

Stanford University
Department of History

Nehruvian Socialism: A Fine Balance

Reconciling Economic Planning and Democracy in Modern India (1947-64)

An Honours Thesis presented to the Department of History
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Vibhav Mariwala

Advisors: Professor Robert Crews (Primary), History & Professor Thomas
Hansen (Secondary), Anthropology

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Jawaharlal Nehru gives his famous 'Tryst with Destiny Speech' to the Constituent Assembly of India during its midnight session on 14-15 August 1947 as India emerged an independent nation. Source: Nehru Memorial Museum and Library.

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NOTE ON SOURCES

The sources used in this work are extensive and hard to access remotely. Because of the Covid-19 pandemic, I have had to resort to using e-book versions of my sources. E-books do not always have page numbers that correspond to the print edition version of the work, which is why I have had to cite the chapter instead of the page for some material. Two important sources to this work that are similarly named are The Constitution of India, and Granville Austin's book, *The Indian Constitution: A Cornerstone of a Nation*. To avoid any confusion between these sources, all references to constitutional provisions will be cited as *The Constitution of India*, Article [X], and any citation from Austin's book will be cited as Austin, *The Indian Constitution*, [page numbers]. Additionally, some speeches and quotes are mentioned in secondary materials but are inaccessible in their original form because they are not digitised and would require a visit to the National Archives of India or the Nehru Memorial Museum and Library (NMML). Given the nature of the undergraduate thesis and the Covid-19 pandemic, these visits were not possible. I hope to visit them in the future.

INTRODUCTION

Jawaharlal Nehru & India's Tryst with Destiny

"I plead for an all-out effort against the poison of communalism and narrow provincialism. I plead for a joint endeavour of all concerned to build up India."¹

-Jawaharlal Nehru, 'His Immortal Message,' 14 February 1948.

On the stroke of midnight on 15th August 1947, India became an independent country, free of 200 years of British rule. During the midnight session of the Constituent Assembly of India, Jawaharlal Nehru, India's first Prime Minister, celebrated India's independence through his famous, 'Tryst with Destiny' speech. While marking this significant moment as one that "comes but rarely in history, when we step out from the old to the new, when an age ends, and when the soul of a nation, long suppressed, finds utterance,"² Nehru explained the values and principles that ought to guide India after independence: democracy, secularism, individual liberty and justice. The aim of these guiding values was:

"To bring freedom and opportunity to the common man, to the peasants and workers of India; to fight and end poverty and ignorance and disease; to build up a prosperous, democratic and progressive nation, and to create social, economic and political institutions which will ensure justice and fullness of life to every man and woman."³

While aspirational, this speech also captures the challenges that India would face in achieving these aims. India was ruined by colonial rule, was impoverished and was dominated by societal structures that promoted religious tension and discrimination. To govern a country of 300 million people, a majority of whom were illiterate, poor and malnourished, and to introduce democracy to a society that is hierarchical and religious, would be a challenge. However, the events of 1947 made this daunting challenge even tougher.

While 15 August is considered the moment India achieved freedom, it is also the moment that the Indian subcontinent, which shares a history of over 5000 years, was

¹ 'His Immortal Message,' in *Jawaharlal Nehru's Speeches (1946-1949)*, 3rd ed., vol. 1 (New Delhi : Publications Division, Ministry of Information and Broadcasting, Govt. of India, 1983), 57.

² Jawaharlal Nehru, 'Jawaharlal Nehru: A Tryst with Destiny', *The Guardian*, 30 April 2007, sec. From the Guardian, <https://www.theguardian.com/theguardian/2007/may/01/greatspeeches>.

³ Ibid.

partitioned along communal lines, prompting the largest movement of people in history, with over 12 million people moving between the two newly formed nations of India and Pakistan, including present-day Bangladesh. Economic and societal structures that lasted centuries were upended and the world's largest free-trade zone, stretching from Iran in the West to Burma in East, collapsed because of the partition of the Indian subcontinent. Partition also prompted communal riots across South Asia, adding even more pressure to the fragile and underfunded governments of India and Pakistan. Both newly formed nations were forced to reconcile the position of minorities and refugees as they emerged independent.

These events did not occur overnight but were a result of an exploitative colonial administration, a policy of divide and rule which sparked communal divisions in country amongst Hindus and Muslims and Sikhs and sowed the seeds of Partition, and the devastation of the Indian economy during the Second World War.

During World War II, India's economy was mobilised to support British Army operations from North Africa, all the way to Singapore. Over 2 million men were deployed by the Government of India to fight in the war from 1939-1945 and were crucial to securing British victories across Africa and the Middle East and repelling Japanese invasions in Burma and South-East Asia.⁴ The extent to which India was mobilised for the war effort is seen with the amount it manufactured. This included 10,000 armoured vehicles, 200,000 other vehicles, 400 million tailored items, 25 million types of footwear, 37,000 silk parachutes, and nearly 100,000 tons of shipping materials.⁵ Moreover, agricultural output increased. For example, rice production increased from 23 million tons in 1938 to a peak of 30 million tons in 1942-

⁴ *Statistics Relating to India's War Effort*, (Delhi: Government of India, 1947), 1-2, <https://nla.gov.au/nla.obj-51156611/view?partId=nla.obj-51156622>.

Indivar Kamtekar, 'A Different War Dance: State and Class in India 1939-1945', *Past & Present*, no. 176 (2002): 190.

⁵ *Statistics Relating to India's War Effort*, 7.

43.6 Despite this increased production, rationing was prevalent across the country, and “in India, it determine[d] whether a person ate at all,” because of inflation.⁷ According to some estimates, the change in the price of rationed food in India after the war was 300 percent.⁸ Most people were unable to afford food because it was so expensive, culminating in the Bengal Famine of 1943, and was followed by epidemics of malaria, cholera and smallpox. In total, it is estimated 2-3 million people died because of this famine, over 100 times the casualties faced by the Indian armed forces during the war.⁹ The British government in London also imposed severe restrictions on Indian companies’ ability to import goods from the USA because such imports would undercut British requirements in its home islands. During the war, the government, in an attempt to bolster business support, and also reduce India’s dependence of foreign imports provided extensive capital support to businesses, and built factories across the country for them at government cost.¹⁰ In effect, an import substitution-led industrialisation model was adopted in British India during WWII amidst severe shortages of necessities.¹¹ This model was also followed in post-independent India. This level of state intervention set a precedent for Indian policy-makers to create a planned economy after independence, when India was in the throes of other crises.

At the end of the war, the country was politically unstable with growing tensions between the All India Muslim League (AIML) and Indian National Congress (INC), the two major parties leading the freedom struggle, over the question of whether India ought to be partitioned or not. The AIML wanted the creation of a Muslim-majority state, Pakistan, while

⁶ *Ibid*, 15.

⁷ ‘A different war dance,’ 196.

⁸ *Ibid*, 201.

⁹ *Ibid*, 212.

¹⁰ ‘War Economy’ in Srinath Raghavan, *India’s War: The Making of Modern South Asia, 1939-1945* (New York: Basic Books, 2016).

¹¹ “Planning for War,” in Srinath Raghavan, *India’s War: The Making of Modern South Asia, 1939-1945*

the INC wanted India to remain united.¹² These differences were exacerbated when it was clear that Britain was to leave India, prompting communal violence in Bengal, Punjab, Bombay and Delhi. This, when compounded with the reintroduction of demobilised soldiers into society, and the economic devastation because of the famine and extensive state mobilisation during WWII strained the colony more.

As these struggling nations tried to establish their legitimacy domestically, the Cold War was developing abroad, with many countries expected to choose a politician and economic system that resembled the free-market, capitalist economies of the USA and Western Europe, or a totalitarian one-party state with a command economy of the USSR. How was an impoverished and fragmented India, in the midst of the Cold War, to establish its independence from foreign rule and achieve 'Swaraj,' or self-rule?

The complexities of this time are immense, and economically, India needed to find a strategy to support its population and alleviate widespread unemployment and illiteracy that was prevalent across the country. Some of the major challenges facing India at the time were ensuring national unity after partition and political integration of 565 princely states in a country fragmented by language, religion, caste and ethnicity, ensuring communal and social harmony, staving off foreign influence in a country that was newly formed, and ensuring economic development and reduction of inequality after 200 years of colonial rule.

With these challenges laid out, how was India to balance fundamental rights and democracy with centralising powers to promote unity? How would its economy be structured to support the 12 million refugees that entered India after Partition and also support businesses and industries ravaged by colonial rule and WWII? What steps ought to be taken to promote communal harmony? These questions were central to the Constituent Assembly

¹² Justice (R) Dr Munir Ahmad Mughal, 'Lahore Resolution 1940', SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, 26 March 2014), <https://papers.ssrn.com/abstract=2416506>

of India as it drafted the country's constitution, and also impacted how Nehru lead the country in its initial years after independence.

The answers to these questions lay in the political and economic system India adopted post-independence. This thesis argues that India adopted a centrally planned economy within the framework of a parliamentary democracy to reconcile the two biggest and overarching challenges facing India at the time: national unity and poverty alleviation. A parliamentary democracy with universal franchise would ensure that all Indians could participate in its politics and thus overcome religious and caste barriers, and the planned economy would enable the government to allocate resources to tackling poverty and inequality.

Researching the origins and implementation of India's modern political economy is a challenge because of a lack of available sources. While there is immense research of Nehruvian thought and the freedom struggle, there is limited empirical work on India after independence, and even less on its economic history. The few that exist were written as responses to the policies analysed in this work, and are usually by economists, politicians, and bureaucrats such V.K.R.V. Rao, founder of the Delhi School of Economics, and A. Vasudevan, professor at the University of Bombay, and later a Director at the Reserve Bank of India (RBI). Consequently, this thesis is a work of intellectual and political history to explain the economic history of post-colonial India.

Before delving into the content and structure of this thesis, it is important to define some key terms, which will be present throughout this thesis. These terms are loaded and can be interpreted in many ways, depending on the context they are read in, but for the purposes of this work, the definitions reflect the interpretation seen around independence. Firstly, economic planning, or state planning, or a centrally planned economy refers to the allocation of resources and money across different government ministries through a planning committee (later, the Planning Commission of India). This definition is specific to India since the

Planning Commission allocated money across departments in its Five-Year Plans.¹³ The idea of state intervention also comes under this definition since it allows the state to use monetary and policy levers to shape a country's economy not only through regulation but by creating a welfare state and directing resource allocations.

Secondly, the word Socialist was used frequently by Indian politicians then. For the purposes of this work, the term 'Socialist pattern of society', or Socialism will refer to the growing influence of the state in the economy by its control of certain key industries and sectors, while allowing for a private sector to grow. It also stresses that the government is responsible for using state power to reduce inequality and provide opportunities to all, and that the private sector also has to strive to achieve these social aims.¹⁴

Thirdly, Nehruvianism, broadly refers to the ideology of Jawaharlal Nehru, and his vision for post-colonial India. It rested on two pillars. One was a belief that a nation's success lies in its ability to overcome communal and religious loyalties to unite around common economic aims to develop a sense of belonging to one nation.¹⁵ Another was that India's development lay in its ability to redistribute wealth and include the masses in its political system to become modern, and that a partially planned economy through a Planning Commission of sorts using scientific evidence and rational thinking was the most efficient measure to achieve that goal. This method of economic development could only be successful in a democracy because such actions require popular support.¹⁶

Fourthly, the term liberal refers to the embrace of democratic traditions such as free and fair elections, the protection of fundamental rights, the separation of powers between

¹³ Montek Singh Ahluwalia, telephone conversation with author, 9 September 2019. He was the last Deputy Chairman of the Planning Commission of India from 2004 to 2014.

¹⁴ Granville Austin, *The Indian Constitution : Cornerstone of a Nation*, [Oxford India paperback ed.]. (New Delhi: Oxford University Press, 1999), 52.

¹⁵ Jawaharlal Nehru, *The Discovery of India*, Centenary ed. (Delhi; New York: Oxford University Press, 1989), 355-356.

¹⁶ *Ibid*, 395

branches of government, and non-discrimination based on religion, gender, caste and ethnicity. This would not refer to liberal economics, which advocates for a lack of state intervention in the economy since there were few advocates of a free market model in India until the 1980s.

Lastly, national unity encompasses economic unity, communal harmony, equality amongst religions and castes, and poverty alleviation includes smaller aims such as unemployment reductions, provision of education and health, gender equality and promotion of social mobility.

Another note is that this work will be using the Indian numbering system as well as the Western numbering system. For the reader's reference, One Lakh is the same as One Hundred Thousand, and One Crore is Ten Million units. The values depicted will correspond to the source's publication. For example, if the Indian Government spent Rs. 1000 in 1951, it will be presented as such and not converted to 2020 values. I have not accounted for inflation in this work.

This work will present the different perspectives that dominated the world and Indian politics to explain how Indian economic planning was conceived of and enacted. It will do so by highlighting debates around the role of the state in the economy, and the extent it should intervene to protect people's rights and provide welfare, which broadly argued that poverty alleviation was best supported by a centrally planned economy that could allocate resources across sectors. The origins of planning in India begin from a resolution passed by the INC in 1931, all the way till Nehru's death in 1964. It also describes the differing perspectives on India's political economy in 1947, and how the Constitution tried to reconcile the importance of the individual with the ever-growing power of the state.

The overarching questions this thesis asks are: What are the origins of India's political economy? How did India try to reconcile a parliamentary democracy with a Soviet-style

command economy, and why was this model adopted? I answer these questions by delving into the global debates around state intervention through the lens of the Great Depression and WWII and analysing the perspectives of economists such as John Maynard Keynes and Frederick Hayek. From global debates, I shift focus to local perspectives in the Constituent Assembly of India and the Indian National Congress and their support for a Socialistic country in opposition to a Gandhian model of development. To understand these viewpoints, this thesis analyses seminal works on this topic including Jawaharlal Nehru's *Discovery of India*, *Glimpses of World History and Soviet Russia*, the Constitution of India itself, and Granville Austin's *The Indian Constitution*, and debates of the Constituent Assembly of India.

Moving away from politics, the thesis then explores the views Indian businesses had on the INC and state planning by examining a document called *The Bombay Plan (1944)*, and its reception in India, the USA and UK by looking at news articles published in *The New York Times*, and *The Times of India*, and evaluate its significance on Indian planning. It also explains the intentions of the plan's authors in writing this document. Finally, the thesis describes how Indian planning was implemented from 1950 through its Five Year Plans, and the challenges that Indian planners faced while implementing them, and how they responded to not only to the physical challenges to the plan, but the intellectual conundrum they posed to the fundamentals of Indian economic development. It will do so by examining India's Five Year Plans themselves, the Industrial Policy Resolution (1956), which greatly increased state powers, Nehru's speeches and his letters to Chief Ministers, articles from *The Times of India* published at the time, and the perspectives of economists at the IMF, The Federal Reserve, and Bombay University. This thesis has relied on secondary research conducted as well, from Vivek Chibber, a sociologist on Marxist theory, Medha Kudaisya, a historian in South Asian

studies, Granville Austin, a renowned legal historian, Sanjaya Baru, a policy advisor, Francine Frankel, an anthropologist, and innumerable research papers.

While the origins of Indian economic planning are not well discussed in historical and political literature, the creation of India's planned economy is critical to understanding how India's political system formed and thus shaped its journey as an independent nation. It was shaped by Nehruvian ideas and the experience of India under British rule. Knowing the challenges that the country faced before 1947 and after partition is integral to shaping one's understanding of the decisions taken by the government of India to create the Planning Commission and the constitution it adopted. Secularism, self-sufficiency, non-alignment and democracy are ideas central to the creation of India, and these principles shaped India's economy and political institutions after 1947. Under Nehru, India was radically different from the India of 1947, from a fledgling nation embroiled in communal violence, to a stable democracy with a growing economy.

CHAPTER 1

1947: India at a Crossroads

“Planning is essential, and without it, there would be anarchy in our economic development,”¹
-Jawaharlal Nehru, 22 January 1955.

In 1947, India, a country under exploitative colonial rule for the previous two hundred years, emerged independent, impoverished, highly unequal, and deeply divided.² It faced an overwhelming number of issues, from building out its political and economic systems, to preventing a civil war, and providing basic necessities to its citizens.³ How would this poor country provide jobs, develop infrastructure, and educate its 400 million citizens? How would it unify a country of multiple religions, languages, ethnicities, tribes and castes? The central issues of poverty, inequality, illiteracy and social divisions had to be addressed in a country that could not feed its citizens. The country’s politicians, dominated by the Indian National Congress (INC), at this critical juncture, decided to embrace a liberal democracy while having a planned economy.

Once India achieved independence, national unity was an overriding priority for its leaders in the face of the Partition of the subcontinent, and the integration of the 565 princely states or indirectly ruled kingdoms, which made up nearly 40% of the region’s territory. The Partition of British India into present day India, Pakistan and Bangladesh caused the displacement of 20 million people within the subcontinent. In fact, around 12 million people migrated across the Punjab between July and December 1947 and 20 million people were displaced across the subcontinent in the next few years. As a result of these rapid population changes, demographics that existed for centuries rapidly changed, with traditionally Muslim

¹ ‘The Socialistic Pattern,’ in *Jawaharlal Nehru’s Speeches (1953-1957)*, 2nd ed., vol. 3 (New Delhi: Publications Division, Ministry of Information and Broadcasting, Govt. of India., 1970), 15.

² The former British Raj was partitioned into India and Pakistan, which includes present-day Bangladesh in 1947.

³ Vazira Fazila-Yacoobali Zamindar, *The Long Partition and the Making of Modern South Asia: Refugees, Boundaries, Histories*, New York: Columbia University Press, 2007, 6.

areas being dominated by Hindus and Sikhs, and the inverse. This desire for unity resulted in the creation of a federal state, with overriding central powers to allow the government to quell secessionist movements, and to ensure that the country would be treated as a single economic unit, rather than a series of fragmented and disorganised smaller economies.⁴ This integration was seen by adopting national and provincial level economic plans, the dissolution of princely currencies and kingdoms, and the creation of a Union of States, rather than autonomous territories.

1947 was not only a critical time for India but was also an important time for the world as well. The Second World War ravaged European and colonial economies, and were devastated. The USA was concerned with the USSR's growing influence in Eastern Europe, marking the beginning of the Cold War. In response to these challenges, governments in Europe and the USA decided to intervene in their economies to rebuild them by creating the modern welfare state, making significant investments in public infrastructure, and allocating resources across the economy. While state intervention and economic planning had existed in some form in parts of Europe from the 19th century, the Great Depression and WWII, increased support for state intervention in the economy, from the USSR's centrally planned economy (1927-1991), to the USA's New Deal (1933), or Western Europe's Welfare State. Indian politicians were closely watching these events unfold as they debated the future of their country. Given its experience with colonial rule, the ruling INC was also wary of aligning with either superpower in the Cold War, making it determined to chart its own course as an independent nation.

In this attempt to chart its own destiny and not align with either power, India adopted a democratic political structure, while embracing a planned economy. This attempt at

⁴ Holden Furber, 'The Unification of India, 1947-1951', *Pacific Affairs* 24, no. 4 (1951): 364-365, <https://doi.org/10.2307/2753451>.

marrying these divergent ideas manifested itself in India's constitution, which accorded individual rights to all and embraced secularism while giving the central government overriding powers, and in the creation of the Planning Commission of India to centrally allocate India's resources. It is with this background that this chapter asks the following questions: What is the historical justification for a planned economy, globally and how did India come to adopt a planned economy? Why did Jawaharlal Nehru's vision of modern India win out in contrast to others'? What was the role of Jawaharlal Nehru, India's first Prime Minister, in shaping these decisions, and what were his guiding principles?

It will respond to these questions by tracing the origins of centralised state planning in India, from the late 1920s till 1950 by analysing debates in the Constituent Assembly of India (1946-49) and those within the Indian National Congress (INC), the ideology of Jawaharlal Nehru, and will then explore global debates surrounding state planning. This chapter will demonstrate that ensuring economic and political unity acted as overarching concerns in shaping India's decision to adopt a centrally planned economy with a Parliamentary democracy, and that the ideas of Jawaharlal Nehru and the INC were crucial to shaping these decisions.

What was the Indian National Congress and its ideas?

The Indian National Congress (INC), the party that lead India to independence, was a heterogenous party with a range of perspectives on how India ought to develop after independence. Its closest rival during the struggle was the All India Muslim League (AIML) lead by Mohammad Ali Jinnah, which espoused two-nation theory, arguing that Hindus and Muslims could not coexist in one state.⁵ While the AIML was originally created to further the cause of Muslims in India, under Jinnah it argued for the partition of the Indian subcontinent

⁵ Justice (R) Dr Munir Ahmad Mughal, 'Lahore Resolution 1940', SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, 26 March 2014), <https://papers.ssrn.com/abstract=2416506>.

along religious lines. There were other parties that were part of the freedom struggle, such as the Communist Party, but its influence was limited in contrast to these two.

