Medha Kudaisya

"The Promise of Partnership": Indian Business, the State, and the Bombay Plan of 1944

This article recounts the story of the Bombay Plan of 1944, a bold vision of economic transformation for postwar India put forth by business leaders. The Plan represented a turning point in the history of Indian business. It marked the institutionalization of a long relationship between business and nationalist leadership as well as a historic moment when business groups, for the first time, unhesitatingly aligned themselves with nationalist aspirations. Underlying the Bombay Plan was the idea of a close partnership between business and the state. Yet, within a decade, this optimism died out as the autarchic features of economic policy became increasingly pronounced in independent India. The story of the Bombay Plan provides an insight into the relations between business and state in the context of development planning in India.

At a recent meeting of the Confederation of Indian Industry (CII), the apex body of corporate India, Prime Minister Manmohan Singh declared: "I have always believed that both government and business have to be partners in writing the story of development of this ancient land of ours. . . . The government is not the prime mover of growth. In a private-sector-led economy—and, I repeat, we are a private-sector-led economy—the driver of growth is indeed private investment. But the private sector needs an environment in which enterprise can flourish. . . . The environment is not what it should be, and that is what the government needs to correct."[1]

Prime Minister Singh's 2013 call for partnership marked a historic moment in the relationship between the Indian state and Indian business. It echoed a growing consensus within mainstream political

[1] See Full text: Manmohan Singh's address at the CII National Conference, 3 Apr. 2013, http://ibnlive.in.com/news/full-text-manmohan-singhs-address-at-the-cii-nationalconference/382874-7.html.

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parties over the status and role of private enterprise in a liberalizing India. It also signified that the relationship between state and business had come full circle since the Bombay Plan of 1944 and the seventy intervening years of dramatic ups and downs.

This essay explores the origins of the idea of partnership between state and business that goes back to the preindependence years. Most coherently, a January 1944 publication—*A Brief Memorandum Outlining a Plan of Economic Development for India*—articulated the idea, popularly known as the "Bombay Plan."[2] Leading individuals from the world of commerce authored the Bombay Plan—a ninety-page document, published in two parts, brought out in the final years of British rule, just as the leadership of the Indian National Congress was beginning to contemplate and envisage what an independent India would mean in economic terms.[3] This historic timing lends extraordinary significance to the Bombay Plan, which, like Manmohan Singh's 2013 speech, spelled out the promise of a close partnership between private enterprise and the emerging Indian state.

The Bombay Plan reflected a turning point in the story of Indian business for three reasons. First, it marked the institutionalization of a long relationship between business and nationalist leadership, a historic moment when business groups, for the first time, unhesitatingly aligned themselves with nationalist aspirations. Though it was the culmination of a long association, with antecedents going back almost four decades, it was the first time that business openly supported the nationalist cause. Since at least the 1890s, though, business groups had developed close personal relationships with a number of nationalist leaders; business at an institutional level had kept largely aloof from nationalist politics. Much of the support of nationalist activity came from the lower echelons of the merchant class. This changed in the years of World War II when big

[2] Sir Purshottamdas Thakurdas, J. R. D. Tata, G. D. Birla, Sir Ardeshir Dalal, Sir Shri Ram, Kasturbhai Lalbhai, A. D. Shroff, and John Mathai, *A Brief Memorandum Outlining a Plan of Economic Development for India* (Bombay, 1944). Part 2 of the Plan was published in December 1944. Sir Purshottamdas Thakurdas, J. R. D. Tata, G. D. Birla, Sir Shri Ram, Kasturbhai Lalbhai, A. D. Shroff, and John Mathai, *A Brief Memorandum Outlining a Plan of Economic Development for India*, Part 2 (Distribution: Role of the State) (Bombay, 1944). The Plan was also published as a Penguin Special in 1945. A former socialist and publicist with Tata Sons, Minoo Masani, wrote a popular illustrated version for children, published by Oxford University Press in 1945; see Minoo Masani, *Picture of a Plan* (Bombay, 1945).

[3] The 1940s saw the publication of a number of plan blueprints, such as the "People's Plan" authored by M. N. Roy, which projected a Leftist vision, and *The Gandhian Plan of Economic Development for India* (Bombay, 1944), put forth by Shriman Narayan Agarwal, which visualized a self-sufficient village economy. On the "People's Plan," see Brajendra Nath Banerjee, Govardhan Dhanaraj Parikh, V. M. Tarkunde, *People's Plan for Economic Development of India*, Indian Federation of Labour, Postwar Reconstruction Committee (Delhi, 1944). For an understanding of ideas of development being debated in India, see Benjamin Zachariah, *Developing India: An Intellectual and Social History* (Delhi, 2005).

business increasingly grew convinced that industrial development could occur only under a nationalist government and was willing to give up the cautious attitude it had pursued until then. During those years, the dynamics changed between business and the Congress, then the dominant nationalist party. At a personal level, there was a deepening of relations between business leaders and a range of nationalist leaders; at an institutional level, business lobbies were more amenable to aligning with the nationalists; and, in terms of responses to colonial policies, business lobbies were openly critical of the colonial state and desirous of a nationalist regime. Thus, the central premise of the Bombay Plan was that a national government would undertake the task of economic development in which business would be an equal partner.

Second, the Bombay Plan celebrated a moment of great optimism and confidence among businesspersons about the economic future of the country and the role that private enterprise would play. In the 1940s, industry in India was experiencing unparalleled prosperity: Exports were flourishing, the capital market was booming, there were signs that sections of both urban and rural populations were prospering, and business leaders were confident that India would emerge economically strengthened after the war. Hope came from the spectacular transformation of India's debt position and the rapidly accumulating sterling balance that could potentially further fuel industrialization.

Third, the Bombay Plan marked an implicit acceptance of the impending Partition of the country. Business supported the idea of division, with the Plan envisaging national economic unity, with a central government constituted on a federal basis, exercising jurisdiction over economic matters across the entire country. The Plan advanced the business point of view on the Partition by asserting that a divided India was preferable to a united India with a weak center, as the Muslim League had demanded. With this, it implicitly supported the division of the country into India and what would become Pakistan.

Imbued with confidence and hope, business leaders and economists put forth their *Plan of Economic Development for India*. The document declared their commitment to an independent nation, expressed their optimism about the economic future, and indicated a preference for a divided India, rejecting the conditions put forth by the Muslim League. It represented a bold vision of economic transformation, setting ambitious targets of doubling the per capita national income within fifteen years (over three Five-Year Plans) by a 130 percent rise in agricultural output, a 500 percent increase in industry, and a 200 percent increase in services.[4]

[4] There has not been much work on the Bombay Plan; Amal Sanyal's main concern in "The Curious Case of the Bombay Plan" is the sectoral outlay of the Plan, which is compared to the

However, within a decade of the publication of the Bombay Plan, the optimism linked with a partnership had died out; the authors fell out with the Nehruvian state's ideas of economic development, business lobbies were sidelined, and the Bombay Planners were ignored even while the state embarked upon its own Five-Year Plans. This essay recounts this story by looking at the making of the Bombay Plan in the lead-up to decolonization. Further, it analyzes some of the essential features of the Plan and considers contemporary responses and criticisms that were articulated. Finally, it reflects upon the aftermath and legacy of the Bombay Plan.

The Authors of the Plan

The authors of the Bombay Plan were a veritable who's who of undivided India's industrial and financial worlds. The group comprised five businessmen, two economists (one of whom was also a stockbroker), and one former civil servant admired for his grasp of financial issues. The first signatory, Sir Purshottamdas Thakurdas, was the most senior and perhaps the most prominent. Often called the "doyen of the business community" and "King Cotton," the sixty-three-year-old Thakurdas had, over his forty years in commercial life, built a reputation of "robust commonsense" and "courageous thinking and speaking."[5] From early in his career, he had held important positions in numerous commercial bodies in western India, such as the Bombay Indian Merchants' Chamber and Bureau (later the Indian Merchants' Chamber), the largest body of cotton traders in western India, as well as the East India Cotton Association and the Indian Currency League. By the 1920s, he emerged as a leading figure in the Indian business community in Bombay and helped articulate a comprehensive critique of British currency policies vis-à-vis India.[6] In 1925, he entered the Central Legislative Assembly

first three Five-Year Plans of independent India's Planning Commission. "The Curious Case of the Bombay Plan," *Contemporary Issues and Ideas in Social Sciences* (June 2010), available at http://nzsac.files.wordpress.com/2012/05/bombayplanfornzsac.pdf. Vivek Chibber also briefly looks at the Plan in *Locked in Place: State-Building and Late Industrialization in India* (Princeton, 2003). Chibber views the Plan as a maneuver by capitalists in the worrisome context of the Quit India movement and sees it as an attempt to forestall socialism. David Lockwood argues that the Plan should be seen as an attempt at a "bourgeois revolution"; David Lockwood, "Was the Bombay Plan a Capitalist Plot?" *Studies in History* 28, no. 1 (2012): 99–116. Chibber and Lockwood tend to look at business-Congress relations in somewhat simplistic terms, leaving out the complexity that marked them. Further, business leadership was realistic enough to understand the limits of their influence.

[5] For details on Thakurdas's career, see S. P. Sen, ed., *Dictionary of National Biography,* vol. 4 (Calcutta, 1974), 339–40. For a biography of Thakurdas, see Francis R. Moraes, *Sir Purshotamdas Thakurdas* (Bombay, 1957).

[6] Indian business interests argued for a full gold standard with circulating gold and opposed the raising of the rupee-sterling ratio to 1:16, which they claimed would amount to a 12.5 percent bounty for foreign imports at the expense of the Indian producer. On these

where he represented the Indian Merchants' Chamber until 1930.[7] His tenure coincided with those of two fellow authors of the Plan: Ghanshyamdas Birla and Kasturbhai Lalbhai. In 1927, along with Birla, Thakurdas played a leading role in the formation of the Federation of Indian Chambers of Commerce and Industry (FICCI), the first apex association that assembled Indian commercial organizations under one umbrella.[8] Between 1930 and 1932, he was delegated to the Second and Third Round Table Conferences in London and served on the Joint Parliamentary Committee for drafting India's Constitution. In terms of his personal business interests, Thakurdas sat on the boards of at least seventy companies in the 1940s, according to his biographer, including many in the House of Tata, without having a controlling interest in any.

