mind that it has many limitations because it is existing on the semi-feudal, semi-colonial economic foundations of India. Lack of purchasing power for majority Indians and the decline of the same every day is the fundamental reasons. And because of its weak industrial base, even though there is an artificial growth occasionally it was always under crisis. The experience of past four years indicates this. This can be understood by studying the Sensex.

The price index in the stock market is measured with "Sensitive Index". The most popular in India is sensitive index of Bombay Stock Exchange. This is also called as BSE index. This sensex will indicate the share prices in the secondary market only. The present sensex is calculated by taking 1978-'79 as base year with 100. This is decided basing on the 30 large companies. During 1980s the growth in the sensex was very low. In 12 years, i.e. up to January ''91, it increased to only 950 points. But in the next year by January '92 it increased by 850 points and reached to 1800 points. In the next month only, i.e. in February' 92 it increased to 2800 and by April it reached to 4500 points. The reason for this boom is are the liberalisation policies adopted by government and the illegal transactions made by banks in collusion with the brokers. Firstly banks started giving loans up to 3 lakhs for buying shares and debentures to any one. With the facility of taking loans against share certificates, money started flowing into share markets. More important than this is banks raised the share prices artificially by giving money to brokers like Harshad Mehta. In this way banks have diverted about Rs.6000 crores to share market. When the bank scam was exposed in May '93, the sensex dropped to 2000 points. Lakhs of share holders were bankrupt.

As the Foreign Institutional Investors are allowed to buy freely the Indian company shares and to take away the profits, they made in the share market and to raise prices. The foreign capital is rapidly flowing into Indian share market. In addition to this through Global Depository Receipts (GDR) and Euro Bonds. The Indian comprador bourgeoisie companies also started raising funds in European markets. The foreign investors have the facility to convert these GDRs and Euro Bonds into the shares of respective companies (this is at 20% less than market price). With this, prices temporarily went up and reached 4600 points by Sept. '94. But the FIIs want to make maximum profits in minimum time and transfer their capital to places where they expect maximum returns. The volatile natural capital of FIIs is called as "Hot Money." IT is these FIIs who are responsible for crashing of stock market and deepening of crisis in Mexico in 1995. FIIs in their search for profits, shifting their capital as they wish and causing the severe instability to the share prices. In January '96, some of the capital was shifted to America because of the increase in interest rates there, with this Indian Sensex fallen to 2800 points. After that they recovered marginally by giving additional incentives to FIIs and encouraging the Indian companies to go for GDRs and Euro Bonds. In the budget of 1997, the maximum limit of FIIs in any company increased from 24% to 30%. By the beginning of 1997, the

400 FIIs which are registered with SEBI, had invested 7 billion dollars (25 thousand crores) in Indian share market. They bought another 25 thousand crores in the form of GDRs and Euro Bonds. Due to these reasons the Sensex again picked up from the middle of 1996. Even then we can know how unstable the share prices are by seeing the following table No. 40.

It is not an exaggeration when we say that the foreign financial capital which is rapidly increasing, is determining the share prices in Indian share market. Apart from this by having facility to buy up to 30% shares and acquire another 20% with the help of GDRs and Euro Bonds, FIIs are in a position to acquire the control of many companies. This is a new development.

Till now the public sector financial institutions are providing funds to the comprador bourgeoisie by buying maximum shares in their companies. We have already seen how UTI, formed in 1964 had diverted the public money to private sector by buying shares in the big companies in the chapter on mutual funds section. Public sector institutions like LIC, GIC, IDBI, ICICI, IFC have also contributed capital in large scale for the private industries. In most of the big bourgeoisie companies the actual share of them is only 5 to 10%. Yet the control is given to them. Because of this only we are calling the comprador capital in India as the comprador beauracratic capital. These two capitals, i.e. comprador bourgeoisie capital of Tata, Birla, Ambani, etc., and the state capital of UTI, ICICI, IDBI, LIC, GIC, SFCs and government banks are merged so closely that they cannot be distinguished.

Through artificial bloating of share values and sharp increases in the BSE Index, the government has been encouraging the companies to raise huge amounts from the capital market through public issues. For instance, in 1994-95 when the BSE index was ruling at about 4000, the companies could raise Rs. 49,220 crores through capital issues. But this can drastically by half to Rs. 25,408 crores in 1996-97 and is continuing to decline due to loss of investor confidence in the capital market. The amount raised by mutual funds too declined from a peak of Rs. 13,727 crores in 1994-95 to a low of 4,777 crores in 1996-97.

Currently as the shares in their companies are being transferred from public sector financial institutions and other share holders to foreign financial institutions , the Indian big bourgeoisie groups are trying hard to increase their direct share in their company and to restructure their capital. For example in Tata group the holding company, Tata sons, during 95-96 has increased its share in TISCO from 79.4 lakhs to 311 lakhs, in Tata chemicals from 89.4 lakhs to 146 lakhs and similarly by increasing its share in TELCO, Tata Power, Tata Tea etc., has increased its total capital from Rs.211 crores to Rs.811 crores. On the one hand, working as the reliable agents of the foreign capital, Indian comprador bourgeoisie is trying to protect some of their companies.

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