The INC on the other hand was opposed to the partition of the subcontinent and was in favour of establishing independent India as a unified democracy that would promote equality amongst all religions. The INC was known to be a ‘big tent’ organisation, which accommodated a range of political views. There were two main factions within the INC that dominated its ideology during the 1930s, a centre-left faction lead by Jawaharlal Nehru and Subhas Chandra Bose, and a socially conservative wing lead by Sardar Patel, Rajendra Prasad, and Mahatma Gandhi.⁶ Economically, the Gandhian wing of the INC advocated the development of village industries and decentralised powers away from the central government, a system called ‘Panchayati Raj.’⁷ The Gandhians were in favour of developing cottage industries and small businesses, while avoiding large-scale industrial projects since the former would empower poor Indians in its thousands of villages.⁸ Despite its commitment to democracy, it was more socially conservative than the Nehruvian wing.⁹

By contrast, Nehru’s wing argued that the state should take a leading role in the economy by taking control of key industries, such as railways and factories. It also supported large-scale industrial projects and called for coordination of resources across different economic sectors. This coordination body took form as the National Planning Committee in 1938, and as the Planning Commission of India in 1950, after independence.

⁶ There are other key leaders in the Congress who positioned themselves at further extremes of the ideological spectrum, but I have not included since they are more relevant to social and religious policy than economic policy.

⁷ B. C. Tandon, *Economic Planning: Principles & Problems.*, [2nd ed.] (Allahabad: Chaitanya Publishing House, 1963), 487.

⁸ For more information on Gandhian philosophy, read *Hind Swaraj*, one of Gandhi’s most famous works.

⁹ Reba Som, ‘Jawaharlal Nehru and the Hindu Code: A Victory of Symbol over Substance?’, *Modern Asian Studies* 28, no. 1 (1994): 172.

The Constituent Assembly of India was primarily dominated the INC, but was ideologically diverse. The Assembly contained members of the Hindu-right, Communists, leaders of Untouchable Communities, Socialists, Gandhians and Nehru's wing of the INC. Major differences in the assembly revolved around the role of religion in the state, but all agreed that the establishment of a democracy was central to India's development. K. Santhanam, a moderate INC member and the editor of *The Hindustan Times*, a prominent English Daily, argued that the way to alleviate poverty in India was to establish democracy, which would 'get [India] out of medievalism based on birth, religion...and reconstruct her social structure on modern foundations of law...' which in turn would transform India's rural economy to a "scientific and planned," one.¹⁰ To Nehru, and other INC members, the creation of democracy in modern India would overcome caste and religious divisions. By overcoming communal beliefs, India would support state intervention in the economy as a means to achieve prosperity, rather than relying on religion.

Economic Ideas in the Constituent Assembly of India

Most members in the assembly, apart from the Gandhians, supported a planned or Socialist economy as a way to support India's poor. For example, the Communist Party, along with the INC Socialists passed a resolution saying that "there could be no Socialism without democracy," in India.¹¹ The Assembly recognised the role of the state welfare in supporting its people, as seen in the Directive Principles of the finalised Indian Constitution, the guiding framework for the state to govern.¹²

¹⁰ Granville Austin, *The Indian Constitution : Cornerstone of a Nation*, [Oxford India paperback ed.]. (New Delhi: Oxford University Press, 1999), 32-33.

¹¹ *Ibid*, 52.

¹² *The Constitution of India*, Part IV: Directive Principles, Article 38. These were aspirational goals for the Indian state to follow while legislating but were not enforceable on their enactment.

The main debate amongst the Assembly's factions was the extent to which the state should play a role in the economy. The Gandhian wing of the INC was in favour of developing Panchayati Raj, or village rule, and avoiding centralised planning all together. However, other factions, from the moderates, Communists, Socialists, and Hindu-right, opposed Panchayati Raj.¹³ They, along with Nehru's wing of the INC rejected the Gandhian vision of the country, but incorporated it into the Directive Principles.¹⁴ While politicians argued that panchayats, village councils, are central to India's modernisation, they should be kept out of politics to ensure that they can develop without party interference. In fact one Constituent Assembly member remarked that putting panchayats under party control will "be destroying once [and] for all their usefulness as agencies of village administration."¹⁵ By the Third Five Year Plan, panchayats were empowered to take significant funding and spending decisions without central government oversight because of issues with over-centralisation, a point to be discussed in Chapter 3.¹⁶

There were other members in the Assembly that felt that the Indian economy was not adequately controlled by the state. They expressed their views through amendments made to the Directive Principles section of the constitution. One amendment introduced said, 'the profit motive in production should be eliminated in due course of time,'¹⁷ while another wanted to give 'the workers in fields and factories effective control of the administrative machinery of the state,'¹⁸ both of which were rejected by the Assembly.

The INC Moves Left: The National Planning Committee (1931-1939)

¹³ Austin, *The Indian Constitution*, 43.

¹⁴ *Ibid*, 60.

¹⁵ *Ibid*.

¹⁶ Village panchayats were created as political units in 1992 with the Seventy-Third Amendment to the Constitution.

¹⁷ *Ibid*, 83.

¹⁸ *Ibid*.

Debates over the role of the state in the economy were not only raging in the Assembly, but also within the INC itself from the early 1930s. As previously mentioned, the INC contained a range of factions, from decentralised village industry supporters led by Gandhi, and its left, led by Nehru and Bose that advocated for centralised economic planning. Following Nehru's visit to the USSR, and the Purna Swaraj Resolution (1930), which demanded complete independence from Britain, the left's influence increased.¹⁹ In 1931, at the Karachi Congress, this faction was able to introduce some of its ideas in the resolution that the Congress passed. The Karachi Resolution ended with a clause saying that the state would have control of "key industries and services, mineral resources, railways, shipping, and other means of public transport."²⁰ This particular clause was drafted by Nehru and Bose, emphasising the growing stature they had in the INC. This was the first time the Gandhian wing of the Congress conceded to that the state did have an important role to play in the economy, rather than decentralising powers to villages. This clause is also significant not only because it marks a left-ward shift in the INC, but also shows that the INC was adopting different perspectives into its organisation, and that in order to ensure multiple factions of the party could function together, compromise was needed.

This trend was seen in future speeches and resolutions made by the INC in the 1930s. For example, in the 1934 Congress Working Committee Meeting, Nehru was able to balance the views of the Congress right that wanted to support the development of small cottage industries, by allowing states to mobilise resources for large-scale industries. In his 1936 INC Presidential Address in Faizpur, Nehru argued that:

¹⁹ Purna Swaraj Resolution, 30 January 1930, https://www.constitutionofindia.net/historical_constitutions/declaration_of_purna_swaraj_indian_national_congress_1930_26th%20January%201930

²⁰ Vivek Chibber, *Locked in Place: State-Building and Late Industrialization in India* (Princeton, N.J. ; Princeton University Press, 2006), 114.

K.T. Shah, *The National Planning Committee: Being an Abstract of Proceedings and Other Particulars Relating to the National Planning Committee*. (Bombay: Karnatak Printing Press, 1938).

“Only a great planned system for the whole land and dealing with all these various national activities [land reforms, industrial growth, cottage industries etc], co-ordinating them, making each serve the larger whole and the interests of the mass of our people, only such a planned system with vision and courage to back it, can find a solution.”²¹

In this speech, Nehru makes it clear that because India’s economy is intertwined across sectors and regions, the way India could best use its resources is through planning and coordinating them via a central agency. Such instances reiterate the growing influence of Nehru’s wing of the INC, and also the balance the party tried to achieve between its Gandhian and leftist factions by calling for planning and using it as a means to justify its previous support for smaller industries.

In 1937, the INC was able to implement its ideas at a provincial level. The 1937 elections resulted in the INC winning power in 8 of the 11 provinces in British India. The INC contained influential figures with a range of viewpoints from the socially conservative right, to the centre-left, which is why despite the fact that Nehru led the INC in the elections, he was not able to implement his plans across all 8 provinces. Instead, he focused on areas where he had a lot of support, such as Bihar and the United Provinces (UP), to institute plans for economic development, which included heavy industrialisation, and development through centralised planning.²² The result of these plans are unclear since all INC governments resigned in 1939 in response to India’s entry to WWII, causing them to stop.

Additionally, Nehru and Bose worked together to establish the National Planning Committee (NPC) in 1938 to coordinate resources in various provinces. This was constituted with Nehru as its chairman, with all provincial ministers of industry reporting to him. Bidyut Chakrabarty argues that only 3 provinces out of 11 took the committee seriously, showing

²¹ Bidyut Chakrabarty, ‘Jawaharlal Nehru and Planning, 1938-41: India at the Crossroads’, *Modern Asian Studies* 26, no. 2 (1992): 279.

Link to original speech at Faizpur:

https://www.marxists.org/history/international/comintern/sections/britain/periodicals/labour_monthly/1937/02/x01.htm

²² ‘Jawaharlal Nehru and Planning’, 279.

that despite his popularity, Nehru was unable to have a nationwide effect on Indian economic policy.²³ Bose was a strong supporter of Nehru's initiatives and in a speech in 1938, when he was INC president said that by creating the NPC, "India would be treated as one economic unit and efforts would be put forward to make India self-sufficient, as far as possible."²⁴ Not only does the speech show that the Nehru and Bose dominated the INC by the late 1930s, it also explains how the INC defined independence. This speech shows that independence was not only political, but also economic so that India would not rely on foreign goods to sustain its economy, and limit imports, unless needed. Considering that India was highly fragmented in the 1930s with forty percent of the subcontinent indirectly ruled by Britain, it was important to the INC in the face of the rise of the Muslim League under Jinnah to hold the country together and treat it as one economic unit, rather than 11 provinces of British India and 565 princely states.

The NPC was dissolved in 1939 when the INC ministries resigned from office in protest to the Viceroy's declaration of war against Germany without their consultation, and its activities ceased.²⁵ However the NPC was an important attempt at economic planning in the country. The committee was not only dominated by the INC, but also by prominent Indian businessmen and academics, whose role in shaping Indian economic policies will be further explained in Chapter 2.

Nehruvian Modernity

A key thread in the story of India's post-colonial economy were the ideas of Jawaharlal Nehru, collectively called Nehruvianism. Nehruvian modernity assumes that a nation must unite around common economic aims, which would overcome religious and communal

²³ Ibid.

²⁴ Ibid.

²⁵ There are other ideological reasons for the NPC's collapse as well, but shall not be explored in this thesis. Vivek Chibber's book, *Locked in Place*, and Medha Kudaisya's book, *Tryst with Prosperity* explain these differences further.

loyalties, to promote national unity and overcome entrenched poverty. He writes, “Yet what could we do, how change this vicious process [of poverty]? We seem to be helpless.”²⁶ In *Discovery of India*, he says that religion “has checked the tendency to change and progress inherent in human society.” He goes on to argue that it is more “concerned with its vested interests than with things of the spirit, encourages a temper which is the very opposite to that of science. It produces narrowness and intolerance...”²⁷ This extract indicates that Nehru viewed modern-day science a source of knowledge that countered religious beliefs. He was wary of putting religion at the forefront of the state and supported the development scientific thinking over religious sentiments, arguing that Indians have remained impoverished because of social structures like the caste system and religious acrimony.

Instead he believed that India can achieve prosperity since it already has the “intelligence, skill, and capacity to advance rapidly,” but will be held back by a “lack of common objective within the country.”²⁸ This point shows that to Nehru, the state would direct the country’s priorities and aims ensuring other citizens work towards those, and economic development would act as a common objective for all Indians to work towards.

Moreover, he was firmly opposed to communal rioting and argued that “religion in India will kill that country and its people if it is not subdued.”²⁹ In his opinion, a remedy to the communal questions was a secular education available to the masses following India’s industrialisation. This belief that industrialisation and education can solve the communal question was central to the way Nehru wished to organise the modern Indian state, the effects of which are seen in the Indian constitution and the creation of various scientific agencies in post-colonial India.

²⁶ *The Discovery of India*, 355-356.

²⁷ *Ibid*, 511-513.

²⁸ *Ibid*, 526.

²⁹ Sarvepalli Gopal, "Jawaharlal Nehru: Europe 1926-1927," *Indian Literature* 48, no. 1 (219) (2004) page 70, <http://www.jstor.org/stable/23341426>.

According to Nehru, the nation needed a “social and scientific consciousness,” in order to overcome these divisive views that pervade all sections of Indian society, which would in turn result in support for a secular, scientific education.³⁰ Nehru does not explicitly explain what a scientific consciousness is but indicates that embracing modernity and relinquishing traditional beliefs and customs in favour of data and common economic aims could undermine people’s faith in the caste system and would allow for upward mobility. His belief in scientific thinking seems as if he would want to use it a body of knowledge to counter entrenched religious and cultural biases that existed in India.

In fact, he is so determined to ensure Indians embrace modernity that the Indian Constitution contains provisions encouraging the same. In fact the Constitution explicitly mentions that it is a fundamental duty of an Indian to “develop the scientific temper, humanism, and the spirit of inquiry.”³¹ Moreover, the Seventh Schedule allows Parliament to have exclusive control in legislating on “co-ordination and determination of standards of scientific institutions.”³² These two provisions emphasise that Nehru and the writers of the Indian Constitution believed that the state had a major role to play in ensuring that this consciousness was developed, and that the Central Government had to be an example for lower levels of government to follow. This also shows that the state would take a lead in tackling poverty alleviation from different ways, including changing people’s mindsets.

On a more practical scale, this desire to inculcate a strong faith in scientific thinking resulted in Nehru promoting scientific policy-making. After becoming Prime Minister, Nehru wrote fortnightly letters to his Chief Ministers, which covered a range of topics, including how he hopes to implement this scientific consciousness. He writes that the inability to

³⁰ *The Discovery of India*, 526.

³¹ *The Constitution of India*, Article 51A subsection (h).

³² The Seventh Schedule of the Constitution comprises of list of topics that are under Central or State control. List 1, or the Union List, gives exclusive authority of the Indian Parliament to legislate on these matters. The determination of scientific standards is found in the Seventh Schedule, List 1, clause 66.

provide for the poor “would spell disaster for the country” and that food provision programs would be need to be assessed for their effectiveness by asking each provincial government to “take every possible step to mobilise all statistical data lying unused in village and district records and undertake special enquiries for collecting such data as may not be available.”³³ This realisation that policy can only be effective with accurate data inputs reiterates his support for science and modern thinking in tackling problems of poverty and hunger that millions of Indians faced when independence was achieved. The notion that poverty alleviation policies in India were not properly implemented because they lacked reliable data shows how he wished to incorporate modernity into the Indian economy.

Another aspect of economic development were land and agrarian reforms to empower impoverished rural communities.³⁴ These were taken when the INC was first in power after the 1937 general elections. This, in conjunction with significant educational reforms, where there is a stronger emphasis on science rather than traditional and religious education, according to Nehru would be essential to India’s advancement as an economic power. However, Nehru prioritised implementing democracy and the rule of law in India, before developing a socialistic economic model and that the economy could not be reformed unless it was supported by the people through a democratically elected government.³⁵

He explains how he would marry parliamentary democracy and socialism by arguing that it could only be sustained “under a free national government, strong and popular enough to be in a position to introduce fundamental changes in the social and economic structure.”³⁶

³³ Madhav Khosla, ed., *Letters for a Nation: From Jawaharlal Nehru to His Chief Ministers, 1947-1963* (Gurgaon: Penguin Books India, 2015), 146-147.

³⁴ Article 40 of the Constitution states, “The State shall take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government.” This section is under the ‘Directive Principles’ of the Constitution, which form the basis on which the government ought to legislate.

³⁵ B. R. Nanda, *Jawaharlal Nehru : Rebel and Statesman* (New Delhi ; Oxford University Press, 1995), 191.

³⁶ *The Discovery of India*, 395.

The emphasis on a strong national government, with the support of various sections of society emphasis reveal Nehru's vision of the post-colonial economy. Resource allocations, though top-down, were made by bureaucrats and ministers in the Central Government and were based on data provided by state governments. While this top-down approach can be seen as a contradictory to the notion of popular sovereignty, the Constituent Assembly made it clear that if India were to remain united, the state would increase its powers to strengthen the country's foundations. Patel argued that "it is impossible to make progress unless you first restore order in the country," a notion supported by the Assembly.³⁷ It is also clear that the Assembly drew precedent from other countries' constitutions to expand the union government's powers.³⁸

The reason for such support for national unity and state power was because of the Socialist views of the Assembly. In Nehru's view, an economic system that was aimed "at the elimination of the profit motive and emphasising the importance of equitable distribution, with large industrial firms striving to retain free enterprise and the profit motive as far as possible and laying greater stress on production of consumer goods."³⁹ This quote emphasises the essence of the Nehruvian model, which is the desire to have an efficient, non-exploitative vehicle for social mobility. Similarly, Western Europe also advocated close relations between state and business to support the general welfare of people, reiterating a global trend in favour of state intervention in the economy.

In *Discovery*, he summarises the main characteristics of the Indian economy needed to ensure its development: a heavy engineering and machine-making industry, scientific research institutes, and electrical power. This is seen in a letter to his Chief Ministers on 15

³⁷ Austin, *The Indian Constitution*, 57.

³⁸ *Ibid*, 96. There are references to the German and Irish Constitutions in Constituent Assembly Debates and how they fostered democratic traditions across the book.

³⁹ *The Discovery of India*, page 397.

August 1948, a year after independence. Nehru argues that the Hirakud Dam in Orissa will make “the disastrous floods...a thing of the past. The erosion of soil will be stopped, and more than 2 million kilowatts will be available for industry...”⁴⁰ Nehru expresses his excitement at such future prospects of development, and calls them the “temples of modern India,” thus evoking religious symbolism to solidify his economic vision of Indian modernity. His fascination with science and technology reiterates that he envisioned India to be a scientific powerhouse and that its technological advancements would help develop its economy.

Global Debates on State Intervention & Planning: Keynes vs Hayek

The 20th century radically changed the structure of political economies across the world because of WWI, the Great Depression and WWII. These events devastated economies across the world and increased the power of the state in the economy, from acting as regulators, to making them actively take part in economic development and providing basic infrastructure to citizens. The Great Depression (1929-1933) was an important catalyst to increasing state powers. Following the 1933 US Presidential Election, President Franklin Roosevelt announced the New Deal, which commissioned large scale construction and public works programs to provide jobs to the thousands left unemployed by the economic crisis, and also developed Social Security, which acted as a social safety net that individuals could draw from once they aged and retired.

This movement towards state planning, was suggested and later supported by a range of economists in the early and mid 20th century, most importantly, by John Maynard Keynes.⁴¹ In fact, a common argument made by politicians and economists was that state

⁴⁰ *Letters for a Nation*, 147-148.

⁴¹ Bidyut Chakrabarty, "Jawaharlal Nehru and Planning, 1938-41: India at the Crossroads," *Modern Asian Studies* 26, no. 2 (1992): page 277-278, <http://www.jstor.org/stable/312676>.

At the heart of Keynesian economics was the notion that in the event of a downturn, aggregate demand is too low, which is why the state must intervene to increase demand through increased spending since the private

intervention would help rebuild a country because private investment would be inadequate to rebuild key sectors of the economy.⁴² Consequently, the state had to plan resources to ensure that all individuals would be supported as a country recovered from the horrors of WWII. Political stability following the end of the war prompted an increase in state power to ensure national unity and prevent collapse of economic and political systems that held countries together.

Although it might appear inevitable that the Keynesian economic model was the natural course of action after WWII, there were opponents to it. A prominent economist that countered Keynes was Friedrich Hayek. To Hayek, centralised planning undermined the fundamental notions of democracy and individual freedom because the state would subvert other needs in favour of its economic plans. He argued that state institutions are unable to reconcile the demands of democracy with those of a planned economy, and therefore become totalitarian in nature.⁴³ Hayek's views were strongly debated by Keynes and his followers, and in the event of ever expanding state powers following WWII, Keynes' views were given precedence.

The welfare state is one example of how state powers expanded after WWII, and why Keynesian economics was embraced over Hayek's views. The reason for its creation was because of a commitment to social democracy to harmonise society. It was a policy widely

sector is unable to do so.⁴¹ The reason for this view is that increased spending boosts GDP, which in turn prompts consumers to spend more, further exacerbating demand. This positive loop is called the 'multiplier effect,' which explains how \$1 extra of spending by government is worth more than \$1. This view was the dominant economic view of the day and was embraced by many across the world to get countries out of the post-WWII and post-Depression slump.

⁴² James Foreman-Peck, "European industrial policies in the post-war boom: 'Planning the economic miracle'" in *Industrial Policy in Europe after 1945: Wealth, Power and Economic Development in the Cold War*, eds C. Grabas and A. Nützenadel, (Palgrave Macmillan UK, 2014), <https://doi.org/10.1057/9781137329905>, 31-33.