The second author, Jehangir Ratanji Dadabhoy (better known as J. R. D.) Tata, was then thirty-eight years old, the youngest in the group. Grandson of Dadabhai Tata and relative of the founder of the firm, Jamsetji Nusserwanhji Tata (1839–1904), J. R. D. Tata had just four years earlier assumed chairmanship of the House of Tata, India's foremost business enterprise at the time, comprising fourteen companies with combined sales of 2.8 billion rupees.[9] J. R. D. Tata began his career at Tata Steel in the 1920s and, after his father's demise, inherited the position of permanent director of Tata Sons. His own passion lay in aviation and, from 1929 on, he ceaselessly lobbied the government to allow the Tatas to enter the sector. In 1932, Tata Aviation started. In March 1942, Tata Aircraft was floated to make airplanes.[10]

The political strategist among the eight men was Ghanshyamdas Birla (henceforth Birla) who belonged to the Maheshwari subcaste of the Marwari trading community. After making windfall profits during World War I from hedge transactions in raw jute and gunny and speculative operations in silver and jute stocks, the Birla family firm made the transition from old-style trading to modern industry by setting up a jute mill. Birla firms then diversified into cotton textiles, sugar mills,

issues, see A. D. D. Gordon, *Businessmen and Politics: Rising Nationalism and a Modernising Economy in Bombay, 1918–1933* (New Delhi, 1978), 180–84.

7 Thakurdas was instrumental in the founding of the Indian Central Committee in 1921, was an active member of the East India Cotton Association for over thirty-five years, and was called its "reigning Mughul." He had also held executive positions in the Bombay cotton exchange, including that of president. Since early in his career Thakurdas enjoyed government patronage. His first official honor was the Kasier-I-Hind medal (MBE). Other honors followed soon after—Companion of the Order of the Indian Empire (CIE) in 1919, appointment as Sheriff of Bombay came a year later, and in 1923, Thakurdas was knighted.

8 Thakurdas was founding president of FICCI, 1927–28.

9 Dwijendra Tripathi, "Towards Maturity: Indian Business in the Inter-War Years," in *The Oxford India Anthology of Business History*, ed. Medha Kudaisya (New Delhi, 2011), 303.

10 R. M. Lala, *Beyond the Last Blue Mountain: A Life of J. R. D. Tata* (New Delhi, 1992); and R. M. Lala, *The Joy of Achievement: Conversations with J. R. D. Tata* (New Delhi, 1995).

publishing, paper, and insurance. From the 1920s onward, Birla increasingly acted as spokesperson of Indian big business. A proponent of solidarity among Indian businessmen, he helped establish the Indian Chamber of Commerce in Calcutta. Along with Thakurdas, he also helped form FICCI in 1927.[11] In industrial terms, the Birla family firm ranked second to the Tatas.

Among the eight, forty-three-year-old Ardeshir Darabshaw Shroff was a highly articulate financial maverick. Trained at the London School of Economics (LSE), he was financial advisor to Tata Sons and also a director in the firm. He had earlier worked in brokerage firms while also teaching banking at Sydenham College of Commerce and Economics. For most of the 1920s, his main concern—much like other commercial figures in Bombay such as Thakurdas—was the government's financial administration.[12] Shroff thus had impeccable credentials to help with the proposed Plan. In his fifteen years as a broker, he had honed his skills of analyzing market trends and earned the reputation of being a financial wizard, making him the best person at the time to analyze war finances, so critical in formulating plans for India's economic future. Further, he had a close rapport with important financial experts, and official circles took his views seriously. At one time, he was considered for the post of Deputy Governor of the Reserve Bank of India.[13]

The other two businesspersons in the group were Kasturbhai Lalbhai and Sir Shri Ram. In the western Indian city of Ahmedabad (the "Manchester of India," second only to Bombay in the textile industry), Kasturbhai's Jain merchant family had a hereditary claim to the title of *Nagarseth*, as principal man or leader among Hindu and Jains of the city. The Lalbhai family business was in cotton; by 1940, Kasturbhai was one of the biggest textile magnates in India with seven mills. He also had other interests, such as chemicals. Kasturbhai was an active member of several business organizations in western India, such as the Indian Currency League, the Ahmedabad Mill Owners' Association (where he held the position of vice president from 1923 to 1936), and, of course, FICCI (of which he had been president in 1934).[14] In the

[11] FICCI was the main forum in the struggle by Indian big business against the European domination of the Indian economy. For over three decades between 1927 and the 1950s, Birla, Thakurdas, and Kasturbhai were powerful figures within FICCI.

[12] Gordon, *Businessmen and Politics,* esp. ch. 5, 155–99.

[13] Shroff was well known to Sir Osborne Smith, the first governor of the Reserve Bank who wanted him to be Deputy Governor. However, the suggestion was turned down by the colonial government because he was seen as critical of the colonial government and considered a "Congress economist." On Shroff, see Sucheta Dalal, *A. D. Shroff: Titan of Finance and Free Enterprise* (New Delhi, 2000).

[14] Kasturbhai had also been a member of the founding Executive Committee of FICCI.

1920s, he represented the Ahmedabad Mill Owners' Association in the Central Legislative Assembly. In the 1930s and 1940s, he held numerous official positions such as advisor to the government for Indo-British Trade Negotiations. He had also been a director of the Reserve Bank since 1937.[15]

Sir Shri Ram (1884–1962), whose firm Delhi Cloth Mills (DCM) came into the limelight after World War I, represented the North Indian business view. The firm made much of its profit selling tents to the government, which needed them for war purposes as well as for civil servants whose offices had recently shifted from Calcutta to the new capital, New Delhi. In personal terms, the war profits enabled Shri Ram and his father, both secretaries of the firm, to gain control over the company by increasing their holdings to 16 percent. However, World War II turned DCM into a household name, catapulting a provincial firm into the national arena.[16]

Another member of the group was Dr. John Mathai (1886–1959), an economist trained at Balliol College, Oxford and the LSE, where he obtained a doctorate. He had been a member of the Indian Tariff Board in 1932 and later became its president. Between 1935 and 1940, he was Director General of Commercial Intelligence and Statistics. On retiring from government service in 1940, he joined Tata Sons as director with the specific charge of Tata Chemicals.

The last author was Sir Ardeshir Rustomji Dalal, described as "extremely well-groomed" and cast in the "image of an average American's idea of big business."[17] A member of the Indian Civil Service, he had been secretary to the Government of Bombay in the finance department and secretary to the Government of India in education, health, and land. From 1928, he served as the Municipal Commissioner of Bombay, gaining the reputation of being one of the ablest commissioners and was well regarded for his grasp of financial affairs. In 1939, the government knighted him. After retiring from government service in 1931, he joined the Tatas as resident director of the Tata Iron and Steel Company. During the war, in 1941, he was appointed as liaison officer for the Ministry of Supplies.

Together, the eight men wielded enormous clout in India's commercial circles. For more than two decades, they had held important

[15] For a study of Kasturbhai Lalbhai, see Dwijendra Tripathi, *The Dynamics of a Tradition: Kasturbhai Lalbhai and His Entrepreneurship* (Delhi, 1981).

[16] For a biography of Sir Shri Ram, see Khushwant Singh and Arun Joshi, *Shri Ram: A Biography* (London, 1968).

[17] Sir Ardeshir Rustomji Dalal was signatory only to Part 1 of the Plan, since he was co-opted by the Government to be its Member-in-Charge of Planning before the publication of Part 2 of the Plan in December 1944.

positions in commercial organizations across India; five of them had been key players in FICCI. Besides their commercial clout, the eight also enjoyed considerable access to and influence in political circles. In terms of political inclinations, the Bombay businessmen—Thakurdas, Shroff, and Tata—were nationalists with liberal leanings. They were close to the Constitutionalist party of the Swarajists, led by Motilal Nehru. Tata shared a family friendship with the Nehrus going back to the 1920s. Thakurdas and Shroff had also been active members of the Western India National Liberal Association through the late 1920s and 1930s. As diehard Constitutionalists, they doubted the wisdom of the agitational politics of the Congress and, through the 1920s and 1930s, often opposed the Indian National Congress, led by Mohandas K. Gandhi (often called Mahatma, an honorific), in its attempts to confront the Raj.[18] However, by 1930, their disillusionment with British financial policy led them to grow more sympathetic toward Gandhi.[19] However, much like their fellow colleagues from Bombay, they were deeply skeptical of Nehru's "socialism."[20] In 1936, Shroff was responsible for galvanizing twenty-one of the most influential people in

[18] For instance, at the time of Gandhi's first noncooperation movement of 1920, Thakurdas was anxious that noncooperation be eradicated "root and branch" and the people be brought to "sanity and sober common sense." Thakurdas to T. Holland, 16 Oct. 1920 and Ardeshir Dalal to Thakurdas, 19 Oct. 1920, Purshottamdas Thakurdas Papers, 24/II, Nehru Memorial Museum and Library, New Delhi. Shroff was perhaps the most vocal among the Bombay businesspersons. In 1931, he publicly challenged the Congress to bring out a more progressive scheme than that of the Liberals. In Shroff's view, political issues took up the much-needed attention that should have been given to financial matters. "Letters to the editor," *Times of India,* 15 July 1930.

[19] Criticizing financial policy, Shroff wrote: "No wonder then if level-headed people are losing faith in the so-called constitutional method of agitation. Government succeeded in forcing the 18d ratio on India in the teeth of the country's protests and warning. Government still persist[s] in maintaining that ratio by measures which have crippled our trade and industry." "Letters to the editor," *Times of India,* 15 July 1930. Like many other of the city's business figures, Shroff defended Gandhi's eleven points presented in 1930, in which the Mahatma had included many of the demands of Bombay industrialists, such as a reduction of the ratio to 16d, a protective tariff against foreign imports, and passage of the coastal reservations bill. *Times of India*, 25 Oct. 1930.

[20] Nehru's election as president to the Indian National Congress in 1936 worried the business community. Shroff, as vice president of the Indian Merchants Chamber, condemned Nehru's presidential address and its espousal of "socialism" as "more likely to injure the best interest of this country" and asserted that it would "result in checking industrial enterprise" and encouraging flight of capital from India. He called upon the city's commercial community to "make clear to the Congress that it could not utter such utterances." *Times of India*, 29 Apr. 1936. Thereafter, Nehru, on a visit to the city, attacked the attitude of the business community, declaring that "the bogey of socialism was only a veil" under which some businessmen "found an opportunity to join hands with the opponents of the Congress." Claude Markovits, *Indian Business and Nationalist Politics, 1931–39: The Indigenous Capitalist Class and the Rise of the Congress Party* (Cambridge, U.K., 2002) and *Times of India*, 30 Apr. 1936 and 20 May 1936.

Bombay's commercial community, including Thakurdas, to compile a manifesto critiquing Nehru's socialist views.[21]

By contrast, Birla and Kasturbhai had developed close personal connections with an array of nationalist political figures. Through the 1910s and 1920s, Birla and his brothers had been strong financial supporters of Hindu nationalist leaders, such as Madan Mohan Malaviya and Lala Lajpat Rai. Birla also forged a close personal relationship with Gandhi and became an important financier of causes that the Mahatma espoused. By the 1930s, he was especially close to Gandhi and Vallabhbhai Patel and to what may be regarded as the right-wing group within the Congress.[22] Kasturbhai, like his fellow Ahmedabad industrialists, had also struck a close personal rapport with Gandhi, who had taken up residence in the city on his return to India from South Africa in 1915. Kasturbhai was also close to other important political leaders, especially those from Gujarat, such as Vallabhbhai Patel.

