



## The politics of industrial development in India since independence

<sup>1</sup> Ajay Kumar Gautam, <sup>2</sup> Neha Yadav

<sup>1</sup> Doctoral Fellow, Centre for Studies of Law and Governance, Jawaharlal Nehru University, New Delhi, India

<sup>2</sup> Research Scholar, Centre for Social Medicine & Community Health, Jawaharlal Nehru University, New Delhi, India

### Abstract

In post-independence era industrial sector plays a vital role in the development of Indian economy. The industrial policy resolution in 1948 was the breakthrough in the series. The Indian Government had commenced few policy reforms after that, but the most radical changes have occurred since 1991. It liberalized the industrial policy itself and deregulated the industrial sector substantively. Even if amendment and reform in 1991 were motivated by economic obligations, it was the political process that made these possible. Economic processes are universally political and to operate they necessitate political conditions, both at state and local level. This paper attempts to present the politics of industrial development after independence in India. It helps to understand that since development is a process, it cannot be reduced to any policy goal or trends. For a better understanding of the processes, it investigates India's industrial development politically rather than economically by dividing that into different economic phases.

**Keywords:** industrial policy, economic reforms, neoliberal, economic development

### 1. Introduction

There are few states today which do not aim for modernity. The day of rulers who were unconcerned to the archaism of the society which they administrated has almost gone. The leaders of virtually every state both the old institution state as well as new states of Asia and Africa sense a persistent necessity of the policies which will bring them into the fold of modernity. They encounter much of the disagreement among their politically interested countrymen resists that they are not modern enough. Many traditionalists are reserved to assert that only by severing to the essence of older tradition can a sincere and stable modernity be attained<sup>[1]</sup>.

Development is not a static concept instead it is dynamic, and it is always prone to change due to contending forces. The statement fully complies with the trend of industrial development in India. The development can be understood as a process, a condition, activity, or an event. So far progress has followed a long history of discourse. In developmental process, politics plays a pivotal role; it can be argued that politics is an intrinsic characteristic of development discourse. On the eve of independence, India's economic condition was worse than ever. Development growth was marginalized, and the country was struggling to come out of poverty and starvation. Per-capita income was low; majority people were even unable to sustain themselves. Sources of sustenance were few, and maximum percentage of the population was dependent on agriculture and its sub-sectors. Primarily being an agriculture-dominated country, it was impossible for the government to transform it overnight and look into all possible dimensions of development. Development and growth of any nation are based on three main sectors, i.e., primary sector (agriculture), secondary sector (industrial) and tertiary sector (service). So it was clear to the nation builder(s) that without

the development of secondary and tertiary sector the growth of a newly formed economy is next to impossible<sup>[2]</sup>.

It is also implying the argument that new states are all rather far down on the list which rank countries according to their per capita income. They are primarily agricultural, and although there are exceptions, as in West Africa and Malaya, their development procedures tend to be very traditional. At the same time, the elites of the new states, practically without exception are committed to economic development. For them, "modern" means sovereign, democratic and equalitarian, concerned with the people, economically developed and scientific. They are concerned with the discovery of more and better resources, the increased efficiency of the processing of resources, the accumulation of capital by saving, heavy taxation, capital levies and foreign investments, loans, and gifts. Their motives were multiple, many wish to raise the standard of living of their people, and they also think that a modern country to be worth anything at all in the eyes of humankind, must be industrialized, rationalized and "economically advanced"<sup>[3]</sup>

### 2. Politics of Industrial Development

#### 2.1 Phase 1: Politics of industrial foundation development.

"The proponents of modernity assert that no country can claim to be modern without being economically advanced or progressive. The center of dynamism is to be advanced economically it suggests having an economy based on advanced technology, to be industrialized and to have a high standard of living".

During this phase, planning was the cumbersome work on nationalist in the parliament. They have to face a huge gap and disagreement of the opinion among the policymakers while discussing what kind of policy should be adopted and what

should be discarded to gratify the country needs of social and economic growth and development. Therefore, it was the contest between ideologies where on one side Jawaharlal Nehru was proclaiming to make India self-reliant nation by giving the technical foundation, on the other hand, nationalist influenced by Gandhian philosophy was trying to build India based on Gandhian vision of constructing self-sufficient nation by promoting agricultural practices to support the social economy at the villages. These two contrasting ideologies were somehow creating obstacles in the nation-building process.

Being apprised of world geography and history, Jawaharlal Nehru understands that without industrialization, it is challenging to transform India from underdeveloped to a developed nation. He planned to invest a tremendous amount of money in the industrial sector. The importance given to industries can be understood by the fact that in 1948 we had a first industrial policy. In the meantime, the first Five Year Plan (FYP) was completed, and the socialistic pattern was accepted as the principal objective of the country's social and economic policy. Thus, in 1956, a second industrial resolution replaced the policy resolution of 1948. During the same time, a program based on Gandhian philosophy was initiated in the name of Community Development Program in 1954. These were the foundation years of India's industrial and social sectors.