⁴³ N. S. Padasani, 'The Road to Serfdom', *The Indian Journal of Political Science* 7, no. 1/2 (1945): 303-18. A. C. Pigou, review of *Review of The Road to Serfdom*, by F. A. Hayek, *The Economic Journal* 54, no. 214 (1944): 217-19, <https://doi.org/10.2307/2225911>.

supported by the Labour Party, which wanted the state to have a larger role in the economy.⁴⁴ This view was shared across the Indian political spectrum, given the challenges the Indian economy faced after colonial rule and the extensive mobilisation that occurred during WWII.⁴⁵

In 1942, Sir William Beveridge published a report which proposed a series of reforms to the existing welfare system in Britain, which is known as one of the founding documents of the modern British welfare state.⁴⁶ The report was “concerned not with increasing the wealth of the British People, but with so distributing whatever wealth is available to them in total, as to deal first with first things, with essential physical needs...”⁴⁷ This quote shows that the aim of the modern welfare state is to support and provide people with the ability to fulfil their most basic needs. Moreover, this plan cannot be forced onto people, but “can be carried through only by a concentrated determination of the British democracy to free itself once for all of the scandal of physical want for which there is no economic or moral justification,”⁴⁸ showing that the British government would have had to have the support of its people to reform its economy. The view that popular support was needed for radical economic reforms dominated discourse in the Western world, and also India.

Continental Europe embraced a state-led interventionist model to counter the devastation of WWII. Barry Eichengreen in *The European Economy since 1945*, argues that the reason for the European Golden Age (1950-73), a period of rapid and continued economic growth in Western Europe, was because of “coordinated capitalism,” or close cooperation

⁴⁴ John Stewart, ‘Ideology and Process in the Creation of the British National Health Service’, *Journal of Policy History* 14, no. 2 (April 2002): 114-115, <https://doi.org/10.1353/jph.2002.0013>.

⁴⁵ Granville Austin, *The Indian Constitution : Cornerstone of a Nation* (Oxford [Oxfordshire]: Clarendon Press, 1966), 191.

⁴⁶ This was called, ‘Social Insurance and Allied Services,’ or unofficially, ‘The Beveridge Report.’

⁴⁷ John Hills, John Ditch, and Howard Glennerster, *Beveridge and Social Security: An International Retrospective* (Oxford: Clarendon Press, 2001), 10.

⁴⁸ Leo Wolman, "The Beveridge Report," *Political Science Quarterly* 58, no. 1 (1943), 3, doi:10.2307/2144424.

between businesses, the state, and trade unions, to ensure stability and ensure wage increases matched increases in productivity, similar to the views espoused by Indian businesses.⁴⁹ In the immediate aftermath of WWII, Europe required the following to rebuild itself: public investments in infrastructure, a generous welfare state, and stable institutions to support businesses, which would require the state to take a leading role in the economy. For example, in France, the Monet Plan (1946-1950) emphasised steel, energy and infrastructure investments to rebuild its ruined economy, the money for which would come through public funds.⁵⁰ These examples show that WWII prompted governments to intervene heavily in the economy, whether it was to rebuild a country's broken infrastructure, provide basic necessities and support to citizens, or stimulate demand to ensure economic growth. India was watching these changes in Europe as it contemplated changes to its own political economy.⁵¹

At the time of independence, India faced widespread poverty, famine, and a flailing economy with limited infrastructure. It had transformed into a war economy during World War II, just like Europe's had, because of increased centralised control over production. Additionally, the country was facing food shortages and recovering from the Bengal Famine (1942-1944), which killed between 2 to 3 million people. These crises prompted the state to take a leading role in the economy to organise its resources. The question posed to colonial administrators and later, India's first government was how it should address these problems through the Gandhian model of self-sufficiency, the Soviet Command economy, or Western Europe's state-supported Capitalism. By 1947, Indian policy makers were strongly

⁴⁹ Enrico Colombatto, "Book Review: The European Economy since 1945: Coordinated Capitalism and Beyond, by Barry Eichengreen," The Independent Institute (Independent Institute, 2008), <https://www.independent.org/publications/tir/article.asp?id=7>

⁵⁰ Barry J. Eichengreen, *The European Economy since 1945: Coordinated Capitalism and Beyond* (Princeton, NJ: Princeton Univ. Pr., 2008), 59.

⁵¹ Austin, *The Indian Constitution* (1999), 96. There are references to the German and Irish Constitutions in Constituent Assembly Debates and how they fostered democratic traditions across the book.

influenced by Nehru's centre-left ideology, prompting it to embrace its own way which would combine tenants of Western Europe, the USSR. The Constituent Assembly of India discussed the changes that the Partition of the subcontinent into India and Pakistan caused, and agreed that the state had to maintain the centralising powers that the Raj government had to keep Indian economically and politically united. Some of these provisions were the Central Government's ability to dissolve state governments and make the country a unitary state, the removal of any clause for states to secede from the Union, Presidential veto over certain state bills, and the central government's ability to appoint governors to manage state affairs.⁵²

The Soviet Economic Model

The story of Western Europe and planning is only part of the picture. The USSR's economy was different to the USA's primarily because it was a command economy, and the state had executive authority in allocating resources across the economy. The USSR was also a one-party dictatorship. The power of resource allocation was seen in the development of its Five-Year Plans, which allotted funding to sectors, set production targets, and clarified which sectors would be given priority over others. To many Socialists across the world, a planned economy would enable a country to bridge income inequalities and allow for rapid industrialisation. Considering that the USSR was able to become one of the most important industrialised nations despite many upheavals and challenges, many Indian politicians argued that the Soviet economic model was crucial for growth.⁵³

The link between Indian politicians and Fabian Socialists, members of the Fabian society who advocated for democratic socialism and not a Communist revolution as a means of change, was very strong. Austin writes that widespread support for parliamentary

⁵² *The Constitution of India*, Articles 153-155, 200-201, and 356.

⁵³ Eva-Maria Nag, 'Marxism and beyond in Indian Political Thought: J. P. Narayan and M. N. Roy's Concepts of Radical Democracy.' (London School of Economics and Political Science, United Kingdom), 2004), page 39, <http://etheses.lse.ac.uk/1709/>.

democracy and a strong central government was because of Constituent assembly members' belief in Socialism.⁵⁴ While there was a range of Marxists, Gandhians and even Capitalists, most assembly members on the whole believed that 'Socialism is everyday politics for social regeneration' and that 'democratic constitutions are...inseparably associated with the drive towards economic equality.'⁵⁵ Austin's point shows that Indian politicians were convinced of a link between democracy and equality and poverty alleviation, regardless of their political party.

He notes that Nehru studied Fabianism when he was at Cambridge. Evidence, however, shows that he was not a rigid Socialist. Acharya Deva, a leader of the Congress Socialist Party, which later broke from the INC to become the Socialist Party of India, wrote that Nehru's "activities are guided by ideals of democracy and economic betterment of the masses...He does not subscribe to any rigid ideology."⁵⁶ This is especially seen when Nehru reconciles his appreciation for the Soviet planned economy with western democracy. He was willing to create a democratic system that worked for India.⁵⁷

Nehru visited the USSR in 1927 and was enamoured by its factories and the rapid growth it achieved. 1927-28 were critical years for the USSR as well because Stalin had just developed its New Economic Policy and had just begun its First Five-Year Plan. Nehru was witness to these initial changes in the USSR and was intrigued with the country's economy and its radical approaches to poverty and inequality.

In a letter to Indira Gandhi, his daughter, and India's third Prime Minister, in 1933, he explained his fascination with its economy.

"The argument about the success or otherwise of the Five Year Plan is rather pointless. The answer to it is really the present state of the Soviet Union. And a further answer is the fact that this

⁵⁴ Austin, *Indian Constitution*, 51-52. H.J. Laski, *A Grammar of Politics*.

⁵⁵ Austin, *The Indian Constitution*, 51-52.

⁵⁶ *Ibid*, 53. Acharya N. Deva, *Socialism and the National Revolution* (Bombay: Padma Publications, 1946), 205.

⁵⁷ 'An Independent Sovereign Republic (1946)' in *Jawaharlal Nehru's Speeches (1946-1949)*, 3rd ed., vol. 1 (New Delhi : Publications Division, Ministry of Information and Broadcasting, Govt. of India, 1983), 11.

plan has impressed itself on the imagination of the world. Everybody talks of 'Planning' now,... the Soviets have put magic into the word.”⁵⁸

This letter emphasises that Nehru was awed by the USSR's ability to take a concept like centralised state planning and make it a reality. The fact that Nehru calls their planning model magical reiterates how impressed and fascinated he was by its efforts at economic planning and the potential benefits it could provide to a country. When he mentioned that the answer to the Five-Year Plan's success is in the present state of the USSR, he meant that planning created “a new sense of economic security among the people [of the USSR],” and that Russia, “a feudal country...has suddenly become an advanced industrial country.”⁵⁹ These comments further show that he was impressed at the USSR's transition from an agrarian economy to an industrialised one. Indeed, centralised planning left a lasting impression on Nehru.

While he was enamoured by the USSR's Five-Year Plan, he was also aware of its shortcomings. He mentioned that the push to heavy industry resulted in widespread starvation and poverty across the USSR:

“For Russia, this building of heavy industries at a tremendous pace meant a very great sacrifice. The people of the Soviet Union tightened their belts and starved and deprived themselves of even necessary articles so that payment could be made abroad. They sent their food-stuffs abroad, and with the price obtained for them paid for the machinery...”⁶⁰

These observations show that Nehru was aware that state planning would pose a challenge to a country that lacked basic infrastructure and an unreliable food supply. The fact that millions starved during this Five-Year Plan was also a lesson in how to avoid the perils of rapid industrialisation without the development of an agricultural base, a view reflected in Nehru's first Five-Year Plan after independence, where agricultural development was prioritised over

⁵⁸ Nehru to Indira, 9 July 1933, in Jawaharlal Nehru, *Glimpses of World History* (New Delhi: Penguin, 2004), 995.

⁵⁹ *Ibid.*

⁶⁰ *Ibid.*, 993.

all other sectors. The Soviet Union's planned economy gave Nehru some insight in how India could tackle the economic and social issues it faced in 1947.

Nehru had also visited the USSR before writing this letter and his trip that profoundly influenced his thinking and his vision of modern India. Nehru wrote a book about his visit there called, *Soviet Russia, Some Random Sketches and Impressions (1928)*, which showed that he was convinced that the USSR had rapidly overcome problems of illiteracy, mass education, inequality, and class-based hierarchies. While in the USSR, Nehru was primarily in Moscow, and could only visit sites that the Soviet Government would take him to. This limited exposure shaped his perspective since the Soviets were likely to show off their successes, not their failures in state planning. Nehru's book reflects the successes that the USSR achieved after its revolution, without focusing on the challenges it faced.

One observation of his was the lack of societal inequality in Moscow. In his opinion, Moscow stood "apart from the cities of the west...the contrast between luxury and poverty are not visible nor does one recognise the hierarchy of class or caste."⁶¹ He was captivated by the USSR's seeming ability to move away from class-based societies and says that it is a novel idea. He elaborates on this concept when analysing his visit to the opera. He observed that the "[opera] house was full with people in their work-a-day attire. These were all homely looking folk," and goes onto say that people did not dress up to go to such cultural events, contrary to Western Europe. The fact that so many middle-class and blue-collar workers could go to the opera was unusual and caught his attention since it was unseen in India, where social conventions prevented mixing between classes. This image of perceived equality stuck with Nehru, and in later speeches to workers in India's first steel factories, he evokes similar images, indicating that India's future lay in the empowerment of the millions of workers that made its economy function.

⁶¹ Jawaharlal Nehru, *Soviet Russia; Some Random Sketches and Impressions* (Bombay: Chetana, 1949), 12-13.

Towards the end of the book, Nehru questions British hostility towards Russia, by arguing that there is a lot to be learned from the USSR's political economy, specifically how to address inequality and grow an impoverished nation.⁶² Nehru was profoundly impacted by the USSR's economic model, and was enamoured by its apparent ability to reduce inequality, poverty, and illiteracy, a view shared by other politicians in the late 1940s.⁶³ Moreover, it also made the USSR a global power a few short years after the Russian Revolution and its destructive civil war. The notion of state-led economic development obviously caught his attention, and the impact this had is seen when he unveils his plans for post-independence India's economy in the 1930s. Nehru's visit to the USSR did help him envision a future for India's economy, but also showed that the shaping of economic policy ought to be democratic, given the challenges of rapid industrialisation.

His positive view of Russia is seen in later writings, such as *Discovery of India*. In the book, he talks about how the USSR overcame ethnic and cultural differences. Nehru asks how fundamentally different groups, such as Hindus and Muslims and upper and lower castes, can work together. This question befuddled India's founding fathers at independence as they witnessed the subcontinents' partition and as they tried to reconcile the position of minorities in post-partition India. He argued that thriving democracies like the USA have been unable to reconcile the position of minorities and African Americans with white Americans. Instead, the USSR was able to address the issue of competing nationalities and minorities, "by creating what is called a multi-national state,"⁶⁴ a state where there is a strong sense of common aims and values in the midst of a highly diverse population.

⁶² *Ibid*, 126. Nehru writes, "We have grown up in the tradition, carefully nurtured by England, of hostility to Russia ...the danger of war is real. But will this war be of Russia's seeking or does England desire to precipitate an armed conflict?"

⁶³ Austin, *The Indian Constitution*, 51.

⁶⁴ *The Discovery of India*, 251.

His mentor, Rabindranath Tagore, who was also a renowned Indian poet and freedom fighter, commended the USSR's ability to address many issues that India was to face in 1947 including illiteracy and low life expectancy. A meeting that Nehru documented in *Discovery of India* recounts their conversation about the USSR. According to Tagore, the USSR "succeeded in steadily liquidating ignorance and poverty, wiping off the humiliation from the face of a vast continent. Her civilization is free from all invidious distinction between one class and another, between one sect and another..."⁶⁵ While this meeting happened in 1941, it provides evidence of how the USSR shaped the experiences of many influential leaders of the freedom struggle, who in turn, shaped Nehru's views of the world.⁶⁶ The fact that he mentions this meeting with Tagore so many years after in his book was released indicates how much this conversation impacted him.

Nehru was enamoured by the USSR's rapid industrialisation, with its support for cooperatives and local businesses. In *Discovery*, he mentions how rapid industrialisation supported by economic planning will be an essential part of India's growth. He was convinced that rapid industrialisation would be "essential to relieve the pressure on land, to combat poverty and raise standards of living," since it would provide millions with jobs and transform India's economy from an agrarian economy to an industrialised one.

Despite this support for industry, he was aware of the challenges it could bring such as an over centralisation of power, exploitation of workers and unequal development across the country.⁶⁷ This recognition explains why he was "convinced that the most careful planning," was necessary to overcome such issues. The state, in conjunction with local governments would determine how to implement policies aimed at poverty alleviation, health

⁶⁵ *Ibid.*

⁶⁶ 'The Nobel Prize in Literature 1913', NobelPrize.org, accessed 18 January 2020, <https://www.nobelprize.org/prizes/literature/1913/tagore/article/>.

This article explains the appreciation Gandhi and Nehru had for Tagore and his work in the freedom struggle.

⁶⁷ *The Discovery of India*, 400.

and development.⁶⁸ He did acknowledge that in order to add a democratic aspect to Indian planning, decentralisation and the abolishment of the zamindari, a feudal system where a landlord owned land and had tenant farmers, in favour of cooperative farming could also help the country. He believed that cooperatives would, “give a democratic habit to small industry...even Soviet Russia owner-producer cooperatives have played an important part in industrial growth.”⁶⁹ However, this does not act as an endorsement of collectivisation, since he was clear that such reforms ought to be carried out through a democratic process. This comment shows how Nehru’s ideas are strongly entrenched in democratic traditions and hopes to borrow aspects of Soviet industrialisation while framing it within a democratic context. This observation is reiterated in his letter to Indira Gandhi, where he acknowledged that Soviet industrialisation prompted mass starvation and was not democratic, despite some positive results.

Such perspectives show Nehru was a staunch supporter of democracy and fundamental rights, despite the USSR’s influence. Rather than forcing the state’s view on the people, the state must consider the perspectives of its citizens before enacting changes. In the context of developing India’s economy, the INC considered a range of perspectives before creating the Planning Commission, including those of small businesses, industrialists, and politicians in the INC itself. In *Discovery of India*, he mentions that the Congress had continuously stood firm on its two founding principles, national unity and democracy, and had worked to constantly marry these two principles together in its work.⁷⁰ This nuanced level of thinking is further seen when he writes about India’s unilateral entry into WWII, “a democracy cannot easily jump into war without preparing its people and gaining their

⁶⁸ *Ibid*, 406.

⁶⁹ *Ibid*.

⁷⁰ *Ibid*, 384.

cooperation,” further showing his commitment to upholding individual rights while implementing contentious decisions.

Conclusion

This chapter has untangled and contextualised a complicated time in global and Indian history. 1947 was a moment of reckoning for the Indian state, would it adopt a Soviet-style command economy, would it become a liberal democracy that guarantees rights of all citizens while taking control of its economy, or would it adopt the Gandhian mode of decentralised, self-sustaining villages? At this juncture, the following were top priorities for Indian politicians: Indian unity, the end of exploitative colonial rule, and India’s independence from foreign influence. These explain why the Gandhian decentralisation model and the Soviet style command economy were not embraced at the time, since the former would not hold the country together, while the latter undermined the fundamental tenants of democracy. Considering the harmful legacy of British rule in India, the economic devastation and rampage inflicted on the subcontinent by partition, WWII and colonial rule itself, it is evident that India’s founders believed that a centralised state would ensure political and economic stability, and self-sufficiency.

The experience of partition and the communal violence that erupted before and after it also convinced Indian politicians that the way to ensure political stability was by ensuring Indians developed a national identity that would overcome religious and cultural differences, and also emphasising that the basic unit of Indian life was not the community, but the individual. A way to overcome these differences was to rally Indians around common economic aims, which could only occur if the state were to provide jobs and invest in building India’s economy. Politically, stability would be ensured by granting significant

powers to the central government, while ensuring that individual rights were at the centre of the constitution.

This chapter has set out the dominant political ideas of the time but has not discussed the perspectives of another important bloc in Indian society of the time: the perspectives of Indian industrialists and their response to the changes that India was undergoing during WWII and with the partition of India. Their perspectives played an important role in shaping economic policy after independence and will be discussed in the next chapter.

CHAPTER 2

The Bombay Plan: Business Perspectives

“If democracies can successfully plan and organize their resources for waging wars, it stands to reason that they can do so equally for fighting social evils such as poverty, disease and ignorance...Planning is not inconsistent with a democratic organisation of society.”¹

-The authors of *The Bombay Plan*

The previous chapter analysed the global and local contexts for India's decision to embrace state planning. The Second World War and its destruction, and the instability caused by partition prompted overwhelming support for state intervention in the Indian Economy, and for a secular and democratic state. There were other factors that supported a centrally planned economy in India, the views of Indian business. This chapter will analyse the perspectives of big business and the role it played in impacting India's economic policies at the time of independence, specifically by analysing an important document published before independence, *The Bombay Plan*, officially, ‘A Plan of Economic Development for India.’²

This chapter answers the following questions: Why did India's industrialists support the INC's state-led economic planning model? What were their underlying motivations to support the INC? This chapter will argue that *The Bombay Plan* was an attempt for business to actively participate in Indian policy planning, and also to entrench its interests in the economy. The Raj government's expanding powers during WWII showed Indian businesses that their positions were tenuous. The Bombay Plan signalled to the government that businesses would support its increased state power, if businesses were provided monetary and other forms of support by the government. In doing so, it set the ground for economic debate in post-colonial India and resulted in the import-substitution model adopted by India for the next few decades.

¹ Purshottamdas Thakurdas et al., *A Plan of Economic Development for India. Parts One and Two* (Harmondsworth, Middlesex, England: Penguin Books, 1945), 91-92.

² For the rest of this chapter, I will refer to *A Plan of Economic Development for India* as *The Bombay Plan*.

The plan was a way for India's businesses to show its support for the INC with the hope of securing their existing business holdings, and also engage in policy-making as part of a nation-building exercise. It will provide evidence to these claims by analysing the intentions of the planners, which included their desire to expand and grow into industries that were presently occupied by British businesses, the role they played in the INC's previous attempts at planning, the problems they faced under the British Raj during WWII, and analyse primary sources assessing the plan's reception in the press. The documentary record on this plan is extensive since it was commented upon and analysed in newspapers and journals across the world at the time. This chapter will draw on primary sources such as news articles from *The Times of India*, *The New York Times*, and *The Bombay Plan* itself, and the writings of the Bombay planners.