The Congress leadership often called upon many of the business leaders for advice on economic matters. Thus Birla advised Patel on issues such as currency, the central budget, and the sterling question. Gandhi too sought Shroff for counsel on financial matters; Thakurdas and Shroff had been members of the Congress's National Planning Committee since 1938.[23] Thus, in terms of political friendships, they could claim personal relations with leaders across the spectrum, although they may not necessarily have agreed with or supported their political views. Further, almost all of them shared cordial relations with British officials at the very top. Three were sitting directors of the Reserve Bank of India. Three held knighthoods, while one had refused the honor. Among the eight, at least six shared working relationships of over two decades, when many of them came together over the currency issue. They had, through these long years, often differed in their opinions and political views yet found a way of putting aside their differences and working together on what they saw as the need of the hour.

[21] Other prominent businesspersons who signed the Manifesto were Walchand Hirachand, Sir N. Saklatvala, Sir Cowasji Jehangir, R. Chinoy, and Chunilal B. Mehta. The manifesto declared that they had "no hesitation in declaring that we are unequivocally opposed to ideas of this kind." *Times of India*, 20 May 1936.

[22] Not unexpectedly, Birla had lukewarm relations with Jawaharlal Nehru, whose economic philosophy emphasized a predominant role for the state in economic life. Yet, Birla was astute enough not to waver in his support of the Congress Party as he was convinced that centrist parties could best serve the interests of private enterprise.

[23] See Medha Kudaisya, *The Life and Times of G. D. Birla* (New Delhi, 2003), ch. 6. Journalist and astute political observer Durga Das noted: "In fact, the comments of the Federation on the Central Budget were awaited by the Congress and other legislators to decide what line to take in the general discussion on it." Durga Das, *India from Curzon to Nehru and After* (London, 1969), 316–17.

The eight men met on December 11, 1942 at Bombay House, the Tatas' headquarters.[24] Mathai was asked to prepare a preliminary note to set forth the "terms of reference and the aims and objects of the enquiry."[25] The Tatas offered research and statistical support for this. Mathai called upon Dr. Palamadai S. Lokanathan, the LSE-trained economist, who had just been appointed editor of the forthcoming Birla-owned weekly, *The Eastern Economist*.[26] It was agreed that the Plan would embrace the whole of India; the vision was of a federal India, with residual powers in the provinces, an India free to pursue its economic policies domestically and internationally.

The confidence of the Bombay planners to announce publicly their economic vision of India arose from the new buoyancy with which the business community at large was imbued during the war years. This confidence stemmed from a change in their relations with the nationalist leadership and from the strengthened position of Indian industry during the war.

Business and the Tilt towards Nationalism

The war years marked a turning point in the interface of business with nationalist politics. Business groups had formed close alliances with nationalist leaders since the turn of the twentieth century; for instance, from its inception in 1905, the Indian Industrial Congress met in its annual sessions alongside the Indian National Congress; a number of western Indian business houses, including the Tatas', supported early nationalist endeavors such as Gopal Krishna Gokhale's Servants of India Society. In the 1910s and the 1920s, businesspersons forged close relations with leaders such as Lala Lajpat Rai and Madan Mohan Malaviya, especially close to the Marwaris; in the 1920s, the Swarajists led by Motilal Nehru and Chittaranjan (C. R.) Das had close links with Bombay industrialists and Ahmedabad mill owners. From the postwar years, Gandhi was close to many businesspersons, such as Jamnalal Bajaj, Ambalal Sarabhai, Mangaldas Girdhardas, Ardeshir Godrej, and from among the Bombay Planners, Birla, Kasturbhai, and Thakurdas; further, a range of right-wing Congress leaders such as Vallabhbhai Patel, Bhulabhai Desai, Rajendra Prasad, and Chakravarti

[24] The origins of the Bombay Plan lay in a meeting in October 1942 between Birla and Tata in Delhi to discuss "post-war conditions" and to contemplate how prominent businessmen could form a "small committee of industrialists aided by eminent economists, for the purpose of investigating and considering all aspects of the question and is possible of formulating an agreed programme." Tata then roped in Kasturbhai, Thakurdas, and Shri Ram.

[25] J. R. D. Tata to Birla, 21 Oct. 1942, Birla Papers, File Important Series II, T-I Tata, J. R. D., Birla family archives (hereafter Birla Papers, Series II).

[26] Bombay-based economist V. K. R. V. Rao was also often called upon for advice.

Rajagopalachari were close to many business figures in the provinces. Through these decades, businesspersons supported a host of causes patronized by nationalist leaders, including Hindu causes such as cow protection, propagation of Hindi, and support of pilgrim centers; educational initiatives such as Banaras Hindu University, Aligarh Muslim University, and the university at Shantineketan; and Gandhi's "constructive programmes" of temple entry and antiuntouchability. They also financed a range of other fundraising initiatives rather liberally, such as the Kasturba Memorial Fund in the 1940s. Nationalist politicians, on their part, championed causes dear to Indian business such as protective tariffs, government currency policy, imperial preference, and in the 1940s, issues relating to promotion of Indian interests during the war.

Yet, these had remained at the level of either personal rapport or piecemeal, issue-based support. Business at an institutional level had kept aloof from nationalist politics. Given the heterogeneity of Indian business, responses to nationalist concerns were largely driven by regional differences, which did not always allow a united stand. Thus, the Bombay industrialists often had a very different view from the Ahmedabad and Calcutta-based groups and the dominant groups within FICCI.[27] Differences also stemmed from the caste origins of business; Hindu bania (merchant and banker) communities, especially the Jain and Vaishnava banias, were closer to Gandhi, one of their own, and developed quasi-filial and religious relations with him, revering him as a guru.[28] Further, through the 1920s and 1930s, there was often little consensus within most business lobbies, including traders, financiers, and industrialists with very diverse interests. Given this lack of cohesion, business lobbies and institutions rarely came together to assume a position on nationalist issues and did not play a part in the major nationalist campaigns of the 1920s and 1930s.[29] Further, big business maintained a cautious and hesitant approach and was unwilling to risk its own interests.

In the 1940s, old relationships were institutionalized as business lobbies supported nationalist causes and were openly critical of the state and desirous of a nationalist regime. Much of this had to do with

[27] On the internal differences within FICCI before 1947, see Stanley A. Kochanek, *Business and Politics in India* (Berkeley, 1974), 160–70.

[28] Donald A. Low, "The Forgotten Bania Merchant Communities and the Indian National Congress," *The Indian National Congress: Centenary Hindsights*, ed. Donald A. Low (Oxford, 1988).

[29] For an understanding of the politics of Bombay business during the 1920s, see Gordon, *Businessmen and Politics*; for a study of business and Congress relations in the 1930s, see Markovits, *Indian Business and Nationalist Politics*; and Dwijendra Tripathi, ed., *Business and Politics in India: A Historical Perspective* (Delhi, 1991).

business's expectations of and its disillusionments with the colonial regime during the war years.

Hopes and Disillusionments during the War Years

Even though the worldwide Depression of the 1930s did not ravage Asia as severely as it did the developed world, the onset of war brought with it expectations of prosperity to business.[30] Business recognized impending war as a time when its "industrial expectations coincided with Britain's economic needs." Further, the war also presented the prospect to "set India on her feet as a powerful, self-sufficient industrial unit."[31] "High hopes" were raised, mingled with "intense anxiety," as business waited for India to mobilize its economic resources for the war effort.[32]

Seven months after the onset of the war, speakers at the March 1940 FICCI annual session declared support for the war effort and expressed excitement about the state of industry. Acknowledging the "strong and direct stimulus to the development of industries in the country" that had occurred, FICCI president C. S. Ratnasabapathi Mudaliar urged the government that "war should be seen as an opportunity for furthering industrial expansion" and hoped that the new industries would receive "adequate protection" and "not be left high and dry" after the war.[33] "What suits the war ought to suit the peace as well and nothing less than an effort to set India on her feet as a powerful self-sufficient industrial unit would be regarded as satisfactory," he asserted.[34] The high note on which the session convened is apparent from the resolutions it put forth: It called upon the government to "protect industries which are found vital in themselves or as auxiliary to other industries," to "undertake immediately *ad hoc* enquiries for granting protection to minor industries," to "preserve India's exports and find new ones in place of those lost in the enemy territory," and to "secure a fair share of the additional demand created by the war" for Indian industry.[35] Such enthusiasm resounded across business lobbies. The president of the Indian Chamber of Commerce viewed the war period as one "full of potentialities" and appealed to the colonial state to approach it "in

[30] Dietmar Rothermund, *India in the Great Depression, 1929–1936* (Delhi, 1992); and Tirthankar Roy, *Economic History of India, 1857–1947* (Delhi, 2011).

[31] Kudaisya, *Life and Times of G. D. Birla,* ch. 8.

[32] See Palamadai S. Lokanathan, *India's Post-War Reconstruction and Its International Aspects* (New Delhi, 1946).

[33] Hiranyappa Venkatsubbiah, *Enterprise and Economic Change: Fifty Years of FICCI* (Delhi, 1977), 43–44.

[34] *Indian Express* (Madras), 5 June 1942 in Birla Papers, Series II, File G-11.

[35] C. S. Ratnasabapathi Mudaliar's speech at the annual meeting of FICCI, 1940.

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the broad spirit of laying the foundations of future economic progress." The Chambers' wish list encompassed a comprehensive plan for industrial reconstruction, almost expecting an "industrial renaissance."[36] In a similar tone, the Indian Merchants' Chamber expressed pleasure that industry was gaining immeasurably from the war and hoped for further encouragement by the state. The Southern Indian Chamber of Commerce anticipated a strengthening of the "economic structure" of the country.[37]

By 1943, however, some of this enthusiasm had waned, and relations between business and the state were increasingly strained. This was because a number of measures introduced by the colonial government were perceived by business as impediments to industrial progress. It was also due to a fundamentally different understanding of the nature of development that could occur during the war.

The first bone of contention was the Excess Profits Tax (EPT). Introduced in January 1940, it imposed a 50 percent tax on excess profits of companies. Business leaders condemned it for "checking the flow of new capital badly needed for financing" industries during the war and thus frustrating the much-needed expansion of trade and industry.[38] The tax led to an uproar from business lobbies, which came together across India to protest the measure—the Southern Indian Chamber of Commerce criticized it as "uncalled for and harmful," the Maharashtra Chamber of Commerce protested vehemently to the central government, the Memon Chamber of Commerce passed a strongly worded resolution against the tax, the Mill-Owners' Association of Bombay thought it was premature to introduce such a tax, and the Native Share and Stock Brokers' Association warned the government that it was "disastrous from the point of view of investors and that industrial enterprises will be definitely retarded."[39] At a public meeting in Bombay, held under the auspices of the Indian Merchants' Chamber, no less than fifty-one chambers met to denounce the tax.[40] Quite without precedent, trade bodies called a strike and received support from numerous commercial

[36] *Times of India*, 1 Mar. 1940.