Before 1947, only two industries were growing during the colonial period, namely, jute and cotton which were specific to the selected region. Post- Independence in 1956, the government had laid the foundation of a steel plant in India. The decisions taken during that period can be analyzed by observing into the government five-year plans. The primary motive of initial few plans was to make India a self-reliance and self-resilient country. The government took stringent action towards the development of the nation. Therefore priority was given to the public-private partnership.

In the first five year plan, agriculture was the prime motive of planning commission but the second plan was made entirely to promote industrialization in the country. Substantial foreign loans were taken by the government to encourage export and to established different line of industries. During this phase, after independence Government of India introduced the Industrial Policy Resolution 1948 to support the idea of industrial establishment and came up with an industrial policy. During First five year plan, many primary and heavy industries were set up, namely, HMT, Chitranjan locomotive, U.P cement industry, Indian cables, and Indian telephone, DDT and penicillin factories. During the second five year plan, industries which came into existence were steel plants at Bhilai, Durgapur, and Rourkela. The first one was based on Harrod-Domar model and second was based on Nehru-Mahalanobis model. This reiterated the above classification and emphasized the approach to industrial growth and development.

## 2.2 Phase 2: Politics of industrial development before neoliberal era.

“Historical arrangements of investment did not exactly follow optimum patterns. They were biased by inadequacies in the private investment process, by the specific policies of

governments, and by the bearing of wars. Wars for the time being altered the gainful directions of investment by setting up uninformed demands and by altering the conditions of supply. They destroyed capital and, seldom, they enhanced the development of new technology pertinent to the peacetime economy and moved the political and social framework in ways conducive to peacetime growth. The historical sequence of business progressions and trend periods results from these deviances of actual from optimal patterns and such instabilities, along with the impact of wars, produce historical paths of growth which diverge from those which the optima, intended before the event, would have yielded. Nonetheless, the economic history of rising societies takes a part of its rough shape from the effort of societies to approximate the optimum sectorial paths”<sup>[4]</sup>.

After seeing degradation in industrial growth due to externalities like war aggression with China and Pakistan in 1961 and 1966. The government could perceive the direct impact of war on the national economy. The adverse effect can also be observed in third Five Year Plan (FYP) when the government did not take any initiative concerning industrial development. Not only this, when the power at center changes its guard and Janta Dal came into power the newly elected government did not even come up with FYP in 1966. From 1966 to 1969 (plan holidays), the government made an annual plan which was the innovation of ruling Janta Dal. They used to criticize the government rule under congress for their FYP strategies and push for industrial set-up. Therefore, in these three years government started focusing on agriculture rather than industry; farming again became the focal point of governments' strategy and capacity building. It seemed as if there was a great tug of war between parties for power than development particularly industrial development. Hence, suggested by the post-development theorist John Replay, *“Human improvement is not the real goal of development; human control and domination is. It is true that drawing more and more people into the formal sector is essential to the nation-state's consolidation of its authority over its territory”*. Numbers of author argue that industrialization is a new form of establishing hegemony after the world war. As far as technology is a concern, it was the period when western countries started persuading other nations for wholesome development. In fact, the post-development theorists explained, the goal of development is intimately linked to modernization, which for them entails the extension of the control of the Western world and its nationalist allies in the developing countries. To this end, development projects have as their principal aim the incorporation of previously autonomous communities within the networks of the power of the nation-state, to consolidate the power of modernizing elites. Any improvements in living standards that follow from these projects are epiphenomenal, even accidental, to the principal goal of building hegemony<sup>[5]</sup>.

The substantial changes were brought in industrial sector after Congress again came into power in 1970. Thus, in 5<sup>th</sup> FYP, the government focused on the development of core and primary industries. It was the first time when government talked about the balanced development and enhancement of modern technology. The government also connected poverty with industrialization that can be seen in Indira Gandhi's

speech in 1971 during Stockholm agreement, she said *“poverty is one of the persistent reasons for environmental degradation therefore till the time, we will not take poverty as the pressing issue we cannot save our environment.”*

After that, poverty eradication became the focal point of government functioning and initiatives. The government started to look into capacity building within the industries to enhance the productivity of goods and services. New industries were set-up, the modern workforce was inducted. Capital goods industries were henceforth, the central point of government action. Thus, it can be said that government for the sake of development and progress in the process to eradicate poverty neglected the environmental issue even after being aware of the impact of industries on the environment. Sixth and seventh FYP is a testimony to the above fact.