This chapter will draw on a range of secondary sources as well including recent work published by Medha Kudaisya, and David Lockwood, who argue that *The Bombay Plan* was a revolutionary idea in state planning since adopts a middle way for the private sector to coexist in a planned economy and was shaped by the aforementioned crises, and Vivek Chibber, who argues that the plan was a way for businesses to entrench their own vested interests. Kudaisya calls the plan "a historic moment when business groups, for the first time, unhesitatingly aligned themselves with nationalist aspirations,"³ while Chibber contends that the plan "was a manoeuvre by the more canny members of the [capitalist] class to maintain legitimacy in the face of the most popular upsurge in India [Quit India Movement, 1942] during the century,"⁴ a view strongly opposed by Lockwood. These conflicting historiographies are important to understand the intentions of the plan's authors and how they

³ Medha Kudaisya, "'The Promise of Partnership': Indian Business, the State, and the Bombay Plan of 1944', *Business History Review* 88, no. 1 (ed 2014): 98, <https://doi.org/10.1017/S0007680513001426>.

⁴ Vivek Chibber, *Locked in Place: State-Building and Late Industrialization in India* (Princeton, N.J. ; Princeton University Press, 2006), 86.

interpreted the events of WWII. This chapter will show how these interpretations are partially accurate, by arguing that *The Bombay Plan*, was a way for businesses to secure their interests in the economy, but also take part in nation building as India emerged independent because of their frustration with the Raj.

What was the Bombay Plan, and who were its authors?

The Bombay Plan was a two-part statement written by Indian businessmen and academics as they navigated the struggles and constraints imposed on them by the Raj government during the Second World War, and also a way for them to indicate to future governments how they envisioned India's political economy after independence. Part I was released in January 1944, and part II in 1945. The plan, in essence, argued that India would develop best by prioritising agriculture and social services first, and then focusing on heavy industry. They also argued that India would benefit from being self-sufficient, which is why it ought to adopt an import substitution industrialisation model. It could be argued that import-substitution would ensure Indian businesses are protected from foreign competition. This declaration institutionalised the relationship between the state and business for the first time in the independence struggle. This view aligned well with the Indian National Congress' (INC) support for self-sufficiency and state control of economic resources. It signalled to the INC that business would let the government have a significant say in economic matters, which would allow them to receive government benefits and permits, protecting their interests. Its introduction reads:

“...in view of the prevailing interest in problems relating to post-war economic development in India, we have thought it desirable to publish our views regarding some of the more fundamental aspects of planning so as to stimulate discussion and criticism of our proposals...The maintenance of the economic unity of India being, in our view, an essential condition of any effective planning, we have assumed for the purpose of our plan that the future government of India will be constituted on a federal basis and that the jurisdiction of the central government in economic matters will extend over the whole of India.”⁵

⁵ *The Bombay Plan*, 7-8.

The introduction makes the planners' intent extremely clear; it is a statement that throws its support behind some essential aims of the INC and the freedom struggle: independence, and the creation of a government that would treat India as a single economic and political unit. The statement shows that the authors were aware of the problems that India faced during WWII and were willing to actively consider solutions to them rather than only focusing on their business interests and are open to criticisms about their ideas. The opening statement itself indicates that business interests will be subordinate to the interests of the state and will support measures that would promote economic and political unity in India.

The plan addresses a range of issues that India faced at the time and sets out concrete goals and ways to achieving them. The principle objective of the plan was "to bring about a doubling of the present per capita income within a period of fifteen years from the time the plan comes into operation,"⁶ and increase production of power and capital goods. It then goes on to define a reasonable living standard, cost of housing, clothing and food to individuals and the average consumption needed to sustain a healthy lifestyle. While laying out the conditions that India faced, the planners go into details about India's housing market, health provision system, provision of basic goods like sewage treatment, water and lighting.⁷ The range of issues this plan discusses and the process to achieve its aims are important to how India eventually implemented its Five-Year Plans under Jawaharlal Nehru. It sets out a roadmap for India to follow to develop and defines what success would be in the plan's context.

Who were these businessmen who wrote the plan, and why were they determined to come together to engage in economic policy? The writers were among India's wealthiest industrialists who had business interests in a range of sectors spanning various aspects of the

⁶ *Ibid*, 9.

⁷ *Ibid*, 21-26.

Indian economy, from steel production, textiles, tobacco, cement, and energy, among others. They were all pioneers in promoting the interests of Indian businesses through the Federation of Indian Chambers of Commerce and Industry (FICCI) to the Raj government and engaged in extensive philanthropy as well. All the authors shared close links to both, the INC and the Raj government as policy advisors to both, and financial backers to the INC. The significance of these relationships will be discussed later in this chapter.

There were 8 authors to the plan.⁸ The oldest was Sir Purshottamdas Thakurdas, a cotton trader who helped setup FICCI, and was on the board of the Reserve Bank of India (RBI), India's central bank. He also had business interests in other industries such as insurance, cement, iron and transport, and sat on the board of over 70 companies.⁹ J.R.D Tata was the youngest of the group and was head of the Tata group, one of the oldest family conglomerates in the country. Ardeshir Shroff was an economist and director on Tata's board and was part of the committee that drafted the provisions of the Reserve Bank of India (RBI) Act, which created India's central bank in 1934. John Mathai was a professor of economics and Tata board member and one of India's first finance ministers. Kasturbhai Lalbhai was a large textile manufacturer and former member of the Indian Legislative Assembly. Despite sharing close ties to the INC, especially Gandhi, he disagreed with Nehru's support for state-intervention in the economy.¹⁰ G.D. Birla, head of the Birla Family conglomerate and a co-founder of FICCI along with Thakurdas. He was also part of the central legislative assembly, and a financial supporter of India's freedom fighters, such as Gandhi, and Sardar Patel and would host them at his personal residence in Delhi. Lal Shri Ram was a cotton and sugar

⁸ *The Bombay Plan*, 2.

Medha M. Kudaisya, 'The Authors of the Plan', in *Tryst with Prosperity: Indian Business and the Bombay Plan of 1944* (New Delhi: Penguin Random House India, 2018).

⁹ Kudaisya, 'The Authors of the Plan', in *Tryst with Prosperity*.

¹⁰ Ibid.

manufacturer from Delhi.¹¹ Ardeshir Dalal was a civil servant and after retirement, joined the board of Tata Sons and was drafted into government service during WWII.

The influence of these individuals was immense since they were the founders of many organisations that represented business interests such as FICCI and local chambers of commerce across the country. Three of the authors had knighthoods, and three others sat on the board of the RBI, while also having close relations to the INC. Their clout was far-reaching across Indian businesses and politics, and across the Raj government.¹² Despite their reservations about Nehruvian Socialism, they still engaged with the INC. By 1937, with the INC in control of 8 of India's 11 provinces, they agreed to sit on the board of the INC's National Planning Committee (NPC) before its dissolution with the onset of WWII.

WWII and the Changes to the Economy

The planners had been involved in shaping trade and commerce before WWII, but the war radically changed India's economy. India was significantly impoverished because of the exploitative nature of British rule, to the extent that India owed Britain £360 million on the onset of WWII since it was forced to buy finished goods from Britain and served as its largest export market.¹³ However, during WWII, India's economy transformed to become the 8th largest industrial economy in the world, and reversed the direction of sterling balances since it shipped so many materials abroad, resulting in Britain owing India £1.3 billion, making India one of its largest creditors.¹⁴ In the initial years of the war, India's economy grew and Indian businesses benefitted immensely across sectors including textiles, armaments, sugar, leather and more, since they had to produce immense quantities of goods for the Empire, and

¹¹ *The Bombay Plan*, 2.

¹² Kudaisya, 'The Authors of the Plan.'

¹³ Barbara D. Metcalf and Thomas R. Metcalf, *A Concise History of Modern India*, 3rd ed., Cambridge Concise Histories (Cambridge: Cambridge University Press, 2012), 125.

¹⁴ Medha M. Kudaisya, *Tryst with Prosperity: Indian Business and the Bombay Plan of 1944* (New Delhi: Penguin Random House India, 2018), 24.

received substantial government support to expand production.¹⁵ The advent of independence would result in the exodus of British businesses in sectors that Indian businesses had not been part of, opening up potential opportunities for them to expand into, especially in sectors developed during the war because of government support.

If businesses seemed to be doing so well, why did they worry about the state of the economy? Businesses were very disappointed by their from 1942. The Raj government taxed 50% of all profits for businesses that earned more than Rs. 36,000, which was condemned for “checking the flow of new capital badly needed for financing,” and the expansion of trade.¹⁶ Chambers of commerce across the country criticized the tax for being regressive, harmful, and anti-business, prompting strikes across the country, reinforcing public disappointment with the Raj.¹⁷ Additionally, the Defence of India rules introduced during WWII prevented the production of consumer goods, further straining business-government relations. For example, a Tata factory aimed at producing automobiles was prevented from setting up because its work did not directly contribute to the war effort.¹⁸ Compounding this problem was the Raj’s refusal to import capital goods and machines from the USA and USSR since Britain wanted these products for itself, further hampering industrial development. The Indian economy was transformed by the war effort, but unable to fully grow. The Raj tried to control business activity by managing production targets, price controls, and quotas, constraining businesses freedom. These taxes and excessive controls prompted a shift in support towards the INC since the current regime was not conducive to supporting business interests.

¹⁵ *Locked in Place*, 93.

¹⁶ Rs. 36,000 is worth Rs. 520,000 or \$7407 in 2019 terms.

¹⁷ “‘The Promise of Partnership,’” 109.

¹⁸ *Tryst with Prosperity*, 18.

The mobilisation of the Indian economy also resulted in significant inequalities and challenges because of high inflation, a shortage of food and other resources, prompting widespread hunger and protests, culminating in the Bengal Famine of 1943. The famine was a sign that the Raj failed to look after Indian citizens and that the country was strained by the war effort. The war had increased inflation by 300 percent, and because only the wealthy could afford essentials, between 2 to 3 million died during this famine. When Japan was poised to invade India from Burma, the British government advocated a scorched earth policy, which would destroy fields that provided food to its inhabitants and the factories that Indian businesses set up, a move opposed by the authors of *The Bombay Plan*, local businesses in the region, and inhabitants of North-East India since it would destroy their livelihoods. When the scorched earth policy was announced, G.D. Birla made a statement in a 1942 meeting of FICCI:

“supposing in a time of panic we just destroy all the good work that we have done in half a century and if after a few months or few weeks we find ourselves able to push back the enemy into the sea, we would realize that just in a mood of panic we have destroyed all the good work that we have done in a generation..”¹⁹

This statement shows the frustration Indian businessmen had with the Raj government during the war effort. The threat to Indian business interests under the Raj’s government seemed clear. Import and production restrictions compounded the tensions between government and business.

Politically, the British government had failed in its negotiations with the INC about the future of Indian independence and the structure of post-independent India.²⁰ The failure of the parties to find a compromise resulted in the Quit India Movement of 1942, prompting in strikes across the country and the subsequent arrests of all of the INC’s top leaders. The

¹⁹ Srinath Raghavan, *India’s War : The Making of Modern South Asia, 1939-1945* (New York: Basic Books, 2016), 373.

Medha M. Kudaisya, *The Life and Times of G.D. Birla*, (New Delhi: Oxford University Press, 2003), 221.

²⁰ Look up The Cripps’ Mission for more detail on this negotiation.

scorched earth policies, the famine, political instability and the heavy-handedness of the Raj made undermined business confidence in the country's economic system. This sentiment is reflected in a letter to the Viceroy written by Birla, Thakurdas and Tata, which said, "...our interest lies in peace, harmony, goodwill and order throughout the country....in the midst of war, political freedom could be granted."²¹ This statement also reflects that Indian businessmen were willing to support independence if it meant that order and stability would be restored in the country. It is with this background that the planners came together to discuss the future of the country's economy.

The Quit India Movement (1942)

The Quit India movement was an important trigger for the creation of the plan since businesses were concerned about their perceived business support for the British during the war. At the heart of this concern was the potential damage the movement could do to their assets and their property. Before the plan was written, Thakurdas and Lal Shri Ram, a prominent textile manufacturer from Delhi corresponded about their fears related to the movement and the surge in the INC's left. In a 1942 letter, Ram conveyed his fears about the movement's violent turn, "I am afraid that this sabotage may any day start on private property also," emphasising how wary businessmen actually were of the mass movement and their desire to secure property rights.²²

The Quit India movement also showed business that they had to reinvent their image to survive. Their perception had to change from being known for "backroom manoeuvring and profit mongering, and take centre stage as a servant of the same aspirations that guided the broader movement," essentially a way for businesses to show that they were concerned with

²¹ *India's War*, 373.

²² *Tryst with Prosperity*, 18.

Letter from Shri Ram to P. Thakurdas, 24 August 1942, Purshottamdas Thakurdas (PT) Papers, File 239 part 4, NMML.

the future of the country, not only its profits.²³ This balance the planners hoped to achieve was by throwing its support behind economic planning, which coordinates and allocates resources across the country.²⁴

In the Committee's first meeting, John Mathai prepared a memorandum explaining the purpose of the committee. In his note, he mentioned that there was a likely shift towards the left in Indian policy after independence, and that businesses need to be ready "to make such adjustments as may meet all reasonable demands before the socialist movement assumes the form of a full-fledged revolution." In essence, "one of the principle tasks will be to examine how far socialist demands can be accommodated without capitalism surrendering its essential features..."²⁵ The note reflects that the authors were extremely worried about an anti-business uprising in the country and had to move quickly to protect their interests while ensuring political support. It also shows that the plan was created not only to provide perspective on economic planning in India, but to also ensure that private companies could secure their interests by conceding aspects of the INC's socialist ideals while ensuring their bottom line and property rights would not be as impacted. Lockwood counters this argument by arguing that the Plan was not a response to the Quit India movement, since it first met only in December 1942, long after the movement was suppressed. He interprets Matthai's note to be a way for businesses to "accommodate rather than confront socialist demands," and shows evidence that the planners were hoping to find defects in the existing capitalist system to enable it to help the country.²⁶

²³ *Ibid*, 95.

²⁴ *Ibid*.

²⁵ *Ibid*, 96-97.

General Note, enclosed in Mathai to Thakurdas, 8 December 1942, PT Papers, File 291, part 1, NMML.

²⁶ David Lockwood, 'Was the Bombay Plan a Capitalist Plot?', *Studies in History* 28, no. 1 (1 February 2012): 112, <https://doi.org/10.1177/0257643013477263>.

Matthai's note reveals the following about the plan's authors. Firstly, they did want to engage with the government in economic policy making, which is not surprising since some of the authors had been part of the Raj government and the INC's NPC. Secondly, businesses wanted to protect their profits and realised the way to retain their business interests was to acquiesce to some of the demands of the INC by supporting a planned economy. The authors' businesses did not function in sectors that the INC wanted the government to have control of such as railways and steel production, so supporting the state's role in these areas would not shrink the size of their businesses. Finally, by making these concessions, Indian businesses hoped to stave off a more extreme version of state intervention, which could abolish property rights, similar to the USSR's. The plan not only acted as a way to signal businesses' support for the INC, but also a way to show how private businesses could function within the framework of a planned economy

Given the INC's overwhelming popularity after the war, it would be in a position to direct the course of the country once independence would be achieved. In fact, Ardeshir Shroff told the Government's Reconstruction Committee that:

"the business community was convinced it would be necessary for Government to exercise far reaching control in all fields of business activity, and that business would cooperate in the interests of economic development."²⁷

This statement reinforces the view that industrialists were in favour of state intervention to rebuild the country given the devastation it faced because of colonialism and WWII. This stance was adopted for a combination of reasons, one was to secure business interests by showing solidarity with the government, but also to engage in policy-making to support modern India. In doing so, these businessmen laid the foundation on which *The Bombay Plan* would be framed, the notion that the state has to support businesses to ensure development

²⁷ Ibid, 107.

Federation of Indian Chambers of Commerce and Industry, Correspondence and relevant documents relating to important questions dealt with by the Federation during the year 1941–42 (Bombay: India Printing Works, 1942), 140–43; Government of India, Reconstruction Committee of Council, Record of the First Meeting of the General Policy Committee (New Delhi: n.p., January 1944), 28

and poverty alleviation. It was also a statement showing that the business sector was unable to be the sole provider of jobs in the economy.

The Plan itself

The Bombay Plan tried to find a way to balance business interests and aligning with the INC's left-leaning ideology.²⁸ The introduction to the plan emphasises the extent to which capitalists conceded to the basic ideals of the INC. It defers to the then defunct NPC for most major planning, and also argues that the plan is meant to form the basis of economic planning in India. The plan reads that it hopes

“...to put forward, as a basis of discussion, a statement, in as concrete a form as possible, of the objectives to be kept in mind in economic planning in India, the general lines on which development should proceed and the demands which planning is likely to make on the country's resources.”²⁹

From the outset of the plan, it is made clear business was in favour of aligning with the INC's economic aims. Some of the authors of the Plan, such as Ardeshir Dalal, and Purshottamdas Thakurdas were also part of the Viceroy's executive council, and members of the INC's NPC, and therefore had an understanding how economic policy was envisioned by both, the INC and the Raj government. By immediately declaring its support for the NPC and a central planning commission that would have the authority to implement its plans across the country, the authors indicated that the responsibility of providing basic economic necessities and allocating resources effectively on a national scale lay with the central government.³⁰ The plan stresses the importance of industrial development, arguing that the lack of basic infrastructure, “hindered the development of India's industrial resources,” during WWII, which was an essential part of Nehru's vision for post-colonial India.³¹

²⁸ *The Bombay Plan*, 93.

²⁹ *Ibid*, 7.

³⁰ *Ibid*, 9-11.

³¹ Jawaharlal Nehru, *The Discovery of India*, Centenary ed. (Delhi; New York: Oxford University Press, 1989), 301.

According to the planners' calculations, the total amount of income that would need to be spent to implement the plan would £2175 million in pre-WWII prices (calculated with data from 1931-32), resulting in a minimum per capita income of Rs. 74 or £5.11. This calculation indicates that India through its new economic system would have to significantly increase its national income to provide people "their bare requirements as human beings."³² It hoped to triple national income within 15 years of the Plan's implementation, from £1324.5 million to £3975 million, an ambitious task. This calculation they note might not help increase per capital GDP if India's population grows faster than 5 million a year, which given India's population growth after independence, did undermine this assumption.³³ In an attempt to achieve these aims, the planners also advocate a "balanced economy model," which calls for an increase in the role of industry, and less dependence on agriculture and services. The planners envisioned industry's share doubling to 35 percent, agriculture dropping from 53 percent to 40 percent, and services marginally dropping by 2 percent.³⁴ The increase in industrial spending could also help these businesses if the government increased its industrial subsidies through an import substitution model. However the plan does not specify if the state is expected to subsidise the private sector. This conclusion is important when discussing the aims of centralised planning under Nehru and how they changed between the First and Third Five Year Plans, which will be addressed in the next chapter.

Implementing the Plan

Kudaisya explains how the plan was structured across its 15 years. It divided itself into three Five-Year Plans, or leaps. Planners hope to achieve this aim by reducing agriculture's dominance in the economy from 35 percent in the first 'leap,' with a final

³² *The Bombay Plan*, 26.

³³ On 28 of the Plan, the planners explain why an increase of 5 million is the most the plan can accommodate to fulfil its aim of doubling national income in 15 years.

³⁴ *Ibid*, 29. The breakdown between spending to public and private sectors was not specified in the plan.

reduction to 20 percent in the last ‘leap.’ The table below shows explains how planners envisioned changes to India’s economy by the end of this initial 15 year period.

Table 1: Initial and Expected Changes in Agriculture, Industry and Services³⁵

	Net Income in 1931-32 (Rs. Crores)	Net Income expected after 15 years (Rs. Crores)	Percentage Increase (%)
Agriculture	374	2240	500
Industry	1166	2670	130
Services	484	1450	200

This table represents the vision of the planners and its close alignment to the views of the INC. While it does want to increase agricultural spending significantly, industry will continue to be the dominant sector of the economy. The point of these leaps is to stabilise India’s food supply and then build out its industrial capabilities, making it self-sufficient and a global producer of goods. By also calling for heavy industrialisation and self-sufficiency, the planners indicate that they wanted to be protected from foreign competition, which would increase their profits because of a lack of competition.

The planners explain the importance of industrialisation in shaping the Indian economy and India’s lack of basic infrastructure a reason hindering the country during WWII:

“But for the lack of most of these industries [basic industries including electricity, mining, transportation, chemicals and others] India would not have been left so far behind other countries of the British Empire such as Canada and Australia in the matter of industrial development in response to war conditions.”³⁶

By calling power generation and capital goods creation basic industries, they emphasise that India lacked the minimal infrastructure to build its economy, which is why they emphasised its importance in economic development. India needed these sectors to support consumer activity, services, and provide jobs to its citizens.

³⁵ *Ibid*, 31.

³⁶ *Ibid*, 32.