[37] *Times of India*, 26 Jan. 1940 and 10 Feb. 1940. Even the film industry saw it as an opportune time to expand, and its South Indian Film Chamber of Commerce hoped to enter new markets, such as Ceylon, Burma, Malaya, and South Africa, which wanted to substitute dollar imports with sterling commodities in which Indian films ranked. *Times of India*, 27 Sept. 1940.

[38] "Report Submitted to the Committee of the Federation by the E.P.T. Bill Sub-Committee," FICCI, *Correspondence and Relevant Documents Relating to Important Questions Dealt with by the Federation during the Year 1940–41* (New Delhi, 1941).

[39] *Times of India*, 1 Feb. 1940 and 6 Feb. 1940.

[40] FICCI, *Correspondence and Relevant Documents Relating to Important Questions Dealt with by the Federation during the Year 1940–41*.

bodies.[41] FICCI, for its part, organized public meetings in Calcutta, Bombay, and Madras. It also attempted to meet the Viceroy and asked to give evidence before the Select Committee looking into the tax but was turned down. The impressive galvanization of business over the EPT prompted Thakurdas to warn the Viceroy that it was "bound to alienate the commercial community of India, particularly the Indian section of it;" he urged the government to reconsider and possibly postpone the imposition of the tax.[42]

The EPT was just the first issue of dispute that alienated businesspersons from the colonial state during the war years. Much contention arose from missions that advised the government on ways to increase production during the war. Among those were the mission headed by Sir Alexander Roger from the British Ministry of Supply in 1940, the Eastern Supply Group Conference of 1941, the American Technical Mission led by Dr. Henry Grady in 1942, and the mission sent by the Government of India to the United States under Theodore Gregory and David Meek. Business leaders, especially from the FICCI, complained that they were often not consulted and indeed excluded from the decision-making process. They complained that the missions favored non-Indian interests and that they resulted in "foreign firms establishing plants in India," which could "persist into the post-war period."[43]

Among other causes of discontent were the activities of the United Kingdom Commercial Corporation (UKCC), which was charged with procuring supplies for various theaters of the war. Business organizations resented the UKCC intensely and accused it of enjoying favorable privileges, such as freight concessions, export priorities, special railway and shipping facilities, a monopolistic position in trade with the Middle East, and secret and "highly profitable transactions." The Indian Chamber of Commerce accused it of standing between "Indian exporters and suppliers of the United Kingdom and the Middle East."[44] Other commercial bodies expressed similar feelings. B. D. Amin of the Association of Indian Industries called it yet another "glaring instance" of British dominance of the economic field. G. L. Mehta, president of FICCI, went so far as to claim: "If we had a Government national in outlook and policy, they would not have countenanced

[41] These included the Bombay Stock Exchange, Indian Stock Exchange (Bombay), Bombay Yarn Exchange, Bombay Paint Merchants' Association, Sugar Merchants' Society, Silk Merchants' Association, and Madras Stock Exchange. *Times of India,* 6 Feb. 1940.

[42] *Times of India*, 1 Feb. 1940. For J. R. D. Tata's view, see *Times of India*, 2 Feb. 1940.

[43] *Times of India*, 13 Dec. 1940. For FICCI's reaction, see FICCI, *Proceedings of the 15th Annual Session, 7–8 March 1942* (New Delhi, 1942).

[44] *Times of India*, 30 Mar. 1943, 28 May 1943, and 10 May 1956.

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such intrusion into India, of an extraneous body, and such invasion of the rights of Indian nationals at home and abroad."[45]

Several such issues alienated business: the fear of a scorched earth policy, the uncertain fate of Indian commercial interests in Burma and Malaya under Japanese occupation, the disillusionment about the state's lack of encouragement for new consumer goods industries on the grounds of their not qualifying as war goods, the resentment of the state for its alleged "failure to promote basic and essential industries" as part of the war effort, the resistance to controls introduced in 1943, and the disappointment over setbacks to plans for automobile plants and expansion of shipping in individual business houses. The business world was also upset at the government's refusal to facilitate import of machinery from overseas, alleging that at least "until 1942 it should have been possible for America to send out more machinery and machine parts for the development of industry in India." At the very least, business leaders wanted a less bureaucratic approach, more efficiency in the Supply Board responsible for organizing wartime supplies, an increased role in wartime economic planning, the viewing of defense industries from a strategic and basic industrialization angle, incentives for increased production, capital for industrial purposes, and protection for nascent industries.[46] Overall, progress on the industrial front appeared too slow, and businesspersons blamed the "uncertainties of the fiscal and financial policies of the Government" for hindering industrial enterprises from taking full advantage of the stimulant ushered in by the war.[47] The view was that the industrial achievements, "though considerable," were nonetheless "poor in relation to needs and opportunities."[48]

The last straw for business came in July 1942 with the appointment of Sir Edward Benthall, a British businessman in Calcutta, head of Bird & Co., and one of the most influential spokespersons of European business, as Member of War Transport in the Viceroy's Executive Council. Benthall's appointment confirmed the suspicion that the colonial state was bent upon favoring British commercial interests over Indian interests in the crucial war years. Condemning the appointment, J. C. Setalvad, president of the Indian Chamber of Commerce, said that the expansion of the Viceroy's Executive Council was no less than

[45] *Capital,* 1 Apr. 1943. FICCI presented a twelve-page memorandum to the Department of Commerce of the Government of India critiquing the body. *Capital,* 15 Oct. 1942.

[46] B. M. Birla's speech at the Indian Chamber of Commerce, *Capital*, 29 Mar. 1945.

[47] G. L. Mehta, president of the Indian Chamber of Commerce, Calcutta, said at its Annual Meeting held in February 1940 that industry was unable to take advantage of the opportunities of the war because of the lack of clarity in Government policies. *Times of India*, 1 Mar. 1940.

[48] Lokanathan, *India's Post-War Reconstruction*, 20.

a "cruel joke" and asserted that Benthall "represent[ed] a community which ha[d] interests diametrically opposed to the interests of Indian trade, commerce and industries."[49] FICCI raised serious objections to the appointment of a member of the British commercial community as a "retrograde step."[50]

What underpinned this building disappointment was a fundamental difference between what Indian business had expected in terms of the war effort and its understanding of the nature of industrial development during the war. The expectations of the business community from the war effort were very different from the state's understanding of economic mobilization. Big business expected the development of basic industry in India, while the government appeared to be interested mainly in producing goods for the war. FICCI wanted "more specific and definite lines of policy to be laid down in respect of all industries whether started to serve the purpose of war or to meet consumer needs, resulting from diminution of imports." As G. L. Mehta put it: "You cannot have a hard and fast line between industrial development during the present (war) period and the post-war period because after all, you will have to provide for the safeguarding of such industries as have grown up now, from the depression as well as competition in the post-war period."[51] Businesspersons complained that Indian interests had been "sacrificed or relegated to second place." They demanded "complete freedom to shape tariff and trade policies," asserting that "Indian industries need not be apologetic in asking for protection."[52] In a vociferous and spirited manner, they claimed that they were demanding only what was rightfully theirs; as FICCI's president put it: "Indians do not desire to start shipbuilding on the Clyde, steel works in Sheffield, and textile mills in Lancashire. . . . All that Indians demand is that they should have the first place in their own country and ordinary control over the natural resources and the vital industry in their own land."[53]

[49] *Times of India*, 6 July 1942. FICCI communicated its dismay to the Executive Council asserting that "the fact that the vital portfolio of War Transport has been placed in charge of a non-official British representative clearly indicates the policy of the Government to continue to exclude Indians from all key Departments." See Press Communiqué, 9 July 1942, and "Copy of Communication No. F. 1698/636, dated 17th July 1942, from the Federation to the Secretary to His Excellency the Viceroy's Executive Council, New Delhi," FICCI, *Correspondence and Relevant Documents Relating to Important Questions Dealt with by the Federation during the Year 1942–43* (New Delhi, 1943).

[50] FICCI, *Proceedings of the 16 Annual Meeting, Delhi, 27–28 March 1943* (New Delhi, 1943).

[51] Venkatsubbiah, *Enterprise and Economic Change*, 45.

[52] Andrew J. Grajdanzev, "India's Economic Position in 1944," *Pacific Affairs* 17 (Dec. 1944): 460–77.

[53] FICCI, Press Note of 25 Dec. 1942; FICCI, *Correspondence and Relevant Documents Relating to Important Questions Dealt with by the Federation during the Year 1942–43.*

Indian businesspersons expressed such views privately, too; to Birla, it appeared that "the Government has simply gone mad in respect of all its policies."[54] Thakurdas felt: "To my mind, the Government have lost their bearing. It will be a good mess in which they land the country absolutely helpless and, to a great extent, without a leader." Businesspersons claimed that "progress in India was not commensurate either with the needs of the war or the potentialities of the country or with the intense anxiety of the business community to utilize all available resources," and they blamed the state's policies.[55]

Institutionalizing Support for the Nationalist Cause

As hopes for an "industrial renaissance" receded, disillusionment with official policies deepened; the widely accepted view was that, through the war, "India's vital economic interests [were] subordinated to those of Britain['s] economic interests," and business chambers were convinced that a "national government is . . . essential not only for war effort but also for safeguarding India's economic and financial interests."[56] An aggressive nationalist tone came to mark meetings of business chambers; for instance, in FICCI's March 1943 session, G. L. Mehta declared:

> The Indian commercial community has come to realize after long and painful experience that without the achievement of full self-government economic advancement of the people is not possible and they will not be severed from their primary obligation as patriotic Indians to assist their countrymen in all their legitimate efforts to achieve political and economic emancipation.[57]

The Indian Merchants' Chamber blatantly affirmed that the ideal of political independence inspired merchants and industrialists all over the country. There could, they said, be no solution to the economic problem without political independence, and they warned the British to harbor no illusions about where the allegiance of merchants lay.[58]

This closing of ranks with the nationalists can be dated to 1942–43. Big business had not looked favorably upon the Congress's resignation

[54] G. D. Birla to Purshottamdas Thakurdas, 4 June 1943, in T-6, Thakurdas Purshottamdas, Sir, Birla Papers, Series II.

[55] Lokanathan, *India's Post-War Reconstruction*, 14.

[56] In a statement issued to the Press on 25 Dec. 1942, FICCI asserted: "India's vital interests in the economic, financial an[d] fiscal spheres have hitherto been subordinated to those of Britain and whenever they have been in conflict, . . . Indian interests have in the past been sacrificed or relegated to a second place." FICCI, *Correspondence and Relevant Documents Relating to Important Questions Dealt with by the Federation during the Year 1942–43*.