Ignorance of environment can be rationalized by the argument that “there is evidence of a new politics in the emergence of the environmental groups as a significant political force, in the innovative repertoires of protest and the radical organizational forms and ideologies of ecological new social movements.” However, the institutionalization of the mainstream movement also suggests the continuing stability of established patterns of political behavior. The overall impact of the environmental change, although hard to measure, has been profound in setting agendas, shaping discourses and influencing policy. The continued marginalization of ecological considerations by policy elites fuels the rumblings of discontent and disappointment within the movement. Much now depends on the ability of the environmental movement to respond to the challenge of the transnational agenda associated with the increasing internationalization of environmental politics <sup>[6]</sup>.

### **2.3 Phase 3: Politics of industrial development in the neoliberal era.**

This phase is considered to be the liberalization period of India. The policy dealt with liberalizing licensing and procedures to encourage foreign investments and foreign technology agreements. The public sector enterprises and the Monopolies and Restricted Trade Practices (MRTP) were introduced. Though before this time, the government was involved in the growth and production activities in the industrial sector there were many challenges that have restricted industrial growth, i.e., inadequate infrastructure, restrictive labor laws, slow technology adoption, low expenditure of Research & Development and innovations, complex and time taking business processes and clearances.

Various researchers argued that Indian industrial system is a system of “Red tape” <sup>[7]</sup>. They explained that reasons for industrial failure are nothing but government’s economic ideology that is based on socialist approach. Under this kind of attitude, the government does not give complete freedom to an economy to play the decisive role in the development activity. There were many industrial policies, but none dealt with developmental issues efficiently and effectively. Thus it can be argued that government bone of contention was the efficiency and effectiveness under this phase that was missed in earlier phases. If we review pre-1991 policies, we will find that various deficiencies like underutilization of capacities, a concentration of economic power, licensing prompted corruption, and discrimination, delay in the process of

application and increased regional imbalances.

Therefore, during this period government did not have any choice except to go with the flow of liberalization of industries for more focus development. Other economic reasons can be cited as balance of payment crisis, license permit quota raj, to unshackle the industrial sector from administrative and legal control and to make the industry competitive by increasing efficiency. The government has realized that isolated development cannot provide the desired result. Thus, it was decided that government has to have a stringent action for the more inclusive and wholesome development by filling the gap in earlier policies of industrial sector or with making something very new for growth and should compete it at world level under the process of globalization.

Some development thinker argued there is no significant difference between globalization right now and globalization in an imperial regime. The only difference is, that time globalization was led by England but this time by United States of America <sup>[8]</sup>. They claimed that by adopting the footprints of western countries can never give the fruitful result. Therefore they tried to aware developing countries to think again about their policies that are influenced by western monopoly.

This was the time when ‘Narsimha Rao’ government had taken rational steps towards bringing change in economic policy to accelerate the growth of the country. This action was in line with the efforts taken up by previous governments. They adopted a neo liberal policy in which government control is exceptionally minimal over industrial sector. The neoliberal era started with the eighth FYP that was based on Manmohan –Narsimha model.

The government moved from “mixed economy” to neoliberal economic model. It led to a massive change in development economics of India as along with promoting structural change, economic growth and development it also aims to improve the potential for the mass of the population through public or private channels. After the neo-industrial policy 1991, colossal dilution occurred in the government role. Only eight public sector unit was put under the government control. The number of industries for which industrial licensing is compulsory is 18. As on date, only three industries are under exclusive government control, i.e., atomic, mineral and railways. Thus, it was considered as a Public Sector as well as labor-centric policy.

Great divestment was done in Public Sector Units (PSU), and sick units were referred to Board for Industrial & Financial Reconstruction (BIFR). In this way, the policy had some positive impact on an industrial sector like an increase in production, removal of the bureaucratic hurdle, increase in competition, increase in efficiency of the public sector, increase in foreign direct investment, increase in export, balanced regional development and less economic burden on government <sup>[9]</sup>.

### **2.4 Phase 4: Politics of industrial development in neoliberal crisis**

It was foreseen by some development thinkers that neoliberal kind of ideas has some intrinsic demerits. They argued that neoliberals and developmentalist seem to claims same ideals.

Though Neoliberal industrial policy brought some positive changes in the existing economic structure at the same time, it has its drawbacks. The negative impact of neoliberal policy could be analyzed after a period. The concentration of economic power, increase in unemployment, no change on the productivity, ignorance of social objectives, distortion of production structure, i.e., a decline in the growth of capital goods industries, adverse effect on small-scale industries, the danger of business colonization and a huge increase in regional imbalances.

Since India was not the only country, who followed neoliberalism instead it was a worldwide phenomenon. So the impact of neoliberal based policies was much global which led to the neoliberal crisis. The Economic depression that occurred in 2008 is the testimony to the fact that neoliberalism has to evolve itself systematically time to time. Some development thinker argued that there is no difference between neoliberalism and developmentalism <sup>[10]</sup>. They had raised some questions about the current ideology and also argued about alternative development. Thus, the evolution of alternative development occur which talks about an alternative to the development and post-development without criticizing them. Therefore, alternative development is nothing but the critique of development that argued in favor of holistic development by including every kind of developmental ideology after purification.