The planners argued that the Indian government had to prioritise its basic industries over consumer industries, which would anyway be small given India's poverty, in order to support other businesses.³⁷ The planners conclude this section by saying, "for the success of our economic plan that the basic industries, on which ultimately the whole economic development of the country depends, should be developed as rapidly as possible,"³⁸ emphasising that the government needed to take a leading role in the economy to ensure their provision. It was also a tactical move to entrench their businesses in the consumer sector. Examples of consumption goods industries to the planners included textiles, glass, cotton, tobacco, and paper, which were all dominated by the planners' businesses. This list shows that planners were motivated by their business interests in drafting aspects of *The Bombay Plan*, especially while carving out areas of the economy that the government ought to be in charge of and areas that should be left to the private sector. However, they also acknowledge that their list is not exhaustive and that the development of consumer goods was contingent on the success of basic industries and the planning process.

Transportation and Communications, along with industrial growth, were considered important components to India's economy. The development of India's transportation systems – roads, trains and shipping will significantly increase internal trade in the country, which was severely fragmented by poor infrastructure, the presence of the princely states, which adopted different currencies and trade rules to the rest of the Raj, and tariffs between these states. The planners claimed, "in all these spheres [railways, roads, shipping and civil aviation] India is seriously deficient," in contrast to the USA, USSR and the UK. They argue that India needs to increase its railway coverage by 21,000 miles and its road coverage by 300,000 miles.³⁹ In doing so, India's industrialisation can be facilitated by a robust

³⁷ A list of basic industries can be found on page 31 of the plan.

³⁸ *Ibid.*

³⁹ *Ibid.*, 41-42.

infrastructure system, boosting its economic growth. However, the cost would have to borne by the state since it is the only entity able to provide this level of support to the economy.

The Human Aspect of Planning

The plan's other main aim is to improve living standards for all Indians and defines what adequate living standards are using a range of criteria varying from calorie intake, to the quantity of cloth required for clothing, basic health needs, education, and housing.⁴⁰ It is unclear how the planners arrived to the figures they did, but nonetheless shows that inequality is closely linked to poverty eradication. It later goes onto list the basic industries India would need to prosper and achieve its central aim of poverty eradication.

The planners set out to explain what a minimum living standard for every Indian was. The plan emphasises the lack of food security for Indians, and that at current levels, the whole population of India will be hungry. It estimates that the average spending per person per year for food is Rs. 65, assuming a diet of 2800 calories per day. It also considers clothing as a necessity, arguing that the average Indian will need 30 yards per year to sustain minimum clothing requirements, resulting India in needed 11, 670 million square yards of cloth (assuming a population of 389 million). Moreover, it also sets out minimum housing standards for Indians, a feat that has still been hard to achieve today. Their figures are pulled from a rent study conducted in Bombay:

Adequate shelter against sun and rain and against the inclemencies of weather is yet another of the essential primary needs of human life. On the basis that a person should have about 3,000 cubic feet of fresh air per hour, the accommodation required would be about 100 square feet of house room per person.”⁴¹

The planners provide evidence to indicate that this requirement of 100 square feet of housing per person is not met in most metropolitan areas. Instead the rise of slums and high rents causes significant overcrowding in the country and argues that India needs to spend Rs. 1400 crores to fit these minimum housing requirements, a tall order given the state of India's

⁴⁰ *Ibid*, 12-20.

⁴¹ *Ibid*, 15.

economy. The plan's focus on other aspects of development, not just agriculture and industry shows that it was not only a statement to entrench business interests and maintain their position in the economy, but an active attempt by India's elite to engage in policy-making and provide recommendations to the raj government and to the INC as they thought of ways to rebuild the economy after WWII. It also shows that planners were actively thinking about living standards and not only focusing on production.

In a similar tone, health and education are also considered important to planners. They justify this by saying:

“Apart from meeting the physiological needs of life mentioned above, an important aspect of the minimum standard of living which we wish to lay down for India is that every individual should be able to maintain a reasonable standard of health.”⁴²

India's life expectancy was extremely poor in comparison to other major countries in the world at the time, which was another driving concern for the planners as they developed basic standards for health. The two broad categories for health provision include preventive measures such as basic sanitation, a clean water supply, vaccination, and curative measures through the provision of hospitals and doctors clinics. This task would be extremely challenging given that only 13 million people had access to a safe and reliable water supply in the entire country at the time. Moreover, there were only 74,000 hospital beds, with 1 doctor per 9000 people in the country, far higher than the UK's ration of 1 doctor to 776 people.⁴³ The use such elaborate statistics and evidence reiterates the point that *The Bombay Plan* was not only a plan to build out India's infrastructure and industry, but also a guiding plan for human development. The mention of extensive government spending also points to the fact that the planners agreed that the state had to play an essential role in providing these basic necessities to Indians. Without government support, this quality of human life could not

⁴² *Ibid*, 16.

⁴³ *Ibid*, 19.

be achieved. The planners actively concede that the state's support is required to build the foundations of the Indian economy.

Another tenant of the plan is its emphasis on primary and secondary education. Not only do the planners emphasise the importance of developing a robust primary school system across the country, but also providing retraining and literacy classes to uneducated adults. They argue that “every person above the age of 10 should be able to read and write and to take an intelligent interest in private and social life is yet another of the constituents of a minimum standard of living...,” in order to protect against extremism amongst the masses, and by extension prevent rioting that could destroy private and commercial property.⁴⁴ In order to achieve this aim, they propose the establishment of primary schools across the country. They also advocate for an increase in teacher salaries, and training courses for adults. In doing so, they present a more holistic vision for Indian economic development. The table below summarises all of the social and health development spending that *The Bombay Plan* advocated:

Table 2: Aggregate Income needed to meet minimum living standards⁴⁵

Item	Income to be spent (Rs. Crores)
Cost of food	2,100
Cost of clothing	260
Recurring expenditure on housing	260
Recurring expenditure on health and medicine	190
Recurring expenditure on primary education	90
Total	2,900

The above figures indicate that India needs to significantly increase its per capita income to ensure Indians can achieve their basic living standards. It is also important to note that these

⁴⁴ *Ibid*, 23.

⁴⁵ *Ibid*, 26.

expenditures are calculated based on 1931-32 prices and population, because of which it is likely that even more spending would be needed, given population increases and significant inflation during the course of WWII. These limitations aside, the plan signals to a much larger role of the state in the economy and in providing basic necessities, thus a similar view to Nehru's and the INC's mixed economy.

While these provisions do form key part of the plan, it still heavily emphasises the increase in industrial and infrastructure spending. The description of basic industries also reiterates the extent to which the *Bombay Plan* emphasised the importance of state planning. While discussing the need for electrification, the planners referenced the USSR and its success with centralised planning in achieving electrification. The Plan reads, "it was only when the success of this plan [the USSR's electrification plan] was established beyond doubt that the ambitious five-year plans were put into execution."⁴⁶ This reference indicates that the planners, like Nehru, were enamoured by the USSR's planning system, and stressed the importance of industrialisation in shaping a country's economic success. It is worth noting that the Plan was extremely ambitious in its scale since it focused on other qualitative measures of development, not income or GDP alone. The notion that there are other measures of progress appears to be a novel idea in the 1940s, showing that the intentions of the plan were not only out of direct self-interest.

The table below summarises the range of issues that this plan tackles and the expected expenditures across each sector. These expenditures are further divided across the three leaps, in three Five-Year Plans. These leaps are important since the Planning Commission of India also follows similar approaches to its Five-Year Plans, with the first one prioritising agriculture, the second industry, while the third diverged from *The Bombay Plan's* because of

⁴⁶ *Ibid*, 32.

issues with the second plan. As discussed above, industry still gets a significantly larger share of expenditure compared to others.

Table 3: The Bombay Plan's Three Leaps⁴⁷

Sector	First Plan (Rs. Crores)	Second Plan (Rs. Crores)	Third Plan (Rs. Crores)	Total (Rs. Crores)
Industry	790	1530	2160	4480
Agriculture	200	400	640	1240
Communications (including railways and road transportation)	110	320	510	940
Education	40	80	370	490
Health	40	80	330	450
Housing	190	420	1,590	2,200
Miscellaneous	30	70	100	200
Total	1,400	2,900	5,700	10,000

The Plan's Reception

The plan, when published, was very well received and its initial 350 copies were sold out rapidly. In fact, the plan was so popular that it had to go through four reprints in 1944 in order to meet demand. Considering it is a technical policy document, it was surprising. The Plan was considered novel for its time because of its radical approach to poverty alleviation, but also criticised for a range of reasons.

The Federation of Indian Chambers of Commerce and Industry (FICCI), a body that many of the planners were part of, was wholly supportive of the plan. Considering the body's own antipathy to state planning before 1938, it was a significant shift in favour towards state intervention.⁴⁸ Considering that Birla and Thakurdas founded FICCI and had considerable sway in the organisation, such an endorsement is not surprising, but is nonetheless significant because for the first time FICCI took an open stance in favour of the INC's left-leaning economic policies. Other editorials including *The Bombay Chronicle*, *The Hindu*, *The*

⁴⁷ *Ibid*, 59.

⁴⁸ 'Was the Bombay Plan a Capitalist Plot?', 108.

Hindustan Times, and *Amrita Bazar Patrika* also expressed tacit support for the plan.⁴⁹ In the UK, some newspapers were so supportive of the plan that they questioned the INC's ability to actually formulate credible policies for economic development, and lauded the *Bombay Plan's* focus on both, human development and economic growth. *The Glasgow Herald* commended the planners for thinking about issues such as "public health, population control and education" that "Indian political leaders [could not] be induced to think about, however urgent."⁵⁰ The *New York Times* reported that "the main political factions in India do not seem to be coming forward with any such practical approaches,"⁵¹ reiterating the view that India's political elite had not considered policy solutions to India's problems. Such editorials counter Chibber's argument about the motivations behind *The Bombay Plan* since they posit that the INC and other political organisations have failed to take concrete action about Indian economic development.

Bureaucrats and Raj politicians were impressed with the plan's aims. C.D. Deshmukh, the then governor of the Reserve Bank of India and later finance minister noted, "I welcome the second part of the Bombay Plan as an expression of the readiness of acknowledged leaders of industry and commerce to submit to much wider restraints on business in the interests of planning," showing that Indian government officials appreciated the planners' efforts.⁵² The plan also came for debate in the House of Commons in Britain, where a member of the Labour Party asked the then Secretary of State for India if the Raj Government would incorporate the plan into its ideas for India's post-war reconstruction.⁵³ In India, the plan was

⁴⁹ *The Hindustan Times* was owned by G.D. Birla, and the other newspapers were all pro-independence newspapers.

⁵⁰ 'Bombay Plan Of "Minimum Needs": ACCEPTANCE URGED IN LONDON', *The Times of India* (1861-Current); *Mumbai, India*, 29 June 1944.

⁵¹ E. C. Daniel, 'Bombay Plan to Aid India', *The New York Times*, 21 May 1944, <http://timesmachine.nytimes.com/timesmachine/1944/05/21/issue.html>.

⁵² Lockwood, 108.

⁵³ *Tryst with Prosperity*, 130.

so well received by the Raj government that when Lord Wavell, the Viceroy, decided to setup a Planning and Development department in 1944, he asked Ardeshir Dalal to lead the department.⁵⁴ While Dalal did not take the role, the interaction between the Viceroy and planners show the influence it had on India's politics at the time, and also helped further the planner's aims of participating in economic policy decisions in the country. On the other hand, the plan was criticised by other British politicians in London, calling it "very similar to the Soviet 5-year plans," and the Raj Government's Intelligence Bureau deemed it a way for businesses to entrench their interests, signalling the Raj's aversion to their perspectives.⁵⁵

There were some limitations and common criticisms of the plan, the most prominent one being that it used outdated statistics. Prices in 1945, after WWII ended were, according to P.S. Lokanathan, an economist at Madras University and also consultant to *The Bombay plan*, 200 to 250 percent higher than those of 1939. He wrote, "[the] statistics in the Plan which are expressed in terms of money have no current basis and an element of unreality runs through all of them," implying a significant flaw in the plan's attempts to remedy India's problems.⁵⁶ The plan however contends that it had to use 1931-32 statistics because the GOI had unreliable figures for inflation and income during WWII.⁵⁷

The Yorkshire Post commented that the plan "underestimate[d] the cost of [its] proposals and the time the programme will take for its completion," because it used outdated information. Supporting Chibber's argument that the plan was a way to consolidate business interests, the Indian Federation of Labour argued that it was a way for businesses to

⁵⁴ *Ibid*, 131.

⁵⁵ *Ibid*, 109.

⁵⁶ P.S. Lokanathan, "A Plan for Economic Transformation," in eds. Sanjaya Baru and Meghnad Desai, *The Bombay Plan: Blueprint for Economic Resurgence*, 7.

P. S. Lokanathan, 'The Bombay Plan', *Foreign Affairs* 23, no. 4 (1945): 680–86, <https://doi.org/10.2307/20029933>. While he disagrees with the statistical basis of the plan, he commends its approach to industrial growth.

⁵⁷ *The Bombay Plan*, 27.

manufacture goods with cheap labour and materials. Another academic at Oxford University said it was based on “cranky, misleading monetary theory, which if adhered to will produce the wildest inflation,” arguing the basis on which its calculations were made are wrong.⁵⁸

There were more scathing criticisms from other politicians across the spectrum. K.T. Shah, the general secretary of the National Planning Commission (NPC), an academic, and future planning minister of India criticised the plan for its focus on enriching industry and the capitalist class while ignoring the plights of farmers and agriculture.⁵⁹ B.N. Banerjea of Calcutta University called it “the programme of Indian fascism,” since the plan overemphasised industrial growth, and that it focused explicitly on increasing production, not human lives.⁶⁰ In the Indian central legislative assembly, Sie Zia-ud-Din Ahmed of the Muslim League argued that the plan was “the outcome of an unholy alliance between Indian and foreign capitalists,” which is why it should not be considered for debate and would turn India into “a Bolshevik country,” because of its recognition of India as a highly centralised state. Moreover, the plan did assume some role of foreign capital by borrowing from abroad, especially from the USA. However, the planners were quick to note that “such capital if it is not accompanied by political influence or interference of foreign vested interests, should not be unwelcome.”⁶¹ This statement is important since it aligns with the INC’s aim to make India free of foreign influence. The planners made it clear that foreign sources of finance would be welcome provided they were for business purposes only.

Chibber notes that the reasons for the NPC’s collapse was not only the war, but also ideological disagreements between business and the state. For example, the INC’s left were

⁵⁸ “The Promise of Partnership,” 128.

⁵⁹ *Tryst with Prosperity*, 134.

⁶⁰ B. N. Banerjea, M. N Roy, and G. D. Parikh, *Alphabet of Fascist Economics: Critique of the Bombay Plan of Economic Development of India* (Calcutta: Renaissance Publishers, 1944), <http://catalog.hathitrust.org/api/volumes/oclc/29640870.html>.

⁶¹ *The Bombay Plan*, 53.

reluctant to enshrine property rights since it believed that the state had to promote equality and abolishing zamindari, or land holdings, was a way to achieve this.⁶² Businesses were worried about this prospect since their holdings and assets would be under threat.⁶³ Similarly, there were disagreements about the extent to state control in the economy, for example, whether their businesses would be state owned, or state regulated. In a way to protect property rights, the final version of *The Bombay Plan* advocated state regulation rather than state ownership over businesses, except for specific key industries, which would secure property rights. This approach helped set the tone of economic planning in post-colonial India, where consumer goods would be left to the private sector and property rights would be secured.⁶⁴

Responses to the *Bombay Plan*, varied extensively, but its basic tenants seemed to be well received by the business and political community, to the extent that it had to be reprinted several times after being published. Newspaper articles reported support for the plan amongst Congress members because of its support for state planning and intervention in the economy.⁶⁵ The Raj administration on the whole welcomed the plan, even though its calculations were questioned.

The Bombay Plan and Nehruvianism

Why is *The Bombay Plan* relevant to one's understanding of Indian political economy? *The Bombay Plan* was a framework devised by India's most powerful and successful businessmen. Their motives for this plan are under debate even today, but there are some clear conclusions that can be drawn from it. The plan was clear in advocating support for

⁶² *Locked in Place*, 94.

⁶³ *Ibid.*

⁶⁴ The right to property was enshrined in Article 19 of the Indian Constitution in 1950 and was eventually removed as a fundamental right by the 44th Amendment to the Constitution in 1978.

⁶⁵ "Political Implication of Bombay Plan," 1944, *The Times of India* (1861-Current), May 16, 3, <https://search.proquest.com/docview/346346227?accountid=14026>

centralised planning in the economy and the state taking control of certain key industries, like electricity, armaments, and others, while consumer goods would be produced by the private sector. The plan was read, praised and criticised by other businessmen, government officials, and academics.

It shifted debate from questioning the notion of centralised planning, to questioning the extent to which the state should be involved in the economy, a tussle that the Planning Commission faced after its creation. Its influence on Indian economic planning is clearly seen in the First and Second Five-Year Plan, which also prioritised agricultural development and industrial growth respectively. It also paved the way for India to adopt a third way in structuring its political economy by providing an opportunity for the country to combine aspects of Western capitalism, Soviet planning, and Western Socialism, allowing India to chart its own independent course.

To many, the plan was a way for businesses to signal to the INC leadership that it was willing to accept the supremacy of the state in the economy, while acknowledging the role of the private sector in supporting consumption activity. While global debates between Keynes and Hayek, as discussed in Chapter 1, were raging about the extent to which the state ought to intervene in the economy, *The Bombay Plan*, attempted to navigate these complicated questions by calling for the state to take a leading role in the economy, especially in sectors deemed essential to the state.

The Bombay Plan's influence in shaping India's Five-Year Plans is clear, even though the planners were not involved in the creation of the Planning Commission of India or in implementing India's Five-Year Plans. The Five-Year Plans' spending priorities mirror *The Bombay Plan's* leaps by first focusing on agriculture, and then pushing for heavy industrialisation and the development of basic infrastructure, and the third plan focusing on developing transportation and communications links, while keeping similar if not increased

levels of industrial spending. Moreover, like the Bombay Plan, the Five-Year Plans also segment the economy into basic and consumption industries while also modernising agriculture to ensure that it could keep up with sustained food demand.⁶⁶

Given the complexities facing the global economy with WWII and the centralisation and mobilisation of resources, the plan offered a remedy that would balance the aims of business and government. *The Bombay Plan* was a moment for India's businesses to partake in state building and also endorsed aspects of the INC's vision of modern India, while also tempering more extreme tendencies of the Left to protect their interests and receive government support in the name of self-sufficiency and independence from foreign influence. The following chapter will delve into how state planning played out in reality, and *The Bombay Plan* was a clear influence in this effort, even though its planners were never formally part of the planning apparatus.

⁶⁶ Amal Sanyal "The Making of a Mythical Forerunner," in *The Bombay Plan: Blueprint for Economic Resurgence*, eds., Sanjaya Baru and Meghnad Desai, First impression (New Delhi: Rupa Publications India Pvt. Ltd, 2018), 33-36.

CHAPTER 3

A Socialistic Pattern of Society: India's Five Year Plans (1951-64)

“[The First Five-Year Plan] has laid the foundations for...a social and economic order based upon the values of freedom and democracy in which there will be a substantial rise in employment and production and the largest measure of social justice attainable.”

-Introduction, *The Second Five-Year Plan* (1956-61)

“Development Plans Fail: Causes of Food Crisis,” read a lede in the *Time of India* a prominent English daily in 1958, midway through India's Second Five-Year Plan.¹ The article argued that India's attempts at implementing a planned economy were undermined by its inability to provide basic necessities to its citizens. The Second Five-Year Plan's implementation was bogged down by food shortages and a foreign exchange crisis, and raises a series of questions regarding the origins of Indian state planning, its implementation, and how Indian planners responded to the challenges of the Second Five-Year Plan. The Five-Year Plan was meant to be India's second ‘leap’ in its story of development, where it would become an industrial power after stabilising its food supply. Instead the plan's problems posed a range of challenges to Nehru and his government since it upended the assumptions under which economic development and planning were conceived of at the time. This chapter will explore these questions by analysing how Indian development was envisioned and implemented by Jawaharlal Nehru and his government through India's first three Five-Year Plans from 1951-1964.

The previous chapter discussed the key ideas of *The Bombay Plan*, specifically that if India were to double national income in the span of fifteen years, it would do so in three leaps, or five year periods, with the first focusing on agricultural growth, the second on industrial development, and the third a combination of both. This is a similar trajectory that

¹ ‘DEVELOPMENT PLANS FAIL: Causes Of Food Crisis’, *The Times of India* (1861-Current); *Mumbai, India*, 18 September 1958.

The *Times of India* was started by the British when they ruled India and till today is one of India's largest and well-known English dailies. While it was a strong supporter of British rule, after independence tended to be fairly non-partisan and incorporated a range of perspectives.

the actual Five Year Plans were expected to follow, even though the authors of *The Bombay Plan* were not part of the government.