[57] Speech of G. L. Mehta, 27 Mar. 1943, FICCI, *Proceedings of the 16th Annual Meeting*.

[58] *Times of India*, 11 Aug. 1944.

from office in 1939; business had achieved a certain level of stability in its relations with the Congress through its term in government.[59] Nor did business welcome the individual civil disobedience launched by Gandhi, followed by his Quit India movement. In the days leading up to the movement, business leaders had attempted to catalyze a reconciliation between the Congress and the government.[60] Those who had access to Gandhi tried hard to talk him out of launching such a movement. Thakurdas spent an hour with him on the morning of August 8, 1942, before the All India Congress Committee formally adopted the Quit India resolution, and met him again in the evening at Birla House, where he was staying, to persuade him to change his mind. Of course, many were disappointed that Gandhi was unmoved. Thakurdas blamed him for landing the country in a "mess." Lamenting the Mahatma's action, he wrote to Birla:

> You further go on and say that what we had built up during the last thirty years has been lost by a stroke of pen. You would be more correct if you said that what Indian Nationalism had built up during the last thirty years has been ruined, at least for the time being. . . . Could there be a more pathetic setback to the efforts of the Congress than this?[61]

Despite their discontent with the Quit India movement, individual businesspersons and chambers of commerce rallied in support of the nationalist cause after the repression unleashed by the government. Already disillusioned, the business community spoke up against the colonial state; FICCI leader G. L. Mehta pointed out: "Whatever ideological sympathies existed among the people at the start of the war had gradually changed into apathy and eventually into ill-concealed hostility, owing to the unimaginative policy of the Government."[62] FICCI then addressed numerous political issues—the repression unleashed by the government, the release of the political leadership, the denial of a meeting between Rajagopalachari and Gandhi in jail, and the mission led by Stafford Cripps to foster reconciliation. The most dramatic and public expression of support by business came when Gandhi launched

[59] On these years, see Markovits, *Indian Business and Nationalist Politics,* ch. 6.

[60] Along with other business leaders, Birla, Thakurdas, and Tata had appealed to the Viceroy: "We are all businessmen and, therefore, need hardly point out that our interest lies in peace, harmony, goodwill and order throughout the country. . . . We submit that the need of the hour is not strong action, but a proper and sympathetic understanding and tactful handling of a grave situation." Letter to the Secretary of the Viceroy, 4 Aug. 1942, from Birla. J. R. D. Tata, Thakurdas, and others in File G-II, Birla Papers, Series II.

[61] Purshottamdas Thakurdas to G. D. Birla, 17 June 1943, T-6, Thakurdas Purshottamdas, Sir, Birla Papers, Series II.

[62] G. L. Mehta, Press Interview, n.d, File G-11, Birla Papers, Series II.

his fast in February 1943 for the release of political prisoners. Not only did business chambers lobby the government to release the political prisoners, but the chambers mobilized two important businesspersons in the Viceroy's Council to support the Congress. Thus, Nalini Ranjan Sarkar, Calcutta businessman and former FICCI president, and Sir Homi Mody, former president of the Bombay Mill Owners' Association, worked within the highest levels to seek Gandhi's release. As the Mahatma's fast progressed and the government remained unmoved, both Sarkar and Mody resigned.[63] There was no turning back after this, as business lobbies willingly linked their fortunes with the nationalist cause.

A Moment of Optimism

Further, it was heartening that business had emerged in a strengthened position during the war years. Indian industry had gained enormously, and there was also much optimism in their long-term outlook for the national economy. In many ways, the war years were an unprecedented moment of optimism in the history of Indian enterprise.

It is widely acknowledged that the war years had been a "godsend" for Indian business.[64] With war came the expected regime of import substitution, and buyers soon flooded industrialists with orders, increasingly so after 1942 when conflict with Japan increased. Indian industry was more diversified and in a stronger position than it had been in 1914 and could reap the profits that war brought. Of course, there were disruptions, especially during Gandhi's Quit India movement, when widespread strikes and lockouts interrupted production. Sporadic communal disturbances also unsettled production. Yet, overall, the war years proved to be a period of unparalleled prosperity.

With India's emergence as a supply base for the Allies on the eastern front, almost every sector of industry benefited, especially those directly connected with war needs such as textiles, steel, sugar, jute, leather, cement, and coal.[65] With imports reduced to almost zero and foreign

[63] Lord Linlithgow, the Viceroy, blamed the "most determined efforts" of Birla and Thakurdas for the businessmen's resignations. Linlithgow to Amery, 11 Feb. 1943, in Nicholas Manserg, ed., *Transfer of Power: Constitutional Relations between Britain and India, 1942–1947*, vol. 3 (London, 1970–83), Document 453.

[64] Dwijendra Tripathi, *The Oxford History of Indian Business* (Delhi, 2004), 226. Also see Johannes H. Voight, *India in the Second World War* (New Delhi, 1987).

[65] The prosperity of the war years can be gauged from the fact that within the first year supplies for war purposes were estimated as 280,000 tons of timber at the cost of 27.3 million rupees, cotton canvas and cotton-jute canvas valued at 27 million rupees, 12 million garments at 70 million rupees, tents valued at 50 million rupees, 120 million rounds of small ammunition, 400,000 filled shells and naval craft at the cost of 7.4 million rupees. *Capital*, 19 Dec. 1940.

markets craving Indian cotton after Japanese supplies were cut off, India's cotton textiles found a remarkable market. To this was added the demand by the military, which took an estimated 300 million yards in 1939–40 and 1.2 billion yards in 1942–43. Through the 1930s, the textile industry had suffered, and with the coming of war "depression gave way to sentimental optimism," of reviving the textile industry's glories of the past.[66] Given the increased demand and the noncomparable increase in production, the price index for cotton manufacturers rose five times from prewar levels to 414 in December 1942 and 513 by June 1943 (with August 1939 as 100), until the government was eventually forced to intervene with the Cotton and Yarn Control Order of 1943.

In iron and steel, there was a surge in annual output from 750,000 tons in 1939 to 1,125,000 tons in 1943–44. Between 1939 and 1942, annual output increased by at least 50 percent and by 1943 had doubled from the prewar level.[67] New types of steel were manufactured, and a whole range of auxiliary industries mushroomed. Tata Iron and Steel Company, the largest producer of steel in the British Empire, alone supplied over 3 million tons of steel for war purposes. Its net profit for the year ending March 31, 1944, after taxes and depreciation, stood at 28,629,145 rupees.[68] The coal industry registered a record output of 29 million tons in 1940 and continued this trend into 1942–43, and yet there were coal shortages. Similarly, the machine-tool industry grew from manufacturing a mere one hundred tools before the war to 4,500 in 1944. Engineering workshops supplied material to Egypt and increased in number from six hundred to 1,500 by 1943. Not unexpectedly, the armaments and subsidiary industries saw phenomenal growth—within a year of the war, they had produced 120 million rounds of small-arms ammunition and 400,000 filled shells.[69] By the end of the war, it was estimated that rifle production was ten times its prewar output, "light machine guns twelve times, bayonets seventeen times, small arms ammunition four times, gun ammunition twenty-seven times and guns and carriages nine times."[70] The ordinance factories were assisted by 250 trade workshops and twenty-three railway workshops; together, they produced seven hundred different items of munitions supply.[71]

[66] *Times of India*, 25 Oct. 1940. By the end of 1940, Indian mills were supplying more than 80 percent of the country's mill-made cloth, which equaled the country's total consumption before the First World War.

[67] L. C. Jain, *Indian Economy during the War* (Lahore, 1944), 33–34.

[68] Grajdanzev, "India's Economic Position in 1944," 460–77.

[69] *Times of India*, 18 Dec. 1940.

[70] Grajdanzev, "India's Economic Position in 1944," 471.

[71] Pestonji A. Wadia and K. T. Merchant, *Our Economic Problems* (Bombay, 1957), 427.

Almost every manufacturing sector added new lines of production, and several new industries also started, such as aluminum, diesel engines, bicycles, and machine tools. With six new plants, the fledgling chemical industry grew to twenty-nine units and developed its heavy chemicals, sulfuric acid, synthetic ammonia, caustic soda, chlorine, and bleaching powder production. War also stimulated medium and small-scale industries, such as cutlery, leather manufacturing, pharmaceuticals, and drugs; these were soon supplying 60 percent of total consumption.[72] It was estimated that in 1945–46 the paid-up capital of joint-stock companies rose from 2.9 billion rupees in 1939–40 to 4.24 billion rupees.[73] Industrial optimism was such that, despite the introduction of Control of Capital Issues scheme in May 1943, 687 applications for either starting or expanding industries, involving an aggregate capital of 250 million rupees, were received within the first six months of 1943.[74]

There was positive news from trade too. After an initial decline at the outbreak of the war, foreign trade recovered quickly by 1941–42. The Allies' reopening of the Mediterranean route to the Middle East led to a greater diversification of markets; by 1943–44, the share of nonempire markets, especially the United States and the Middle East, was on the rise in export trade. Further, it was heartening that even though raw materials continued to be a major part of trade, constituting 54 percent of total imports in 1943–44, the most important import item was mineral oil, and the increased exports were of manufactured goods, especially cotton and jute. The overall value of exports of manufactured articles increased from 476 million rupees in 1938–39 to 812 million rupees by 1940–41; cotton cloth export exceeded 1 billion yards in 1942 and was valued at 390 million rupees.[75] Economist P. S. Lokanathan, a key advisor to the Bombay Plan group, saw this as a "structural change" in trade and was confident that India "need no longer submit to a violent alteration of the terms of trade to her disadvantage."[76]

The prevailing mood could be gauged from the story of stocks during the war years. Stocks went through dramatic ups and downs, moving in tandem with the fortunes of war. Although the boom in the capital market could be traced to the mid–1930s—to low interest rates, low

[72] For the story of the chemical industry, see J. P. De Sousa, *History of the Chemical Industry in India* (Bombay, 1961); for a concise contemporary analysis of the impact of the war, see Lokanathan, *India's Post-War Reconstruction*.

[73] Wadia and Merchant, *Our Economic Problems*, 431.

[74] See Grajdanzev, "India's Economic Position in 1944," and L. C. Jain, *Indian Economy during the War* (Lahore, 1944), 29–31.

[75] Wadia and Merchant, *Our Economic Problems*, 427 and 449.