It can be analyzed by Jan Nederveen Pieterse argument, a professor at the University of California who specializes in globalization and development studies. *“While much alternative development thinking makes a diffuse impression, this has gradually been making room for a sharper and more assertive positioning as a result of several trends.”* These different trends generate various lines of tension. One line of friction runs between the general alternative development preoccupation with local and endogamous development and, on the other hand, the growing demand for global alternatives. Another line of friction runs between diffuse alternative development and alternative development paradigm; former implies a soft and the latter a hard boundary with mainstream development, and intellectual openness and closure. These tensions find expression in more or less subtle differences among alternative development position <sup>[11]</sup>.

Till 2006, India's Gross Domestic Product (GDP) growth was so captivating that everyone was showing gratitude towards an economic policy which came in 1991. In 2008 the financial crises affected the whole globe. The sector which was primarily affected by 2008 crisis was 'industrial sector'. In India, Government 11<sup>th</sup> and 12<sup>th</sup> FYP is a testimony to the fact how government gradually brought changes in the economic structure after the depression period. The ruling government and the Reserve Bank of India (RBI) took forceful measures, suddenly relaxing monetary policy and announcing a fiscal stimulus to increase domestic demand. In the last three years, the reforms have been made are path-breaking, including ease of doing business, opening new sectors such as defense and food retail for foreign investment and a strong impetus was given to manufacturing and to make India a Global manufacturing hub. Therefore huge changes brought up by the government to cope up with degradation of the industrial sector to make it once again an excellent sector in India by

adopting policies based on alternative development concept.

### 3. Conclusion

It can be securely said that the first phase reforms were intended at institution building for macroeconomic stabilization and structural adjustments. The second phase reforms aimed at liberalization and privatization. The development of Indian economy since independence is appreciable; the transformation since 1980 has surprised most observers. The economists around the world are hopeful that the Indian economy will become the third largest economy in the world sometimes in the mid of 2030s. India is already in third place for estimated gross domestic product (GDP) based on purchasing power parity (PPP). The neoliberal reforms liberalized the Indian economy and foreign investment in most sectors is allowed up to 100 percent under automatic route; only a few sectors require government approval. Recent research work points out that after 2003-04 India experienced high rate of economic growth because of political efforts made by past legacies. It also validate that economic reforms does not occur instantaneous in 1991 but was predicted by the pro-business agenda scrutinized by the then incumbent prime ministers in the 1980s. In any case, the actual turning point of India's economic growth was 1980-81, not the early 1990s. As things standpoint, all leading political party in India supports the agenda of economic reforms. Even if one considers that reform in 1991 was driven by global economic obligations, it was the political process that made this happens. There is a rising sense that India's reform agenda is being motivated by an ethos of success, rather than by the politics of anxiety or compulsion.

### 4. References

1. Shill, Edward. Political development in the new state. Comparative studies in Society and History. 1960; 2(03):265-292.
2. Chatterjee, Partha. Development planning and the Indian state. New Delhi: Oxford university press, 1997.
3. Shill, Edward. Political development in the new state. Comparative studies in Society and History. 1960; 2(03):265-292.
4. Rostow WW, The stages of economic growth. Economy history review. 1959; 12(1):1-16.
5. Replay, John. Development studies and post-development critique. Progress in Development Studies. 2004; 4(4):350-354.
6. Carter, Neil. The Politics of Environment: Ideas, Activism, Policy. Cambridge: Cambridge university press, 2007.
7. Gupta, Akhil. Red Tape: Bureaucracy, Structural Violence, and Poverty in India. New Delhi: Orient Blackswan, 2012.
8. Ludden, David. Developmental Regimes in South Asia: History and Governance Conundrum. Economic and Political weekly. 2005; 40(37):4042-4051.
9. Gupta Akhil, Sivaramakrishnan K. The state in India after liberalisation: Interdisciplinary perspective. New Delhi: Routledge, 2014.
10. Pieterse, Jan Nederveen. Dilemmas of development discourse: The crisis of developmentalism and the

- comparative methods'. *Development and change*. 1991; 22(1):5-29.
11. Pieterse, Jan Nederveen. My paradigm or yours?: Alternative development, post- development, reflexive development. *Development and change*. 1998; 29(2):343-373.
  12. Escobar, Arturo. Anthropology and the development Encounter: The making and marketing of development. *American ethnologist*. 1991; 18(4):658-682.
  13. Radice, Hugo. The developmental state under global neoliberalism. *Third world weekly*. 2008, 1153-1174.
  14. Tornquist, Olle. *Politics of Development: A Critical Introduction*. London: Sage, 1999.