Instead, the Second Five-Year Plan was a moment where India was forced to reckon with the planning apparatus' shortcomings and adapt to the crises of the time and abandon some of the stated aims and expectations of economic planning. The First Five-Year Plan prioritised agricultural growth and saw bumper harvests and a stable food supply emerge in the country. With this in mind, while drafting the Second Five-Year Plan, the planners conceded that since agriculture was doing so well, it was time for the country to shift focus towards building out industry, which would provide jobs to India's poor.

The central questions of this chapter are: How was Nehruvian planning envisioned and implemented? How did the agricultural crises during the Second Five Year Plan physically and intellectually challenge the fundamentals of Indian economic planning? These questions will be answered by tracking the changing priorities and concerns of planners across the three plans. It will argue that by restructuring the targets of the Second Five-Year Plan and also refocusing priorities in the Third Five-Year Plan, it is clear that the planning apparatus had to breaking with traditional economic thinking around development and planning since the crises of the Second Five-Year Plan challenged the fundamental basis of development that had dominated global economics at the time.

The Second Five-Year Plan's emphasis industrial growth, which was made because of inaccurate assumptions and a misinterpretation of farming data, prompted the Central government to severely reduce agricultural spending and support. A consequence of this spending cut was a severe food and foreign exchange shortage, prompting an economic crisis in the country by 1958. Because of public pressure and criticism, the government's response was to revise the targets of the Second Five-Year Plan and also decentralise economic power to villages in the Third Plan.

The Creation of the Planning Commission of India: Initial Challenges

After independence and the adoption of the Indian Constitution on 26 January 1950, India created the Planning Commission of India. The previous chapters discussed earlier versions of the commission in the form of the National Planning Committee (NPC) and the role the authors of *The Bombay Plan* played in its work. Similarly, *The Bombay Plan* called for an NPC of sorts, and the Constituent Assembly was in support of an economic structure that had central control over resource allocations. Nonetheless, the creation of the Planning Commission in 1950 was highly contentious in the INC.

An important reason for these tensions were that relevant questions about the previously formed NPC's (1937-40) powers, authority, and relation to other governmental agencies had not been discussed.² K.T. Shah, the general secretary of the 1937-38 NPC, and Gulzarilal Nanda, president of the Indian National Trade Union Congress and later Planning Minister, were charged with understanding how this planning body would be constituted. Shah, in a report on behalf of the Advisory Planning Board, established under British Rule, recommended that the commission's powers should be advisory, but would be "empowered to give final decisions, subject only to an appeal to Government," regarding the allocation of resources.³ Nanda argued to the Congress High Command that the commission needed to have strong powers of enforcement with the ability to control the policy process and also discipline firms and ministries if needed. This approach ensured that there would be a rigorous process to planning in India.

When first proposed, balancing the needs of the Planning Commission with individual ministries caused significant turf wars in Nehru's government. Ironically, John Matthai, an

² Vivek Chibber, *Locked in Place : State-Building and Late Industrialization in India* (Princeton, N.J. ; Princeton University Press, 2006), 148.

³ *Ibid.*

author of *The Bombay Plan*, and finance minister at the time did not support its creation.⁴

After it was formed, Matthai resigned from the cabinet, citing that “the differences [between him and Nehru] came to a head...”⁵ He worried that it would become “a parallel Cabinet,” to “weaken the authority of the Finance Minister,”⁶ and was “totally unnecessary.”⁷ With such strong resistance from Nehru’s own Cabinet, it is evident that implementing any plans would be difficult. Because it was beholden to a minister’s desire to share information with it, its powers were severely curtailed, undermining its scope. Additionally, all plans also had to be approved by both the Cabinet, and the National Development Council, which was comprised of Chief Ministers of all Indian states, before being implemented. The Planning Commission became a dominant feature of India’s political economy from its inception because of overwhelming support from Nehru and because it was more sheltered from day-to-day politics. Nehru’s unchallenged position as prime minister ensured the Planning Commission was able to work effectively.

The Challenges of Partition & Constitutional Checks

Political and administrative issues aside, the Indian economy itself was in a state of crisis and was not in a position to implement grandiose economic plans in 1947. Before independence, the Raj had already authorised, and was in the process of conducting multiple infrastructure projects that were expensive to cancel. India also had limited resources at the time of independence, preventing it from spending significant amounts on development

⁴ N. S. S. Narayana, K. S. Parikh, and T. N. Srinivasan, *Agriculture, Growth and Redistribution of Income: Policy Analysis with an Applied General Equilibrium Model in India* (Elsevier, 2013), 7.

⁵ "Cabinet Rift on Planning Body: MAULANA AZAD REPLIES TO Dr. MATTHAI," *The Times of India (1861-Current)*, Jun 04, 1950 <https://search.proquest.com/docview/501015166?accountid=14026>.

⁶ "GRAVE MISGIVINGS ON DELHI PACT: DR. MATTHAI'S REASONS FOR RESIGNATION GOVERNMENT SPENDING CRITICISED," *The Times of India (1861-Current)*, Jun 03, 1950, <https://search.proquest.com/docview/501475576?accountid=14026>.

⁷ Ibid.

plans. To ensure economic stability, these projects were incorporated into the First Five-Year Plan.⁸

Political upheaval was another factor in curtailing the Planning Commission's abilities. With the partition of the Indian Subcontinent into India and Pakistan (including Bangladesh), there were significant food shortages since India lost its main sources of food in the Punjab and East Bengal, which caused high inflation. This, when compounded with an influx of around 10 million refugees, and a sudden loss in raw materials to power its industries, strained India's broken economy further. For example, India relied on Pakistan for jute and cotton to support its textile industries, and relied on the USA for food aid, showing that it was not self-sufficient.⁹

There were further constitutional checks on the Planning Commission's ability to influence different economic sectors. Nehru's government wanted to radically change India's system of land rights and outlaw tax collection systems that existed in the British era, such as zamindari, a systems of tax collection through land holdings. Zamindars, or landowners, would collect tax from peasants that worked on their farms. When the Constitution was enacted, land and land reforms were under the jurisdiction of state governments, not the central government, preventing the Planning Commission, a central agency from significantly influencing this sector.¹⁰ The central government was thus restricted from passing laws that uniformly apply to Indian agriculture. This restricted the Planning Commission's ability to intervene in agriculture during the crises of 1957-58, showing that it was not Nehru's sole focus on industrial growth, but also constitutional restrictions that prompted the responses to

⁸ V. K. R. V. Rao, "India's First Five-Year Plan -A Descriptive Analysis," *Pacific Affairs* 25, no. 1 (1952): 3-23, doi:10.2307/2752833.

⁹ W. A. M. Walker, 'The Growth of the Jute Industry in India and Pakistan', *Journal of the Royal Society of Arts* 97, no. 4794 (1949): 409–20.

¹⁰ *The Constitution of India*, Seventh Schedule, List II, Sec. 18, accessed 12 November 2019, <http://legislative.gov.in/sites/default/files/COI-updated.pdf>.

issues in agriculture in the Second Five-Year Plan. Industrialisation was at the centre of Nehru's vision of economic development, which might explain why control of land holding was ceded to state governments, while the Central government retained control of industry. It is with these constraints that the Planning Commission had to act to reduce poverty and unemployment. It would not be an easy task.

Nehruvian Modernity Implemented

As discussed in Chapter 1, to Nehru, a nation's survival rests on its population possessing common economic aims, which would trump religious and communal loyalties, to promote national unity and overcome entrenched poverty because of caste and religious discrimination.¹¹ He feared the domination of religious and sectarian beliefs in India. India's progress lay in its self-sufficiency, and the provision of economic opportunities to all sections of society.

A way for India to overcome its religious and cultural differences was a focused effort on developing industry, which would provide employment to all Indians and also make India self-sufficient and truly independent of foreign influence. These industrial projects included the building of factories, steel plants, dams and new planned cities. One of the ways he reconciled these two important components of his ideas is seen in a 1954 speech inaugurating part of the Bhakra Nangal Dam, one of the largest in the world. He attempted to sell his vision of a secular and modern India to the masses in a speech titled, 'Temples of the New Age.' He said, "which place can be greater [and holier] than this, this Bhakra Nangal, where thousands have worked, have shed their blood and sweat and laid down their lives as well?"¹² At its ten-year anniversary he made a subsequent speech about the dam, "May you call it a

¹¹ This definition is oversimplified and summarised, but in my opinion, captures the essence of what he believed India had to do to overcome its existing challenges. For a more nuanced understanding of Nehru's ideas, I would recommend reading Sanjay Seth's, "Nationalism, National Identity and "History": Nehru's Search for India."

¹² Jawaharlal Nehru, 'Temples of a New Age,' in *Jawaharlal Nehru's Speeches (1953-1957)*, 3rd ed., vol. 3 (New Delhi : Publications Division, Ministry of Information and Broadcasting, Govt. of India, 1970), 3

Temple or a Gurudwara or a Mosque, it inspires our admiration and reverence.”¹³ By evoking religious symbolism, he equates infrastructure and industry to the wonders of religion, and that India’s success lay in its scientific prowess. In equating industrial growth to something sacred and holy, he is able to present his case to the Indian public for embracing modern technology.

Modern India’s “temples” would be its source of prosperity, which could be shared with individuals of all backgrounds, and that they can only be developed by strong state intervention in the economy. The Second Five-Year Plan was the actual implementation of his vision in its truest form, explaining its emphasis on industry, the cornerstone of Nehruvian Socialism.

Overview of Nehru’s Five-Year Plans (1951-61)¹⁴

India’s first three Five-Year Plans had varying priorities but were all heavily influenced by Nehruvian thought. The First Five-Year Plan (1951-1956) was modest in its aims, and primarily focused on modernising agriculture and providing electricity, and also hoped to lay the foundations of India’s industrial base. The reason for this initial focus on agricultural growth was because Nehru, other politicians and the authors of *The Bombay Plan* believed that the route to industrialisation was through establishing a stable agricultural base and ensure self-sufficiency in food and industry.¹⁵ It envisioned spending Rs. 2378 crores, with nearly fifty percent of its spending going towards agriculture.

¹³ ‘125th Birth Anniversary of Jawaharlal Nehru’, accessed 24 October 2019, http://www.celebratingnehru.org/english/nehru_speech4.aspx.

¹⁴ Nehru died in the middle of the Third Five-Year Plan in 1964. It went on till 1966.

¹⁵ See Chapter 2’s section on *The Bombay Plan*’s stages of development. It called for the division of India’s economic development into 5-year leaps, with the first five years prioritising the creation of a stable food supply.

The First Five-Year Plan, Chapter 2: <http://planningcommission.nic.in/plans/planrel/fiveyr/1st/1planch2.html>. The clause further reads, “About 68 per cent of the working population is engaged in agriculture, about 14 per cent in industry, some 8 per cent in trade and transport and the remaining 10 per cent in professions and services including domestic service...the country is not self-sufficient in food and raw materials for industry.”

The plan explicitly states that “agricultural development receives highest precedence which necessitates an extensive program of irrigation,” indicating that India was to modernise and support its agricultural industries before it could actually start the development of industry.¹⁶ In fact, the plan concedes that most industrial activity will come from the private sector. Nehru also acknowledged that in order to generate employment, India would first have to develop its smaller cottage industries, before it can shift focus towards an industrialised economy. In a meeting with the NDC, Nehru said that village businesses were more important than massive industrial projects in providing employment, showing the nuanced thinking he possessed towards Indian planning.¹⁷ Such interactions show that Nehruvianism would adapt to existing challenges, while keeping its end goal in mind, which was to establish an industrialised nation like the USSR, but as a thriving democracy instead.

The Second Five-Year Plan on the other hand had a much different approach to poverty eradication and reduction of inequality by focusing on industry. It was more ambitious and expansive with its outlays increasing to Rs. 4800 crores, more than double of the first plan’s allocations. It was funded by a combination of deficit financing, tax revenues, and borrowing from public markets. It hoped to “rebuild rural India, to lay the foundations of industrial progress, and to secure opportunities for under-privileged sections of our people,” reiterating the government’s aims to reduce poverty and inequality. It only allocated 11.8 percent of its spending to Agriculture and Rural Development as opposed to nearly half in the First Five-Year Plan.¹⁸ Instead, it allocates 28.8 percent to Transport and Communications, and 18.5 percent to Industries and Minerals, a cumulative total of 47.3 percent of spending. This shift in spending reinforces the state’s desire to prioritise industrial development, which will be

¹⁶ The First Five-Year Plan, chapter 3.

¹⁷ *Summary Record of National Development Council (NDC) Meetings*, (The Planning Commission of India: 2005), 7, http://planningcommission.gov.in/reports/genrep/50NDCs/vol1_1to14.pdf

¹⁸ Bhattacharya, *India’s Five-Year Plans*, 37.

supported by better transportation links in the country. This change in spending signals that Indian planners believed India had achieved many of its agricultural aims and that it was time to shift focus to India's second phase of development, rapid industrialisation via the creation of basic infrastructure and heavy industries.

Why did the planners' methods to economic development vary across the First and Second Plans? The Second Five-Year Plan was largely shaped by the 1956 New Industrial Policy Resolution (IPR), a resolution passed by the Indian Parliament which was a comprehensive plan of industrial development in India. The resolution's introduction emphasised the importance of heavy industry in India's economy over village industries.¹⁹ This, when combined with the central aim of adopting a "socialistic pattern of society," help explain its outlays.²⁰

The "Socialistic pattern of society" is a phrase is essential to Nehruvian thinking and the INC's policies in the 1950s. It assumes that firms are not only driven by profit incentives, but by social good as well, calling for deliberate efforts at reducing inequality. To Nehru, a socialist society is one where "there is equality of opportunity...this cannot be attained unless we produce the wherewithal to have the standards that a good life implies...the scope for industrialisation and advance is very cast."²¹ The IPR was Nehru's brainchild and gave him legal heft to implement the Second Five-Year Plan, and allowed him to address glaring inequality and unemployment by ensuring firms do not focus on profits alone through rapid industrialisation.

¹⁹ Part of the Plan's introduction reads, "...it is essential accelerate the rate of economic growth and to speed up industrialisation and, in particular, to develop heavy industries and machine making industries, to expand the public sector, and to build up a large and growing cooperative sector."

²⁰ *Industrial Policy Resolution (1956)*, clauses 5-6, https://dipp.gov.in/sites/default/files/chap001_0_0.pdf

²¹ Jawaharlal Nehru, *Jawaharlal Nehru: An Anthology*, ed. Sarvepalli Gopal (Delhi: Oxford University Press, 1980), 313-314.

With the passage of the IPR, Nehru was able to also increase state powers in the economy and reduce the role of the private sector in many industries. Because the Five-Year Plan stresses the use of modern technology, “which requires large scale production and a unified control and allocation of resources in certain major lines of activity,” including exploitation of minerals, steel production, and the control of capital goods, which were considered to be in the national interest.²² The plan ceded control of these industries to the State, not private firms. It relegated the role of the private sector in the economy, a shift from the First Five-Year Plan. This part is also significant since it undermines the understanding *The Bombay Plan* hoped to elicit between government and businesses, where businesses would be able to thrive in consumption sectors, while other sectors of the economy would be controlled by the government. It also signals that India would adopt an import substitution model since the plan hoped to make the country self-sufficient.

The Third Five-Year Plan acts as a mix between Nehruvian Socialism and a response to the shortcomings of the Second plan, specifically its underinvestment in agriculture and human development. There is a disconnect between economic assumptions under which the plans are formed, and actual issues in implementation, which explains inherent contradictions and confusion in the plans, including an acknowledgement that agriculture is critical to India, while still focusing on industry. These complexities were hard to reconcile across all the three plans.

The Second Five-Year Plan in Focus (1956-61): A Fine Balance

The Second Five-Year Plan brought sweeping changes India's economy. During its period, India developed its steel cities, or large public works steel projects across the country, which were meant to reduce India's reliance on foreign imports and support its industrialisation. These steel cities exist even today and have been crucial to supporting

²² “Approach to the Second Five-Year Plan,” Planning Commission, Government of India: Five-Year Plans, accessed May 21, 2019, <http://planningcommission.gov.in/plans/planrel/fiveyr/index2.html>.

India's industrial growth and generating employment. It also established the Atomic Energy Commission of India among other scientific institutes to support India's shift from an agrarian economy to an industrial one. In a speech to Parliament when opening debate on the Second Five-Year Plan he said,

"In planning, however we have to think in technological terms, because it is this growth of science and technology that has enabled man to produce wealth on a scale that nobody could even dream of earlier...and it is only through the way of technology that we shall become a healthy and prosperous nation."²³

This speech explains the importance Nehru placed on scientific knowledge in developing a country as impoverished as India. It would act as a way for India to become wealthier and also overcome entrenched religious and caste-based tensions.

The plan's introduction explains why it allocated more money to industry and transport over agriculture. It argues that since "agricultural and allied pursuits continue to absorb about 70 percent of the working force, the secondary and tertiary sectors have not grown rapidly enough to impact the primary sector."²⁴ This conclusion indicates that prioritising industry over agriculture would inevitably move people out of agriculture into secondary and eventually tertiary sectors, which would improve living standards, rather than leaving people in cycles of poverty, a commonly held belief at the time. By investing too much in agriculture, people would be incentivised to remain in that sector, preventing India's shift from an agrarian economy to an industrial and services-based economy, thus undermining Nehruvian modernity.

The plan attempted to make India truly free from foreign influence by making it more self-sufficient. In a speech titled, 'Place of the Big Machine,' in 1955 at the end of the First Five-Year Plan, Nehru observed India would not be able to maintain its "freedom and independence as a nation without the big factory [heavy industries] and all it represents" and

²³ Nehru, 'The Second Five Year Plan,' in *Jawaharlal Nehru's Speeches (1953-1957)*, 93.

²⁴ *The Second Five-Year Plan: Summary*, 6-7.

that India's factories "are symbols of something bigger."²⁵ He tells his audience, who are factory workers, that they are integral to building India's unity, and that "there can be no real progress or industrialisation," until "the machine itself is made" in India.²⁶ This speech implies self-sufficiency, and that each worker's contribution to India's industrial growth is essential to the country, regardless of their background. Progress in industry is symbolic of its ability to grow as a unified country and overcome its dependence on foreign powers to boost its economy, which were overriding priorities for the new nation.

Nehru's government and planners believed that India's agricultural issues had been largely resolved by the end of the First Five-Year Plan since it had exceeded targets of food production.²⁷ At the same time, it observed that the Indian economy was heavily dependent on agriculture, and that the sector had "to be diversified, and special stress has to be laid on basic and capital goods industries if more rapid rates of development in the future are to be sustained." It concludes its preamble by saying that the increase in agricultural production "has prepared the ground for a greater emphasis on industrialisation."²⁸ Planners assumed India had a stable enough agricultural base to build out industry and that industrialisation would ensure that India continues to grow the way it did during the first Five-Year Plan.

The guiding model for this plan was the Mahalanobis model, developed by P.C. Mahalanobis, a renowned statistician. The model assumes limited imports, the split of an economy into consumer and investment goods, and that additional inputs could enter via imports, albeit limited. The emphasis on domestic production explains the intentions of the

²⁵ Nehru, 'The Place of the Big Machine,' in *Jawaharlal Nehru's Speeches (1953-1957)*, 24.

²⁶ *Ibid.*

²⁷ The preamble of the Second Five-Year Plan notes, "On the whole, the economic situation on the eve of the Second Plan is distinctly better [than the First]."

Anil Kumar Jain, *Economic Planning in India*, (New Delhi : Ashish Pub. House, 1986), 50.

²⁸ *Ibid.*

Second Five-Year Plan.²⁹ Additionally, the reason for a focus on increased domestic production was to ensure that in the event that exports would be needed, India would have enough of foreign exchange to import these goods. However, this assumption is cyclical because in order to have a robust industrial base, India needed capital goods, which needed to be imported.³⁰ Moreover, India had limited foreign exchange that had to be conserved, undermining significant assumptions of the plan, which is seen in the late 1950s.³¹

In 1957-58 the Indian economy was facing a food and foreign exchange crisis, which severely challenged the credibility of India's planned economy. A key reason for this challenge to Indian planning was that the government to revise and scale back the scope of the plan. Table 1 below depicts how the plan prioritised industry over any sector, even when it was revised, showing how Nehruvianism was implemented in reality and how it was adhered to so closely during the Second Five-Year Plan.

²⁹ Dr Asim K. Karmakar, 'Development Planning & Policies under Mahalanobis Strategy: A Tale of India's Dilemma', *International Journal of Business and Social Research* 2, no. 2 (2012): 122, <https://doi.org/10.18533/ijbsr.v2i2.197>.

³⁰ Ibid.

The widespread impact of the plan is debated. Some, such as, Richard Kaufman in *India's Second Five-Year Plan: A General Appraisal*, regard it as a structured approach to Indian planning because it used scientifically rigorous statistical models.