[76] Lokanathan, *India's Post-War Reconstruction*, 25.

commodity prices, industrial recovery, and the emerging international rift, which portended the coming war and the resulting rearmament boom—the war catalyzed a frenzy that continued through the conflict. By the early 1940s, stock exchanges had proliferated, with almost all large towns in the country boasting a stock exchange. The number of securities traded also multiplied, though it was not all rosy, and slumps interceded the boom years of 1936–37 and 1939–40; however, from the end of 1942, the frenzy peaked. As an Allied victory became more certain, the stock markets of Calcutta and Bombay were febrile with activity. There was an increase in government securities on the local market, though there was a dearth of industrial securities on the capital market. Given the difficulties of floating new industrial enterprises, there was a boom in the flotation of new banks and insurance companies. Shares of existing companies soared in the inflationary situation and faced negligible competition from new capital shares. J. R. D. Tata's "Tata Deferred" was "the king of the capital market," with fluctuations like never before.[77] The stock frenzy proved unstoppable, despite the introduction of control of capital shares in 1943.[78]

Not only was urban India witnessing prosperity; there were signs that the economic growth caused by the war extended to sections of the rural population. As Birla explained to his Quaker friend Horace Alexander, the rise in prices of agricultural products after the distress of the Depression marked a welcome change in urban areas and in the countryside:

> Perhaps you are unaware of the fact that a cultivator is no more a debtor to the extent he was in 1931. The recent rise in prices has almost freed him from debt although it is very difficult to make a correct estimate. In 1931 or thereabouts his debt was estimated to be 1200 crore rupees. Whether on the whole, he is under any debt now is doubtful. Perhaps some agriculturists are in debt, some have got surplus. The rise in prices during the war period has changed the entire aspect of the Indian economy. Nearly 30 percent of the population has been benefitted by this rise. This includes the producers and the manufacturers. Another 30 percent has neither benefitted nor been hit. This includes the small agriculturist who has benefitted by higher prices but has also to pay higher prices for articles that he has to purchase. Another 30 percent is hard hit by the rise. This includes landless labour and

[77] H. T. Parekh, Housing Development Finance Corporation (India), and Industrial Credit and Investment Corporation of India, *India in Transition through the Eyes of a Visionary, 1940s to 1990s: The Writings of H. T. Parekh: A Tribute by HDFC and ICICI, Vol. 1* (Bombay, 1995), 136.

[78] Parekh, et al., *India in Transition through the Eyes of a Visionary*, 1.

> such other people who are not in industry or in Governmental jobs like teachers etc. To talk, therefore, of wiping out of debt is to talk in the old language.[79]

It was also apparent that in some parts of the country, especially the Punjab, larger and middling landholders had been able to "wipe out their mortgage debt and [were] in possession of cash resources" though subsistence farmers and agricultural laborers suffered, especially in areas such as Bengal.[80] Further, there was hope that recruitment for World War II, unlike the last, had been from a large catchment area, and this too meant an increase in income for the recruits.

Sterling Balances

Another significant cause for optimism came from the dramatic turnaround in India's financial relationship with Britain, as its status shifted from debtor to creditor and indeed from the almost revolutionary changes in the country's international debtor-creditor position. While there was an almost miraculous extinction of sterling debt on account of the British war expenditure, there was also a spectacular build-up of sterling reserves. Before the war, India's sterling debt was estimated at 360 million pounds, including railway annuities. However, by the Defence of India Agreement of 1940, it was decided that Britain would pay for the reorganization of the Indian Army, for the costs incurred in the maintenance of British armed forces in India, and for the deployment of Indian troops used for the Allied campaigns beyond the borders of the subcontinent. Britain made payments in sterling liabilities, which would be lodged in the Reserve Bank in London and which India could claim after the war. By the end of the financial year 1940–41, the sterling debt had come down to 240 million pounds. Up to the summer of 1942, sterling receipts had been used to repatriate Indian sterling debt bonds and railway annuities outstanding in the London market. However, after 1942, sterling balances accumulated rapidly; by 1943, Indian debt was completely liquidated. Eventually, by the end of the war, India had accumulated over 1.3 billion pounds of sterling balance.[81]

[79] G. D. Birla to Horace Alexander, 4 Oct. 1944, Birla Papers, Series Foreign Correspondence, File No. 13, 1935–46. One crore equals 10 million; thus, 1200 crore rupees equals 12 billion rupees.

[80] Lokanathan, *India's Post-War Reconstruction*, 34–35.

[81] On the sterling issue, see B. R. Tomlinson, "Indo-British Relations in the Post-Colonial Era: The Sterling Balances Negotiations, 1947–49," *Journal of Imperial and Commonwealth History* 13, no. 3 (1985); and Aditya Mukherjee, "Indo-British Finance: The Controversy over India's Sterling Balances, 1939–1947," *Studies in History* 6, no. 2 (1990): 229–51. For the larger picture of negotiations over sterling, see Catherine R. Schenk, *Britain and the Sterling Area: From Devaluation to Convertibility in the 1950s* (London, 1994).

Business leaders were enthusiastic about the potential uses of sterling for economic development, and they were determined to profit from the new financial relationship between Britain and India.[82] Amid alarming rumors—that Britain would not be able to honor its increasing debt and that the "reconquering of Burma" and the defense of Iraq and Iran would be debited to India—business felt an urgency to resolve the sterling issue. The planners addressed their concern in their writings, within official bodies in which they were involved, such as the Reserve Bank, and in their business associations.[83] They believed nationalist leaders had "very little knowledge" about these issues, and it appeared to the planners that "it is obviously our business to educate them."[84]

On the one hand, the planners were apprehensive that the mounting sterling assets would result in steady currency expansion and potentially fuel inflation, that balances would need to be safeguarded against a possible depreciation of sterling after the war, and that depreciation would affect Indian currency, given that it was backed entirely by sterling.[85] On the other hand, they were optimistic about what this accumulated credit could achieve. Business leaders saw the credit as a potential channel to transfer British sterling companies to Indian hands, to transfer rupee investments of the British and plants such as ship-building, and to build up gold and dollar reserves; and they expected to use sterling to buy needed plant and capital equipment and technical expertise from Britain and the United States for industrial expansion after the war.[86]

Sterling was critical to the plans for India's economic future; Birla saw sterling as the "life and death" of future industrialization, and his

[82] Venkatsubbiah, *Enterprise and Economic Change,* 55–56. G. D. Birla published the fourteen-page *Our Sterling Balances* in Jan. 1943, the longer forty-three-page *India's War Finances* in Mar. 1943, and the more concise twenty-three-page *Indian Currency in Retrospect* in Sept. 1944.

[83] It was not unexpected that the authors of the Bombay Plan would be interested in war finances, given that many of them had longstanding engagements with currency issues. Fiscal autonomy to India was a demand that Indian industry had raised after World War I, and it had been their expectation in return for the generous support to war loans raised in the Bombay money market. The sterling issue led to much debate within business lobbies. Leaders differed about the wisdom of taking up the sterling issue publicly in the midst of the war. Some feared that it was premature to raise the issue during the war years since it could backfire and lead to an increase in the allocation of war expenses to India. See S. C. Majumdar to Birla 17 Dec. 1942, in L-3, Lokanathan, P. S. Dr., and G. D. Birla to Purshottamdas Thakurdas, 26 Nov. 1942, T-5, Thakurdas, Purshottamdas, Sir; also Birla to Majumdar, 25 Mar. 1943, L-3, Lokanathan, P. S. Dr.; all in Birla Papers, Series II.

[84] Birla to Thakurdas, 4 Aug. 1942, in T-5, Thakurdas Purshottamdas, Sir, Birla Papers, Series II.

[85] Birla to Thakurdas, 10 Dec. 1942, T-5, Thakurdas, Purshottamdas, Sir, Birla Papers, Series II.

[86] FICCI, *Correspondence and Relevant Documents Relating to Important Questions Dealt with by the Federation during the Year 1942–43.*

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Eastern Economist called it "our camel's hump to ferry us over the weak waterless desert of our first Five-Year Plan."[87]

Coming to Terms with Partition

Notwithstanding wartime prosperity and the optimism of these years, there were also murmurs of concern about a worsening communal situation and looming communal scenario. By the 1940s, the larger concern was over the political events unfolding at the national level. As the communal situation worsened and became intractable, and as negotiations between the Congress and the Muslim League yielded little, many businesspersons became increasingly restless and more open to accepting the prospect of a division of the country.

Mathai had started working on an economic feasibility study of the Pakistan scheme, working with Sir Homi Mody. Mathai and Mody submitted their findings to the Sapru Committee, headed by Sir Tej Bahadur Sapru. They considered the Muslim League's proposal for the Partition. Assuming that the proposed nation-state of Pakistan would have two economic zones, as the Muslim League had envisaged, Mathai and Mody looked at factors such as the budgetary position, standard of living, and defense needs of the areas demanded by the Muslim League. They visualized two possible scenarios: a division based on existing provincial boundaries (with Muslim-majority provinces forming a separate state) or a division based on boundaries set up on the principle of the contiguous Muslim-majority districts of Punjab and Bengal.

Mathai and Mody took the view that Pakistan would be a viable economic unit if the provinces were to effect Partition; if the boundaries were drawn on the basis of Muslim majority, the economic position of Pakistan would be difficult. In both scenarios, the need for the two states to cooperate in areas of economy and defense was paramount. Mathai and Mody also advocated an "optimum economic unit" under which the two states could cooperate with minimum custom barriers and large-scale trade and exchange. Further, they pointed out that, if the objective were to maintain standards of living and budgetary requirements at a prewar level, the Partition was feasible on economic grounds; if, however, there was to be a rise in the general standard of living, then the two states would need to cooperate. They were not concerned with political separation but with economic and defense cooperation. In a note of dissent to the Sapru Committee report, which argued against the Partition, Mathai and Mody candidly noted: "If a scheme which pre-supposed the political unity of India was not acceptable to the

[87] *Eastern Economist*, 16 July 1943.

Muslim League position, . . . separation as a means of ending the political deadlock should not be ruled out."[88] At the same time, in early 1940, Birla, who had been an early advocate for the Partition, began collecting facts and figures to ascertain the economic implications of the Pakistan proposal.[89]

Both studies showed that the Partition was feasible on economic grounds and that the loss to India would not be insurmountable; Mathai, Mody, and Birla urged the need for an "optimum economic zone." The Bombay Plan hinged on a strong center, a feature to which the Muslim League did not agree, given its commitment to secure maximum autonomy for Muslim-majority provinces.[90]

The Plan Analyzed

The Bombay Plan was, in the words of its authors, "a statement . . . 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." Its principal objective was "to bring about a doubling of the per capita income, from $22 to $45 within a period of fifteen years." This would help achieve a minimum standard of living, which was calculated as 2,800 calories of food per day, 30 yards of clothing, 100 square feet for housing, as well as access to basic needs such as sanitation, education, and medicine. Assuming that the population would rise by 5 million per annum, this doubling of per capita income could only be achieved by a trebling of total national income.[91]

This objective was to be actualized through a 130 percent rise in agricultural output, a 500 percent increase in industry, and a 200 percent increase in services. Therefore, the proportion of contributions to the national income by these three sectors would alter from "57, 17, and 22 percent, respectively, to 40, 35, and 20 percent."[92] However, the aim was not merely a dry increase in production; it was to improve the

[88] Homi Mody and John Mathai, *A Memorandum on the Economic and Financial Aspects of Pakistan* (Bombay, 1945); *Capital*, 4 Oct. 1945; and G. D. Birla, "Basic Facts Relating to Hindustan and Pakistan," *Eastern Economist* Pamphlets, No. 5 (New Delhi, 1947). For more details, see Kudaisya, *Life and Times of G. D. Birla.*

[89] Birla to Jawaharlal Nehru, 13 Jan. 1942, and Birla to Jawaharlal Nehru, 3 June 1947, in File N-6, Nehru Pandit Jawaharlal, Birla Papers, Series II.