However, others have disputed the assumptions on which the Second Five-Year Plan was based. A. Vasudevan, in *The Strategy of Planning in India*, argues that India had not developed its agrarian base by the end of the first Five-Year Plan because India did not meet its agricultural targets and that on the ground, its irrigation projects were unsuccessful.

³¹ M. Bronfenbrenner, 'A Simplified Mahalanobis Development Model', *Economic Development and Cultural Change* 9, no. 1 (1960): 45-46.

Table 1: Investment in the Public Sector 1956-65: Plan Wise³²

Economic Sector	Second Plan		Third Plan		(all units in Rs. Crores)
	Anticipated	Actuals	Anticipated	Likely Actuals*	
Agriculture and Community Development	338	210	660	1103	
Major and Medium Irrigation	456	420	650	657	
Power	407	445	1,012	1,262	
Village and Small Industries	120	90	150	220	
Organised Industry and Minerals	670	870	1,520	1,735	
Transport and Communications	1,335	1,275	1,486	2,116	
Social Services & Miscellaneous	474	340	622	1,538	
Inventories	-	-	200	N.A.	
Total	3,800	3,650	6,300	8,631	*likely expenditures

It shows the anticipated amounts of investment in different sectors of the Indian economy under the Second and Third Five-Year Plans. In the Second Five-Year Plan, agriculture received Rs. 164 crores less than anticipated, social services also received Rs. 134 crores less than expected, while heavy industry received Rs. 200 crores more and power Rs. 38 crores more, showing that the GOI's priorities were to build up India's industry and electric base, even if that meant reducing agricultural and social spending, which marked a split with the First Five-Year Plan and by extension, *The Bombay Plan*.

Although small industries and transport did not receive their planned funding, the difference between planned and actual funds was far less compared to agriculture and social services. These numbers reinforce the challenge that this crisis had posed to conventional economic theory at the time since planners were reluctant to abandon the assumptions under which they developed the plan. It ensured that regardless of changes in funding, industry,

³² A Vasudevan, *The Strategy of Planning in India* (Meerut: Meenakshi Prakashan, 1970), 212

which was seen as a key driver of employment and poverty reduction, must be given precedence over India's largest economic sector, agriculture.

Why were these revisions made? A confidential report in 1962 by a U.S. Federal Reserve economist Richard Kaufman, argues that the plan was overly ambitious.³³ He justifies his conclusion by focusing on a series of crises that arose during the Second Five-Year Plan that undermined its ability to meet its targets, including a lack of food and foreign exchange shortage. The actions of the Indian government provide further evidence to Kaufman's point. In May 1958, the government of India announced that it was only going to focus on core projects as it revised its targets for the rest of the plan, showing how Indian planners responded to the challenges of the time. These revisions also provide insight into what the government's priorities were at the time, and how Nehruvian socialism dominated their thinking.³⁴ The table below shows that the planned allocation of 14.4 percent to industry increased to 19.1 percent, while agriculture and social service allocations fell by approximately 1 percent each, thus showing that the government had realised that there was an issue with the plan's implementation and that it had to rethink its plan to make it successful.

Table 2 clearly shows that when the plan was revised, industry and mineral development, crucial sectors mentioned in the IPR were given additional funding, despite losses in every other sector.

³³ There is not much written about Kaufman, apart from the fact that he was one of the Federal Reserve's leading experts on South Asian economics and released a series of reports on India's Five-Year Plan. The report mentioned here was prepared for internal use and for confidential, which explains why it is candid in its assessments. Although the USA viewed India's Socialist economic model with some scepticism and was worried about its good relations with the USSR, this report seems fairly unbiased and removes political considerations, by only focusing on events around the Second Five-Year Plan itself. He does this by focusing on a series of crises that arose during the Second Five-Year Plan that undermined its ability to meet its targets, including a lack of food and foreign exchange shortage.

³⁴ Kaufman, *India's Second Five-Year Plan*, 5.

Table 2: Allocation of Public Sector Outlays in the Second Five-Year Plan ³⁵

Sector	Planned Allocations		Likely Actuals		Likely actual as percent of planned allocation
	Billion rupees	Percent	Billion rupees	Percent	
Agriculture and Community Development	5.68	11.8	5.30	11.5	93.3
Irrigation and Power	9.13	19.0	8.60	18.7	94.2
Village and Small industries	2.00	4.2	1.80	3.9	90.0
Organised industry and mineral development	6.90	14.4	8.80	19.1	127.5
Transport and communications	13.85	28.9	12.90	28.1	93.1
Social services	9.45	19.7	8.60	18.7	91.0
Miscellaneous	.99	2.0	--	--	--
Total	48.00	100.0	46.00	100.0	95.8

This table reiterates the view that the Second Five-Year Plan was an implementation of conventional economic ideas at the time, and also raises questions about how the government justified these changes. In fact, a *Time of India* news article reported Nehru saying that “in spite of the difficult foreign exchange position...the work of erection of the steel plants would continue unabated.”³⁶ Nehru’s ideology seemed to dominate this part of the planning process but is changed during the Third Plan.

Kaufman also provides evidence that India faced a severe foreign exchange crisis in 1957 because of increased imports, high inflation, and a food shortage because of a poor monsoon.³⁷ The monsoon, or the rainy season, is critical to India’s food production capabilities, even today.³⁸ The fact that India’s agricultural sector was still dependent on the monsoon revealed that more support for this sector was needed. However, India needed to increase exports to continue to grow, and in order for it to increase exports, it had to develop

³⁵ *Ibid.*

³⁶ ‘Steel Plant Work To Continue At Any Cost: MR. NEHRU ON SECOND PLAN PROJECTS’, *The Times of India (1861-Current)*; *Mumbai, India*, 16 December 1957.

³⁷ Kaufman, *India’s Second Five-Year Plan*, 14.

³⁸ Yen Nee Lee, ‘India May Need Major Rainfalls to Reverse Its Economic Slowdown’, CNBC, 10 July 2019, <https://www.cnbc.com/2019/07/10/india-economy-impact-of-monsoon-rain-on-agriculture-sector-farmers.html>.

its own manufacturing capabilities, which is why it was to industrialise heavily. The *Times of India* reported in 1961, around the time of the release of the Third Five-Year Plan that Nehru said, “India must go ahead with plans for expanding steel production,” if it were to avoid a “serious crisis,” which would “bottle up all of our [India’s] progress.” In his view, the paper reports, progress in the Indian economy, including agriculture depended on steel and power.³⁹ Nehru’s statement shows that he was aware of the impending challenges to the economy and that India’s future lay in its industrial development, a central tenant to economic development theory then.

Anil Kumar Jain, an economist at the London School of Economics, added that the Plan faced many practical difficulties in being implemented. Favourable monsoon conditions that dominated the first Five-Year Plan were not present during the Second Five-Year Plan, prices of imported capital goods increased India to lose approximately Rs. 500 crores of foreign exchange, causing the forex crisis as well. These unforeseen events underscore the fragility with which India’s economy operated, and that its agricultural sector needed far lasting reforms to grow and become more stable if India were to continue to pursue its ambitious economic plans. These crises appear to be the making of the Mahalanobis model’s focus on developing industry, while not fully understanding the plethora of challenges facing India’s agricultural sector. These assumptions, when combined with unfavourable external conditions, explains the aforementioned crises. The Second Plan unravelled in the face of agricultural distress, undermining the assumptions made by the INC and the authors of *The Bombay Plan*.

The Second Five-Year Plan had a broad outlook at India’s economy, and in the process, neglected some key shortcomings of India’s agricultural growth, undermining its efforts at

³⁹ ‘EXPANSION OF STEEL PRODUCTION: "India Must Go Ahead," Says Prime Minister’, *The Times of India* (1861-Current); *Mumbai, India*, 14 January 1961.

industrialising the country. These tables, and economists' analyses show that the Second Five-Year Plan was too ambitious in its goals and that the lack of increased agricultural support undermined the very assumptions of planning in India, a challenge Indian policy-makers grappled with while devising the third plan. The challenge it posed to Indian planning explains the initial reluctance to fully revise the plan to focus on agriculture, but is better addressed in the Third Five-Year Plan.

The Issue of Land Reforms

This chapter has shown that the crises of 1957-58 severely challenged the fundamental assumptions under which Indian planning was designed. Another factor compounding these challenges was that the government was constrained by local and state politics in implementing more radical reforms to reshape India's economy, undermining its ability to enact radical changes in agriculture. Landowners were important to expanding the INC's presence across India's villages during and after the independence movement. In fact, at a state level, farmers and landowners helped mobilise people to vote and support the INC. Therefore, local INC party units were dominated by landowners, who did not wish to have their landholdings diluted.⁴⁰ A critical factor that played a role in hampering Nehru's agenda was the strength of landowners in rural India and their resistance to land reforms that the Second Five-Year Plan and other land acquisition laws attempted to enact. Many other INC leaders depended on support from village landlords, which is why there might have been significant pressure on members of Parliament in ensuring that land reforms were not too radically pursued.⁴¹

⁴⁰ Francine R. Frankel, *India's Political Economy, 1947-2004: The Green Revolution*, 2nd ed. (New Delhi ; Oxford University Press, 2005), 200.

⁴¹ Akhil Gupta, 'The Political Economy of Post-Independence India — A Review Article', ed. Pranab Bardhan et al., *The Journal of Asian Studies* 48, no. 4 (1989): 792. <https://doi.org/10.2307/2058115>.

This implicit compromise is seen in Schedule 7 of the Constitution, which defines sectors of political, social and economic activity that are under the central and state governments' jurisdictions. In the schedule, there is a provision that allows "industries, the control of which by the Union is declared to be expedient in the public interest," allowing the state to legally take control of land and property.⁴² Another interesting nuance to this provision however, is that land itself is considered to be a state subject, where, "Land, rights in or over land...land tenures,...transfer of land," is not determined by the central government. This provision ensures that respective Indian states had control over land rights, rather than the centre, thus limiting the extent to which central legislation could impact this crucial part of the economy. In essence, a nation-wide law on land could not be implemented at a state level, without the concurrence of that respective state's government, which in turn resulted in a non-uniform approach to land reforms and land acquisition across India.

The Planning Commission, being a central government agency, therefore had limited influence in issues related to land and agriculture and was unable to enact significant reforms in this sector, while it had the ability to regulate industry. Such a distinction curtailed the Central Government's ability to take serious action to implement better farming practices since land reforms and acquisition could be stifled by state and local governments. Additionally, money from the Planning Commission could only be allocated towards central government schemes, not state-level ones, further curtailing its ability to address pressing agricultural issues.

The extent to which resistance to land reform can be seen in the Indian Constitution itself and early supreme court judgements. A controversial land reforms was to abolish

⁴² Namita Wahi, 'Land Acquisition in India: A Review of Supreme Court Cases (1950-2016)' (Centre for Policy Research, 27 February 2017), page 8 <https://www.cprindia.org/system/tdf/policy-briefs/Land%20Rights%20Report%20Final.pdf?file=1&type=node&id=5891&force=1>.

zamindari, a system of tax collection through land holdings, where zamindars, or landowners, would collect tax from peasants that worked on their farms. These reforms were challenged in the courts and a high court ruled that abolishing zamindari undermined a zamindar's right to life and reinstated it. Moreover, in a separate case, the Supreme Court struck down various states' zamindari abolition acts because they failed to compensate zamindars adequately, while upholding others.⁴³

In response, Parliament created a new schedule via the First Amendment to the Constitution to ensure that certain laws it passes are beyond the scope of judicial review, in essence making acts under the 9th Schedule a matter exclusively for Parliament to legislate on, a contentious move since it undermined the power of the judiciary.⁴⁴ These laws can only be removed by an act of Parliament that passes with a supermajority of two-thirds of those present and voting in both houses of parliament.⁴⁵ In fact, Articles 31A and 32B legitimise the state's ability to pass laws that undermine fundamental rights if these laws come under the Ninth Schedule. The fact that this schedule had to be created underpins how resistant the Indian population was to radical changes in existing structures, such as landholdings.⁴⁶ Moreover, the court's decision to uphold some acts over others shows that there was not a nation-wide approach to land reforms and agriculture, undermining the central government's ability to regulate this sector effectively.

⁴³ T. S. Rama Rao, 'The Problem of Compensation and Its Justiciability in Indian Law', *Journal of the Indian Law Institute* 4, no. 4 (1962): 501.

⁴⁴ While this was justified as a way to defend the INC's radical reforms, it was later abused by Indira Gandhi and other Prime Ministers to justify their dictatorial tendencies. This amendment is extremely controversial for subverting democracy and free speech in India since it reinstated colonial era laws linked to sedition and pre-emptive detention. Analysing the implications of the First Amendment for Indian democracy requires another work of research, but for this thesis, it is important to note that the amendment was introduced to ensure social reforms such as abolishing zamindari were instituted. For a more nuanced understanding of the implications of this amendment read: Tripurdaman Singh, *Sixteen Stormy Days: The Story of the First Amendment of the Constitution of India* (Noida, Uttar Pradesh: Vintage Books, 2020).

⁴⁵ J. Venkatesan, "IX Schedule laws open to review," *The Hindu*, January 11, 2007, accessed March 06, 2018, <http://www.thehindu.com/todays-paper/IX-Schedule-laws-open-to-review/article14705323.ece>.

⁴⁶ *The Constitution of India*, Part III: Article 31A and 31B, 9th Schedule, accessed 12 November 2019, <http://legislative.gov.in/sites/default/files/COI-updated.pdf>.

An analysis of the First Amendment shows that all the laws that came under the Ninth Schedule were land acquisition and land reform related, such as the Uttar Pradesh Zamindari and Land Reforms Act and the Hyderabad (Abolition of Jagirs) Act. The preamble to the First Amendment explicitly states that the aim of this bill is “to insert provisions fully securing the constitutional validity of zamindari abolition laws in general,” reiterating how difficult it was to significantly reform this sector. In doing so, large and elaborate plans like the Second Five-Year Plan would be hard to implement at a state level without the consent of both, Parliament and state legislatures.⁴⁷ The issues surrounding land reforms hampered the Central Government’s ability to adequately impact India’s agricultural sector, explaining Nehru’s focus on industrial reforms.

The issue of land reforms shows that the government was not able to fully intervene in a sector that needed radical change to modernise and that the legal system also added to problems that Indian planners faced during the crises of the late 1950s. The question then was how to address the challenges to planning in a democratic framework – something the Third Five-Year Plan attempts to address.

Agricultural Changes in India

As previously discussed, the Second Five-Year Plan focused its attention heavily on industrial outlays and reduced agricultural expenditure. The impact of the Plan’s allocations is seen soon after it is published. An article published in June 1957 notes that the largest “shortfalls in outlay have been in respect of agricultural and community development (Rs. 15 crores); social services, i.e. education, health housing, and rehabilitation (Rs. 20 crores); transportation and communications (Rs. 14 crores)...” it further elaborates that out of a target of 2.5 million food grains, only 1.4 million tons have been grown, underscoring that the plan

⁴⁷ ‘The Constitution (First Amendment) Act, 1951’, accessed 31 January 2020, <https://www.india.gov.in/my-government/constitution-india/amendments/constitution-india-first-amendment-act-1951>.

has not addressed some key areas of concern in the Indian economy.⁴⁸ However, 2.5 years into the new plan, “the rising trend of industrial production has been maintained in both the private and public sectors,”⁴⁹ showing areas that were prioritised in the plan did benefit from its outlays and that food production was severely undermined during this plan. Because of these shortfalls in food production, the fundamental assumption of the Five-Year Plan appears incorrect. Unfortunately, the article does not elaborate on what the potential causes for this mismatch between target and reality is.

There were plenty of other articles and papers that explained why there was this crisis in agriculture instead. In 1958, an opinion piece was published in the *Times of India* that underscored the severe food crisis facing India at the time. It first explains that the rate at which India is irrigating its fields is not sufficient and provides some solutions on how to accelerate the irrigation process such as inducing farmers to “build field channels, [manage] water rates, and persuasive propaganda to make the farmer change his crop pattern...”⁵⁰ highlighting some issues that development plans had not addressed. The inability of irrigation projects to be successful and efficient also impacted India’s food production abilities. In the context of Bombay State, minor irrigation projects’ completion was slower than anticipated and thus their contribution to food production had “considerably reduced,” reiterating that the crisis in agriculture was widespread and required the involvement of local and Central Government agencies.

Within two years of the Second Five-Year Plan being released, it missed its mark. For example, the plan anticipated an increase in food production to 151.85 lakh tons, but in two years since its release, India has only produced 23 percent of its target. Such articles show

⁴⁸ ‘Targets In Food, Coal & Power Not Reached: INTERIM PROGRESS REPORT ON FIRST YEAR OF 2ND PLAN’, *The Times of India (1861-Current)*; *Mumbai, India*, 29 June 1957.

⁴⁹ Ibid.

⁵⁰ ‘DEVELOPMENT PLANS FAIL’.

that the plans were actively discussed and criticised in the press, and the government was open to making revisions. Such robust discussion was essential to strengthening India's fledgling democracy, and also allowed Nehru to respond to challenges in implementing his vision.

This is not to say that the government was unaware of the impending agricultural crisis. Another *Times of India* article recalls a speech made by the then Minister for Community Development, who said that the plan's success was rooted in its ability to increase food production, and also touched on concerns raised in the article discussed above. He also concedes that problems in agriculture stem from a lack of trained personnel, a shortage of fertilisers and credit and that there ought to be joint development between irrigation, food production, animal husbandry, and cooperatives. This lack of skilled labour could be a factor of a fall in social spending, though not conclusively proven. Moreover, he also explained that it was "regrettable" that India had to import some of its food to make up for shortfalls.⁵¹ This article provides evidence that the GOI was aware of the limitations of the plan while still trying to uphold the foundations of Indian economic planning.

It is worth noting that there is evidence that explains why Indians believed the First Five-Year Plans' support for agriculture was encouraging. For example, John Adams, an economist from the 1970s remarked that the notion that India's focus on industry over agriculture is unfounded because of the rapid speed with which India could develop its agriculture and industry by saying that there has been an "appreciable and rapid development underway in villages."⁵² He further argues that India's food grain production has been impressive since independence, saying their "record is even more awesome. Between 1920

⁵¹ 'Plan Success Depends On Increased Food Output: IMMEDIATE STEPS URGED BY UNION MINISTER', *The Times of India (1861-Current)*; *Mumbai, India*, 9 October 1957.

⁵² John Adams, 'Agricultural Growth and Rural Change in India in the 1960s', *Pacific Affairs* 43, no. 2 (1970): 189 <https://doi.org/10.2307/2755063>.

and 1945, the growth rate of food grains was virtually nil,” while after independence, food production increased at an average of 3 percent.⁵³ Evidence also shows that compared to 1949, agricultural productivity had increased by 42 percent. However with more rapid rises in population than anticipated, this growth was insufficient to match food demands.⁵⁴ Adam’s argument rests on one measure of improvement, but also ignores other measures of success in agriculture such as a lack of good distribution network, cultural traditions like the caste system that can hamper a certain group’s access to food, artificial distortions in the market because of government intervention, and the hoarding of grains by middlemen, effects felt even today.⁵⁵ These relative improvements in agriculture were lauded by planners and politicians alike, which explains the shift in the Second Five-Year Plan towards industry, without realising other issues on the ground. This evidence shows that superficially, the first leap of development, as envisioned by the authors of *The Bombay Plan* and Indian planners, and the attempts at developing a food base was successful. However, the fact that India is unable to recover from the droughts that afflict it during the Second Five-Year Plan, this assumption was proved false.

The Second Five-Year Plan was launched with the hope that it would move India from an agrarian economy to an industrial one, providing further employment, improving economic growth and reducing inequalities, while unifying the country and relieving its dependence on foreign imports. However, the embrace the Mahalanobis model and Nehru’s view of development, lead to the assumption that India had achieved food security and was able to focus on heavy industry while reducing support for agriculture. Another inaccurate

⁵³ Ibid., 192.

⁵⁴ Ibid., 216.

⁵⁵ Vikas Bajaj, ‘A Failed Food System in India Prompts an Intense Review’, *The New York Times*, 7 June 2012, sec. Global Business, <https://www.nytimes.com/2012/06/08/business/global/a-failed-food-system-in-india-prompts-an-intense-review.html>.

Sukhdeo Thorat and Joel Lee, ‘Caste Discrimination and Food Security Programmes’, *Economic and Political Weekly* 40, no. 39 (2005): 4198–4201.

assumption of the first Five-Year Plan's success was that Indian agriculture was not heavily dependent on the monsoon, while the droughts leading up to the Second Five-Year Plan proved otherwise. However India's support for free speech allowed the public to debate the effectiveness of the plans, which helped the government realise that it had been overambitious in its planning. Consequently, it was able to revise its targets, and also rectify the issues that arose during this plan.

Industrial Growth

While Indian agriculture faced a crisis during the Second Five-Year Plan, India's industrial base rapidly grew and expanded. India was able to inaugurate some of its largest and most ambitious public works projects in its history. The plan was able to this by increasing the power of the state in certain sectors of the economy by curtailing the role of the private sector. The plan determined where business could and could not function in the economy. Data from the Planning Commission indicates that India's industrial productivity increased 41 percent between the First Five-Year Plan and the end of the Second Five-Year Plan, possibly a consequence of increased funding.⁵⁶

These areas included but are not limited to, steel and iron, forming the basis of India's heavy industry.⁵⁷ The document emphasises the extent to which the state wanted to play a role in the economy by taking charge of its metal, mining, air and rail transportation, and telecommunications sectors. This level of control explains why such sectors received the amount of funding they did in the Second Five-Year Plan and continued to do so in the Third Five-Year Plan despite the aforementioned crises. The fact that planners were so determined to reiterate their commitment to India's industrial growth shows the extent to which the state would go to ensure this aim was fulfilled.

⁵⁶ Vasudevan, *The Strategy of Planning in India*, 213-214.

⁵⁷ 'Approach to the Second Five-Year Plan,' accessed 24 October 2019, <http://planningcommission.nic.in/plans/planrel/fiveyr/2nd/2planch2.html>.

A full list of industries that are under central government control can be found at this link as well.

Increased state control in key economic sectors was seen with the creation of Rourkela, Bhilai, and Bokaro steel cities. They were large-scale public works projects inaugurated during the Second Five-Year Plan and are till today one of India's largest sources for steel. The aim of these cities was to help form the basis of India's industry, and also to act as a source of employment, fulfilling two important aims of the Planning Commission.⁵⁸ They also functioned as hubs of experiments of Nehruvian modernity because their living quarters enabled employees to overcome caste, ethnic and religious differences since they all had to live in integrated housing and had to share functions together.⁵⁹ It further shows that Nehruvian economic planning, unlike planning in the USSR and China, was democratic since their creation was supported by Parliament and the NDC and not forced onto Indians, and attempted to integrate different cultures to work to a common economic aim. The notion that industrial growth was crucial to building a truly democratic and liberal India, is seen in the continued existence of steel cities today, an initiative possible because of Nehru's vision of India.

The aftermath: The Third Five-Year Plan and Village Rule

The inability of the Second Five-Year Plan to meet its targets showed that the India was not fully ready to move towards an industrial economy, which is why the Third Five-Year Plan witnessed significant changes in its resource allocation. This change shows that the Nehru actively thought and reflected on his vision for post-colonial India, and that the Third Five-Year Plan acknowledged the limitations of the Second and attempted to counter them. The Third Five-Year Plan acted as a response to the challenges of 1957-58 and also as a response to those challenging India's planned economy.

⁵⁸ Rajkishor Meher, 'Social and Ecological Drift of a Planned Urban Centre: A study of Rourkela, Orissa,' *Sociological Bulletin* 47, no. 1 (1998): 51–72.

⁵⁹ Ibid.

The plan increased the amount spent on agriculture and social services, which were underserved by the Second Five-Year Plan. This point is worth nothing because the authors of *The Bombay Plan* also emphasised spending on social services. An excerpt of the plan reads,

“The Third Plan envisages concentrated effort in agriculture on a scale calling for the participation of millions of peasant families....Considerable emphasis, is being given in the Third Plan to the development of education and other social services”⁶⁰

This clause is important because it concedes that agriculture and social services are also critical to India’s economic growth, not industry alone. However, it adds that the development of basic industries is “fundamental” to economic growth and development, reinforcing the importance that industry had in the Third Five-Year Plan. These priorities are reflected in overall spending during the Third Five-Year Plan, with agriculture and social services getting fourteen and seventeen percent respectively, and industry and transport getting twenty percent each. Although there is an absolute rise in agriculture from around Rs. 530 crores to 1070 crores, doubling the amount spent across the plans, it is still a third less than industry.⁶¹

The Third Plan juxtaposed the notion of India’s development ‘leaps,’ with a coherent response to the crises of 1958. Some of the aims overlap with the first two plans as well, such as ensuring complete self-sufficiency in food production, increasing national income by at least 5 percent per annum, expanding basic industries like steel, chemicals, fuel and power ensuring that all of India’s industrialisation requirements are fulfilled domestically, increasing employment opportunities, and reducing income inequality.⁶²

⁶⁰ ‘APPROACH TO THE THIRD FIVE-YEAR PLAN’, accessed 30 October 2019, <http://planningcommission.nic.in/plans/planrel/fiveyr/3rd/3planch4.html>. I have not factored inflation into this calculation.

⁶¹ Ibid.

⁶² ‘Approach to the Third Five-Year Plan,’ Planning Commission, Government of India: Five-Year Plans, accessed May 23, 2019, <http://planningcommission.nic.in/plans/planrel/fiveyr/welcome.html>.

An important shift between the Second and Third plan is the re-emphasis on agriculture and the development village economies through increased investment agriculture. In the plan's outline the Planning Commission explains why it wants to prioritise agriculture and decentralise parts of the economy:

“The Third Plan envisages concentrated effort in agriculture on a scale calling for the participation of millions of peasant families of agricultural workers in village production plans and in large scale programmes of irrigation, soil conservation, dry farming...One of the main aims is to harness the manpower resources available in rural areas...especially for increasing agricultural production.”

The plan hoped to increase increasing crop production by 30 percent in 5 years. To achieve these challenging goals, the plan envisages the implementation of panchayats and the decentralisation of state power from the capital to individual villages to help manage their resources better.⁶³ The planners realised that the Second Plan's centralised approach did not work as planned. It is also the first time that the Planning Commission acknowledges the equal importance of, industry with agriculture as central to India's economic success, rather than choosing one over the other. This all-encompassing approach to planning marks a change in previous understandings of economic development, which prioritised some sectors of the economy over others. It also diverged from the ideas of 1947 by decentralising some power from the Planning Commission to local governments.⁶⁴

Moreover, the plan focuses extensively on food distribution and improving yields, rather than solely increasing the amount of irrigated and cultivated land due to an emphasis on curbing hunger and improving one's access to food. This distinction shows that the government's realisation that not prioritising agriculture when it is such an essential

⁶³ *The Third Five-Year Plan*, Chapter 18. The panchayat “is intended to facilitate the fuller play of the people in dealing with the tasks which lie close to them in the villages of the country....This will also widen very much the opportunities for public participation.” Panchayats are village councils and are considered the most basic level of administration in Indian government.

⁶⁴ Political power was not decentralized to village panchayats till 1992 with the passage of the 73rd Amendment to the Constitution.

component of the Indian economy undermines other sectors' efforts to economic growth.⁶⁵ This shift in attitude from centralised control of resources and less spending on agriculture indicates that farmers did not react well to the Second Five-Year Plan and that they needed the support of the state to survive. The state also acknowledged that controlling resources at a central level hampered the growth of the agricultural sector and that local villagers and farmers were better placed to use their resources and took action to empower Panchayats. This change is significant in depicting how the scope and objectives of the first three plans changed and evolved based on how sectors responded to the previous plan's allocations.

Nehru also acknowledges that the Second Five-Year Plan had "laid great stress on industrialisation," and the country had to "look in the direction of agriculture," arguing that industrialisation cannot be solidified without agricultural progress.⁶⁶ To Nehru, agricultural progress takes form in India's ability to produce enough food for itself, but also any other sort of aid, where it is "financial or mechanical." This statement shows that Nehru was aware of agriculture's importance and was willing to adapt his thinking to respond to crises.

The Third Plan also focuses on less tangible aspects of planning and economic growth, such as education and human development. This move was a needed shift, considering that government ministers raised the issue of skilled labour during the Second Five-Year Plan. Nehru also recognises the importance of education in ensuring a country's prosperity. To him, "it is the trained human being that makes a nation, not all the machinery in the world."⁶⁷ These priorities are seen in an increase in spending for social services from Rs. 830 crores to Rs. 1300 crore, an increase of fifty seven percent.⁶⁸ At the Asian Economic

⁶⁵M. Narasimham, 'India's Third Five-Year Plan (Le Troisième Plan Quinquennal de l'Inde) (El Tercer Plan Quinquenal de La India)', *Staff Papers (International Monetary Fund)* 9, no. 3 (1962): 396, <https://doi.org/10.2307/3866092>.

⁶⁶Jawaharlal Nehru, 'The Second Five Year Plan,' *Jawaharlal Nehru's Speeches (1957-1963)*, 90-106.

⁶⁷Ibid., 137.

⁶⁸'Approach to the Third Five-Year Plan.'

Planners' Conference, Nehru further stressed the importance of 'The Human Factor in Planning,' by calling for a basic education for all individuals before they move into specialised training. He further concedes that there are inherent problems in developing a robust education system since "the spread of education is limited," by a country's resources, which in turn cannot be properly used without a skilled workforce, reiterating the challenges of planning.⁶⁹

The Third Five-Year Plan recognised the limitations of centralised industrial growth, and conceded that agriculture required more support than believed, and that villages would be best equipped to determine spending, rather than New Delhi. This plan combines Nehru's pragmatic beliefs in liberal education, and his entrenched views on modernity, which form the cornerstone of his vision of modern India.

Nehru & Planning

Nehru's intentions were not always effectively executed. Nehru, along with other economists and politicians at the time, argued that India's prosperity lay in a strong industrial base, which would provide job opportunities to all Indians, regardless of caste and religion. In the process of implementing this vision during the Second Five-Year Plan, Nehru and state planners made a series of false assumptions, culminated in a number of crises from 1957-1958. The Second Five-Year Plan proved to be a test to the assumptions of Indian economic planning which were devised in the 1930s and 1940s, and in turn forced Indian planners to reconcile their beliefs about how the economy should work with the problems the country faced at the time. The planning system was challenged by these crises.

Despite these challenges, India responded to the crisis by engaging with criticisms of the current planning model. Indian democracy through the freedom of expression guaranteed individuals the right to openly criticise the shortcomings of the Five-Year Plans in the press.

⁶⁹ Narasimham, 'India's Third Five-Year Plan,' 149.

The GOI was able to revise the Second Five-Year Plan because of such vibrant debate and amended the Third Five-Year Plan accordingly. The Third Plan adapted Nehruvianism to respond the crises of the late 1950s. The changes in India's Second Five-Year Plan and the significant changes enacted in the Third Plan reflected the country's commitment to democratic values and scientifically informed state planning, showing that the planning apparatus had to changes to ensure that the overarching aim of developing India was fulfilled.

This chapter shows how planning was implemented in India from 1951-1964. The Indian government responded to widespread criticism and concern in the press and Parliament by devolving powers to villages, with the intention of letting them decide their spending priorities. Nonetheless, the view that India's path to prosperity lay in its industrial capabilities dominated the planning process from the 1930s till his death. By proving that Indian planning could be moulded to and adjusted to meet crises of the day, economic planning overcame the challenges that threatened its very foundation, which were developed from the inception of Indian economic planning in the 1930s.

CONCLUSION

“The need for rethinking the role of the Planning Commission was evident when I joined in 2004.”¹
-Montek Singh Ahluwalia, the last Deputy Planning Commissioner of India (2004-2014)

The purpose of this thesis is to outline the story of Indian political economy, by tracing its intellectual origins from the 1930s and the moment where it was challenged by events on the ground, in the late 1950s, and how these challenges were countered, albeit partially. It also explores the challenging problems facing the Indian state and how they would be addressed by India’s political and economic system through a centrally planned economy within a framework of parliamentary democracy. In doing so, this work has argued that India embraced a parliamentary democracy and a centrally planned to reconcile the two biggest challenges facing India at the time: national unity and poverty alleviation.

Central to this story are the ideology of Jawaharlal Nehru and the social and political context of 1947. The overarching aims of Indian politicians at the time were to ensure political and economic unity following partition, ending communal strife, developing India’s independent policy and eradicating poverty. The constraints of being a poor, overpopulated and diverse country added to these already challenging tasks. Nehru, along with other members of the Constituent Assembly, was a firm believer in democracy and was determined to uphold it, which is why he unwilling to embrace the USSR’s planned economy in its existing form. Instead, he drew on the tenants of liberal, western democracy and aspects of the USSR’s planned economy to reconcile these two systems.

To ensure that India would be treated as one single economic and political unit, the Central Government would have to play a strong role in managing the economy, and ensure

¹ Montek Singh Ahluwalia, ‘The Planning Commission: An Inside View,’ in *Backstage: The Story of India’s High Growth Years*. Montek Singh Ahluwalia was the last Deputy Chairman of the Planning Commission of India from 2004 to 2014 under Prime Minister Manmohan Singh. Once Narendra Modi took office in 2014, he abolished the Planning Commission and replaced it with National Institution of Transforming India, a less powerful think tank.

regions across the country develop, which could, in the views of politicians and economists, and businessmen, would be through a centrally planned body. A constitution that outlawed casteism and religious discrimination while securing fundamental rights to all individuals would guide India towards political unity and reduce communal tensions.

Nehru's vision won out to others for many reasons, the primary one being that support for some form of Socialism and democracy was present across the political spectrum. Nehru was also one of the most popular leaders in India at the time and had few rivals that could challenge his authority as Prime Minister. The Socialists and Communists did not have the clout the INC had to seriously pose a threat to its ideas.² While there was opposition within the INC to Nehru's views on the position minorities in India, it did not translate into significant opposition to the Planning Commission. As chairman of the Planning Commission, he was able to provide it with the support it needed to function.

Nehru's legacy is hotly debated in India even today, 56 years since his death. He is credited with building out India's space program, its Institutes of Technology (IIT), All India Institutes of Medical Sciences (AIIMS), massive dams and infrastructure projects, and statistical institutes.³ He ensured India adopted an independent foreign policy and was a co-founder of the Non-Aligned Movement (NAM) while ensuring good relations with the USA and the USSR. Under his rule, India adopted a democratic system allowed universal suffrage to its citizens, regardless of gender, caste, religion or age, and reconciled the position of Muslims in post-partition India.⁴ Some common criticisms are that he was too naïve in his dealings with China, which is why it was able to defeat India in a war in 1962, he mishandled

² Sarvepalli Gopal, 'Road to Elections,' in *Jawaharlal Nehru: Vol.2: 1947-1956: A Biography* (London: Vintage/Ebury, 1980).

³ David Arnold, 'Nehruvian Science and Postcolonial India', *Isis* 104, no. 2 (2013): 366-367, <https://doi.org/10.1086/670954>.

⁴ S. Irfan Habib, 'Legacy of the Freedom Struggle: Nehru's Scientific and Cultural Vision', *Social Scientist* 44, no. 3/4 (2016): 29-40.

the Kashmir Conflict by going to the United Nations rather than resolving it by military force, and for enacting a planned economy.⁵ He is also criticised for over-centralising power through the First Amendment to the Constitution, since it curbed free speech, and undermined judicial powers by creating the Ninth Schedule.⁶

Once Nehru passed away in 1964, the influence of the planning commission declined across the government, while the government of India further centralised power and became more Socialist. In 1965, India and Pakistan were at war and India was in the throes of a drought, which resulted in the Fourth Five-Year Plan being postponed to 1969.⁷ Indira Gandhi, the third Prime Minister of India, increased the role of the state in the economy by nationalising 14 banks in 1969. In 1975, she declared a state of emergency and suspended fundamental rights for 2 years.⁸ When the Emergency was lifted, she was removed from office. Nonetheless, Indian democracy has trudged on and has had 17 general elections since 1951, with peaceful transfers of power across governments.⁹

Economically, India's state-run economy did not grow as anticipated, and was in a state of crisis by 1991. GDP Growth rates averaged 3.5 percent annually from 1950 till 1991, not nearly as fast as Indian policy makers or businesses wanted to ensure India's development.¹⁰ A significant cause for this crisis was that India had a series of licenses and

⁵ Ramachandra Guha, 'Verdicts on Nehru: Rise and Fall of a Reputation', *Economic and Political Weekly* 40, no. 19 (2005): 1958–62.

⁶ Tripurdaman Singh, 'Introduction,' in *Sixteen Stormy Days: The Story of the First Amendment of the Constitution of India* (Noida, Uttar Pradesh: Vintage Books, 2020).

⁷ Kamal Nayan Kabra, 'Indian Planning and Liberalisation', *Economic and Political Weekly* 31, no. 40 (1996): 2740.

⁸ 'Recalling the Emergency Years', *The Indian Express*, 29 June 2015, <https://indianexpress.com/article/explained/recalling-the-emergency-1975-77-the-emergency-at-work/>.

⁹ 'Election Results - Full Statistical Reports', Election Commission of India, accessed 7 May 2020, <https://eci.gov.in/statistical-report/statistical-reports/>.

India's democracy has worsened over the past 6 years and its press freedom has also reduced. Saira Aslam, 'India Drop 10 Ranks to 51st Position in Economist Intelligence Unit's Democracy Index', *The Hindu*, 22 January 2020, sec. National, <https://www.thehindu.com/news/national/india-falls-to-51st-position-in-eius-democracy-index/article30624354.ece>.

¹⁰ Arvind Virmani, 'India's Economic Growth History: Fluctuations, Trends, Break Points and Phases', *Indian Economic Review* 41, no. 1 (2006): 81–83.

controls in place, called ‘License Raj,’ which determined how businesses could be setup and run under Nehru, and exacerbated under Indira Gandhi when she nationalised banks and made India’s economy even more Socialist. This system was known to promote corruption in the government since multiple licenses were required to establish a company and stifled business activity because of the immense compliances required.¹¹ License Raj was so stifling that even the most basic decisions were left to a bureaucrat in New Delhi, such as the quantity and price at which goods could be made or charged in the private sector. By 1991 the license raj, when compounded with India’s limited exports, prompted a foreign exchange shortage, and India was extremely close to defaulting. The then government devalued the rupee and opened up many sectors of the economy to foreign investment, while also allowing the rupee to freely float.

Once liberalisation occurred, questions were raised about the significance of the Planning Commission and the role it had in government affairs. Mainly, what role does the government have to play in free markets, and why should a liberalised economy have a Planning Commission? In 2004, when Manmohan Singh took office as Prime Minister, his planning commissioner, Montek Singh Ahluwalia was tasked with reforming the role of the Planning Commission and to shift its focus from being a resource allocator to an organisation focused on developing policy solutions in the government, with keeping a long-term view on policy issues.¹² Instead, when Singh’s government demitted office in 2014, the Prime Minister, Narendra Modi, abolished the Planning Commission all together and replaced it with NITI Ayog, a think-tank within the Government to “evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States in the

¹¹ Vinay Sitapati, ‘The Andhra Socialist’, in *Half - Lion: How P.V. Narasimha Rao Transformed India* (Viking, 2016).

¹² ‘The Planning Commission: An Inside View,’ in *Backstage: The Story of India’s High Growth Years*.

light of national objectives.”¹³ Unlike the Planning Commission, it has not control over spending priorities across ministries and can only provide recommendations to the government, severely curtailing its powers.

By the time India liberalised its economy in 1991, the USSR, a close ideological ally from the 1970s, was on the verge of collapse, indicating that a command economy was not going to guarantee India’s growth. The rise of globalisation in the 1990s and 2000s might have marked the end of a planned economy, but events such the Great Recession (2007-2010) prompted state intervention and greatly increased state powers in the economy.

The Covid-19 pandemic has raised similar questions to those raised in 1947. Countries across the world have instituted relief packages and bailout packages and have directed trillions of dollars in investments and social spending to keep the economy afloat. An estimate by *The Economist* indicates that Germany, the US, UK, France, and Italy will spend around \$7.5 trillion or 23 percent of their GDPs to support their economies during the crisis.¹⁴ The expectations of the state are going to change significantly as well, with countries being expected to provide health insurance and welfare payments to those badly affected by the crisis and those of employer-based health insurance, as in the USA. Some governments have assumed emergency powers and have used them as an excuse to centralise power and curtail democratic rights.¹⁵ As countries navigate the crisis, questions that plagued the world after World War II, and India in 1947, have come back. How do policy-makers develop social supports in the economy? What is the role of the state in the economy? How does one

¹³ ‘Overview | NITI Aayog’, accessed 16 April 2020, <https://niti.gov.in/content/overview>.

¹⁴ ‘How to Prevent a Covid-19 Slump, and Protect the Recovery’, *The Economist*, accessed 20 March 2020, <http://www.economist.com/leaders/2020/03/19/how-to-prevent-a-covid-19-slump-and-protect-the-recovery>.

¹⁵ ‘Autocrats See Opportunity in Disaster’, *The Economist*, accessed 7 May 2020, https://www.economist.com/leaders/2020/04/23/autocrats-see-opportunity-in-disaster?fsrc=scn/fb/te/bl/ed/apandemicofpowergrabsautocratsseeopportunityindisasterleaders&fbclid=IwAR25RklrM6t23vtOIV1S2UZjX2h3rubKcaoISD6hH_H1ge-pIpw8ghW0Gfc.

reconcile democracy and privacy with emergency powers and state expansion? The answers will be different to 1947, but these questions will be central to discussing solutions to this pandemic.

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