[90] This became clear when the Central Legislative Assembly discussed the Plan; many Muslim League members objected that it proposed a national government with jurisdiction in economic matters extended to the entire country. See Manoranjan Jha, *Role of Central Legislature in the Freedom Struggle* (New Delhi, 1972), 278–79.

[91] For details on the Plan see Thakurdas et al., *A Brief Memorandum Outlining a Plan,* Part 1.

[92] P. S. Lokanathan, "The Bombay Plan," *Foreign Affairs* 23, no. 4 (1945): 680–86.

standard of living of ordinary people. Achieving these basic standards called for massive investment to the scale of 27.6 billion dollars (10,000 crore rupees, or 100 billion rupees) over fifteen years in pivotal sectors such as industry, agriculture, communication, higher education, and health.

While the Plan did not propose agricultural reorganization, it did envisage bringing fresh areas under cultivation, improving methods of production, introducing cooperative farming and consolidating holdings where possible, eliminating indebtedness, improving irrigation facilities, and establishing model farms. In addition, the Plan would improve transportation dramatically by increasing existing railway mileage from 41,000 miles to 162,000 miles and road transport from 300,000 miles to 600,000 miles; the Plan would gravel over 226,000 miles of earthen road. Further, the Plan would increase coastal shipping and ports and develop harbors.[93]

In terms of industrialization, the Plan laid down a phased approach. In the first phase, it prioritized basic industries such as power, mining and metallurgy, engineering, chemicals, armaments, transport, and cement. Upon them, India would base its economic superstructure. The Bombay Plan authors recognized that if India were to be self-reliant eventually, it was essential to develop these basic industries within the country.[94]

Resource gathering was an important aspect of the Plan discussion. The total capital requirement was estimated at 27.6 billion dollars, and the planners hoped to tap into two sources of finance—external and internal. Their idea was to raise 8 billion dollars (2,600 crore rupees, or 26 billion rupees) from external sources, primarily by procuring capital goods and services from industrialized countries.[95] As well, the Plan would use internal capital to mobilize resources within the country. The Plan would acquire external finance through four means: hoarded gold; an estimated 1 billion dollars available as foreign exchange; the improved balance of trade due to India's new credit position, which would yield at least 1.8 billion dollars (over fifteen years) to get extra capital goods from abroad; and—most significantly—sterling

[93] Thakurdas et al., *A Brief Memorandum Outlining a Plan,* Part 1. Also see G. D. Birla, "The Plan Explained," *Eastern Economist,* 10 Mar. 1944.

[94] The planners recognized the importance of addressing basic needs such as education and hoped to strengthen different levels of education, both traditional and technical, with the intention of eradicating illiteracy within fifteen years. Public health needs of both urban and rural areas were to be addressed, with a focus on ensuring water supply and basic medical facilities. Ensuring housing needs was an important part of the Plan, and the basic minimum was worked out as 100 square feet, involving a capital expenditure of 6.6 billion dollars (1,400 crore rupees, or 14 billion rupees).

[95] The figures have been derived from Lokanathan's article "The Bombay Plan," 680–86.

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balances, which were to contribute about 3 billion dollars.[96] Finally, the planners expected an external loan (mainly from the U.S.) of 2 billion dollars to fill any remaining gaps. Sterling would allow the purchase of much-needed machinery and technical assistance, but for this purpose it would need to be convertible.

The Plan envisaged that the entire amount of sterling balances would be used to repatriate sterling borrowings of the government; acquire British private investment in India; build up the Reserve Bank gold and dollar resources; and buy capital goods, plants, and machinery.[97] Concerning internal capital, the Plan assumed that maintaining the rate of savings at 6 percent of the annual income would yield 2 million dollars over fifteen years. However, this yield was not seen as sufficient, and the planners relied on "created money." They expected to raise 10 billion dollars from the Reserve Bank by borrowing against ad hoc securities. New money to this extent, they admitted, could be created only if people had full confidence in the government. The Plan recognized the possibility of inflation in its period; the planners expected a gap between the "volume of purchasing power in the hands of the people and the volume of goods available."[98] The situation would, however, not be allowed to get out of hand since, in this period, "practically every aspect of economic life [would] be so vigorously controlled by government that individual liberty and freedom of enterprise [would] suffer a temporary eclipse."[99]

Thus, economic unity was essential to the Plan, and the state was to play a critical role as a central directing authority. It was to exercise control over the distribution of industries, to minimize regional disparities, to develop public utilities and basic industries, and to undertake nonremunerative enterprises. The planners and their key advisers were conscious that "while political factors have been tending towards fragmentation and partition, economic factors have been compelling in their effects and tend towards integration."[100] The authors believed that for some time "central planning, central coordination and central direction" were indispensable for successful economic development. The state was to have the right to license investment projects, to control prices, to allocate foreign exchange, and to set wages for the

[96] The planners believed that "if suitable means are adjusted for attracting hordes from their place of concealment and if a national government comes into power in whom people will have faith," this could be secured.

[97] For this, it was essential that the balance be allowed to be convertible into other currencies, and the planners lobbied hard to overturn the 1939 decision of the colonial state to make it nonconvertible.

[98] Lokanathan, "The Bombay Plan," 680–86.

[99] Thakurdas, et al., *A Brief Memorandum Outlining a Plan*, Parts 2 and 3.

[100] Lokanathan, *India's Post-War Reconstruction*, 57.

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fifteen years. Ownership and management of enterprises were to be outside the purview of the state and would depend on the nature of the enterprise.[101]

What the Plan wanted was the "right kind and degree of planning—with freedom." The planners were emulating neither the Soviet nor the German model; in a later edition of their Plan, they pointed out that the choice was not between private enterprise and socialism or between socialism and capitalism—they aimed at "Democratic Socialism." To reiterate the point, they invoked the then-recent publication by Friedrich A. Hayek, *The Road to Serfdom*, to assert that "the path of total planning is the road to serfdom."[102]

Compared with reports such as the Beveridge Report on Social Insurance and Allied Services of December 1942, which recommended welfare legislations such as national insurance and national health, the Bombay Plan was no radical document. LSE economist Vera Anstey, a keen contemporary observer, saw that the measures proposed to reach full employment were not nearly as far-reaching as even those proposed by the British White Paper on Employment Policy of May 1944. The only fundamental reform that the Plan proposed was in the land system—that the *ryotwari* system of land settlement, in which land revenue was settled with the peasant proprietors, should gradually replace *zamindari,* in which tenurial settlements were made with rural magnates, on the lines of the recommendation of the Floud Commission for Bengal (Bengal Land Revenue Commission appointed in 1939). The Plan recognized the role of the state but also saw the importance of private enterprise. Its organizational mode was capitalism. It was based on the assumption that a national government would come into existence at the end of the war with full freedom in economic matters and that India would be an economic unity with a strong center.

Aftermath and Legacies of the Bombay Plan

The Bombay Plan created something of a stir among Indian officials, economists, and public figures of different ideological hues and also shook up the larger intellectual community. The Government of India charged its economic advisor, Sir Theodore Gregory, with the task of making an official response to the Plan. In March 1944, the Finance Member, Sir Jeremy Raisman, commended it as a useful document while critiquing its financial presumptions in his budget speech before the Central Legislative Assembly. Later, he and other senior officials,

[101] Masani, *Picture of a Plan*, 59.
[102] Ibid., ch. 5.

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including the Supply Member, Sir Ramaswami Mudaliar, met the authors. The seriousness that British colonial officials attached to the Plan became even more obvious when, four months after its publication, Viceroy Lord Wavell created a new Planning and Development Department and invited Ardeshir Dalal to join his Executive Council as Planning Member. The Government of India advised provincial and state governments to set up their own planning departments to prepare plans for consideration by the central department.[103] In the following year, on April 21, came the *Statement of Government's Industrial Policy*, which clearly showed the influence of the Bombay Plan. Observers like Vera Anstey were quick to point out that, even though the government had begun to "draw up plans for reconstruction before the publication of the Bombay Plan, there is little doubt that the recent quickening of the tempo of such planning can be partially attributed to the Bombay Plan."[104] A few months after the Bombay Plan was announced, its authors were invited—along with other industrialists—to be part of an unofficial mission to Britain and the U.S. to study postwar industrial development.

Not surprisingly, the Plan led to intense debate within business circles. Many commercial lobby groups were quick to endorse it. However, the Plan also had its critics, some of them rather influential. The economist close to the Congress leadership, K. T. Shah, who had been Secretary of the party's National Planning Committee, was among the first to put forth a scathing critique. Left-leaning economists vehemently opposed it. Thus, B. N. Banerjea of Calcutta University published a book titled *Alphabet of Fascist Economics*; G. D. Parikh, an economics professor in Bombay and an important member of the Indian Federation of Labour, wrote a fifty-eight-page booklet titled "The 'Master Plan' X-Rayed"; and leading Leftist leader and intellectual M. N. Roy critiqued it in the forty-three-page "Planning and Planning" and called it "the programme of Indian Fascism."[105] In their *The Bombay Plan: A Criticism,* Pestonji Ardeshir Wadia and K. T. Merchant, both professors of economics at Bombay University, alleged that it reflected "the 'bourgeois' mentality" and was a "crude,

[103] Not much came out of the newly established Planning and Development department. In January 1946, Ardeshir Dalal resigned, and Sir Ramaswami Mudaliar took over the portfolio.

[104] Vera Anstey's review, "A Plan of Economic Development for India," by Purshottamdas Thakurdas, *International Affairs (Royal Institute of International Affairs)* 21, no. 4 (Oct. 1945), 555–57.

[105] G. D. Parikh, "The 'Master-Plan' X-Rayed," and M. N. Roy, "Planning and Planning," both in *Alphabet of Fascist Economics: A Critique of the Bombay Plan of Economic Development of India*, ed. B. N. Banerjea (Calcutta, 1944). Also P. A. Wadia and K. T. Merchant, *The Bombay Plan: A Criticism* (Bombay, 1945); and B. N. Banerjea, *Alphabet of Fascist Economics: A Critique of the Bombay Plan of Economic Development of India* (Calcutta, 1944).

halting, half-hearted compromise between capitalism and a collectivist organization of society."[106]

The Plan's authors were, of course, anxious to get Gandhi's endorsement. Though the Mahatma happily accepted a copy presented to him, he said nothing, as it happened to be his day of silence. Even later, he did not publicly endorse or critique the Bombay Plan.[107] Much to their surprise, the planners subsequently discovered that he had written a foreword for Shriman Narayan Agarwal's *The Gandhian Plan of Economic Development for India*. Like other Gandhian economists, Agarwal was no admirer of the Bombay Plan and called it "essentially a Capitalist plan on Western Lines."[108]

Such vociferous critique worried the authors. In August 1944, Birla wrote to Tata:

> I wonder if you agree with me regarding that the real hostility is not against the plan so much, but against the businessman in general. The main target of attack is the businessman and the critics treat yourself and myself as a symbol of the business community. The Communists, the Socialists, the British vested interest and our own Government all seem to be on the common ground. . . . There is as it were a plan to discredit businessmen. Their patriotism, integrity and good motives are questioned. People are told that schemes for more Tatanagars and Birlanagars are afoot. First iconoclasm and then the next step, that is the technique of these critics. We should, therefore, tackle the root cause and not merely beat about the branches and bushes.[109]

Much of the serious criticism of the Plan related to its financial provisions, including the proposal to use the sterling assets of the Reserve Bank of India, which some feared could undermine the currency standard of the country. Critics also attacked the fact that it was based on prewar price levels; that it overlooked annual costs that would add to capital costs; that it regarded gold as a source of external finance; and that it isolated the balance of trade, not looking at it as the income and savings of the community. There was considerable skepticism of the

[106] Wadia and Merchant, *The Bombay Plan: A Criticism,* 49.

[107] J. R. D. Tata to Birla, 12 Aug. 1944, File T-1, Tata J. R. D., Birla Papers, Series II.

[108] Agarwal was then Principal of Seksaria College of Commerce in Wardha and son-in-law of industrialist Jamnalal Bajaj. Gandhi endorsed his book liberally by commending Agarwal as "one of those young men who have sacrificed a prosperous, perhaps even brilliant career for the service of the Motherland. Moreover, he happens to be in full sympathy with the way of life for which I stand." Agarwal, *The Gandhian Plan*, Foreword by Gandhi, 16 Oct. 1944.

[109] Birla to Tata, 15 Aug. 1944, File T-I, Tata, J. R. D., Birla Papers, Series II. The Planners tried hard to show that the Plan was above narrow capitalist considerations. See J. R. D. Tata's speech at the Bombay Rotary Club, 15 Feb. 1944, "A Fifteen Year Plan of Economic Development for India," *TISCO Review*, June 1944; "A Plan of Economic Development for India Part II," in *TISCO Review*, Mar. 1945.

Plan's recommendation that savings, foreign assets, and foreign loans could finance two-thirds of expansion, leaving created money to meet one-third. Critics accused the planners of underestimating the inflationary risks that would occur from these estimates.[110] Economist B. R. Shenoy suspected miscalculation, perhaps a "double counting, or even, counting three times over" of savings in the planners' calculations, as they viewed savings, balance of trade, and created money as independent sources of obtaining capital for investment.[111]

Much of the critique centered on the concept of created money. Ernst Friedrich Schumacher, Keynes's protégé and a well-known British economist, thought it was a "cranky and misleading monetary theory which, if adhered to, will produce the wildest inflation."[112] The Plan was also critiqued for first setting targets and then looking into ways of achieving them.[113] Official experts of the Government of India also faulted its financial aspects; agricultural output, they claimed, could not be increased by more than 30 percent as compared to the 130 percent proposed by the Plan; the estimate of domestic savings of 6 percent was too high, given that the prewar levels of savings were no more than 7 percent; and it was "unreasonable to count upon full repayment" of sterling debts within fifteen years.[114]

Constraints of space do not permit full consideration of the critique; it may suffice to point out that the Plan led to a widespread discussion far beyond the expectations of its authors. P. S. Lokanathan noted that the Plan had "exerted an influence perhaps out of proportion to its undoubted merits."[115]

In September 1946, India formed an interim government with Jawaharlal Nehru as Prime Minister, and he set up an Advisory Planning Board under the chairmanship of K. C. Neogy to review the planning done until then and to make recommendations for the future. Nehru did not, however, invite any of the Bombay Plan authors to be part of his new team, though he made Mathai minister in charge of railways and transport. Later, Mathai was given charge of commerce and in 1948 of finance.

As independent India came into existence on August 15, 1947, there was undoubtedly satisfaction and pride among the authors of the Bombay Plan that they had articulated a bold, coherent vision of

[110] "The Bombay Plan," *Manchester Guardian,* 5 July 1944.

[111] B. R. Shenoy, *The Bombay Plan: A Review of Its Financial Provisions* (Bombay, 1944).

[112] E. F. Schumacher, "Bombay Plan: Monetary Theory False," *Observer*, 20 May 1945.

[113] The critique led Birla to rework the concept. Lokanathan, *India's Post-War Reconstruction,* 56–57.

[114] "Finance of the 'Bombay Plan,'" *Manchester Guardian*, 6 July 1944.

[115] Lokanathan, *India's Post-War Reconstruction*, 57.

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economic development for the nation's future. They were optimistic that they would be partners of the state in nation-building. In terms of the country's economic trajectory, however, there was much uncertainty. As is well known, in the first three years of independence from 1947 through 1950, there was little clarity about what economic path the new country should pursue. After the unexpected demise of Vallabhbhai Patel in January 1950, Jawaharlal Nehru emerged as the dominant figure. In the period that followed, businesspersons were rather restless about what the future would hold for private enterprise, as Nehru emerged as a leading proponent of socialism. Though he was committed, like the Plan authors, to planned economic development, Nehru's idea of planning was quite different. He was enamored of socialist-style planning aimed at "economic freedom and uplift of the masses, reduction in disparities of income and wealth and the concentration of economic power."[116] Nehru's speeches made it apparent that the regulation of private enterprise was important in this scheme.

The government's first budget, its early pronouncements and policies such as its Industries (Development and Control) Act of 1951 that put in place the regulatory regime to control disappointed business. As the official historian of FICCI wrote: "Private enterprise and the Congress were allies in the fight for independence. When the fight was won and time came for the coronation, the Congress, to the Federation's dismay, placed the industrial crown on its own head."[117] The antibusiness atmosphere in Nehru's government worried business leaders. Bombay business complained that the "climate of opinion in which private enterprise finds itself has been hostile, is getting more hostile, and needs to be made less hostile." Some suggested sponsoring a lecture series across the country, with famed economist Sir William Arthur Lewis speaking about the positive role played by private enterprise. Given his Fabian leanings, Lewis's views would "go down better" than economists like F. A. Hayek who would simply "not be listened to at all." Others suggested organizing tours for Members of Parliament to industrial enterprises, increased publicity of the contributions of business to nation-building, and more aggressive lobbying. As Hiranyappa Venkatsubbiah put it: "The business community had very properly put away the big stick it had wielded for so long against an alien government. But those in the community who thought that a national government was the culmination of its economic fight against authority

[116] For an understanding of Jawaharlal Nehru's economic ideas, see V. K. R. V. Rao, "Nehru's Economic Vision," in *Jawaharlal Nehru: Centenary Volume*, ed. Sheila Dikshit et al. (Delhi, 1989), 506–13.

[117] Venkatsubbiah, *Enterprise and Economic Change*, 85–86.

were tragically mistaken. The methods of the new fight had naturally to be different, but the fight had to continue."[118]

In March 1950, the idea of planning got official status with the formation of a six-member Planning Commission. None of the authors of the Bombay Plan were invited to be members. To their chagrin, Congress persons referred to their Bombay Plan as the Tata-Birla Plan or the "capitalists' plan," which were, of course, "not meant to be complimentary references."[119] At a personal level, the planners grew increasingly disillusioned with the state of affairs. It appeared as though after having "played no mean part in financing the political struggle," business had "sought no reward except a scaffold."[120] In the 1950s, prominent Bombay business leaders, including Shroff and J. R. D. Tata, supported the Forum of Free Enterprise, which aimed to bring to public notice "the achievements of Free Enterprise" and later the Swatantra Party.[121] Even Tata, though personally friendly with Nehru, found it difficult to broach with him matters of economic policy.[122] In June 1950, Mathai resigned as finance minister from Nehru's cabinet. It is ironic that despite being an early convert to the idea of planning, he resigned because of the unprecedented powers of the new Planning Commission, which he alleged was interfering in the work of his ministry.[123]

Yet, in some ways, the Bombay Plan came to shape India's first Five-Year Plan. The latter incorporated many of its key features: sector-based outlays, acceptance of the crucial role of agriculture, phased approach to development, self-reliance in basic industries, the idea of a mixed economy, the concept of state intervention in the distribution of industries, minimization of regional disparities in investment and infrastructure, and the need for deficit financing.[124] As H. V. R. Iyengar, a governor of the Reserve Bank of India, wrote: "Indeed, there seems little difference

[118] Ibid., 71–80.

[119] Ibid., 71.

[120] Birla to Purshottamdas Thakurdas, 17 May 1947, T-7, Thakurdas, Purshottamdas, Sir, Birla Papers, Series II.

[121] Another business leader who was actively involved with the Forum of Free Enterprise was Murarji Vaidya of the All-India Manufacturers Association. The Swatantra Party, a right-wing, probusiness party founded in 1959, rallied around the personality of its founder Chakravarti Rajagopalachari. A number of Bombay businessmen supported the party including Homi Mody, J. R. D. Tata, Shroff, and Dharamsey Khatau. The party lacked mass appeal and later also suffered from a shortage of funds. For a study of Swatantra, see Howard Erdman, *Swatantra Party and Indian Conservatism* (Cambridge, U.K., 1967).

[122] He later recalled: "He always looked out of the window or asked me to look at the panda in the garden whenever I wanted to talk seriously of economy." R. M. Lala, *The Joy of Achievement: Conversations with J. R. D. Tata* (New Delhi, 1995), 99.

[123] On the early years of planning, see Medha Kudaisya, "'A Mighty Adventure': Institutionalising the Idea of Planning in Post-colonial India, 1947–60," *Modern Asian Studies* 43, no. 4 (2009).

[124] Sanyal, "The Curious Case of the Bombay Plan."

between the basic approach of the Bombay Plan and the approach of the Planning Commission of the Government of India and it would by no means be far-fetched to say that the Planning Commission actually got its inspiration from the Bombay Plan."[125]

However, while the first Five-Year Plan in form seems similar to the Bombay Plan, it ran contrary to the spirit of the Bombay Plan, which lay in the idea of a partnership between state and business. As the Nehruvian regime secured political legitimacy through the national elections of 1952 and 1957, the autarchic features of economic policy-making became more pronounced. Private enterprise became increasingly wary and defensive, no longer looked upon by the state as stakeholders in nation-building. The promise of partnership receded, only to see a revival in 1990s postliberalization, when India faced the overwhelming challenges of integration into the global economy.

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MEDHA KUDAISYA is associate professor at the National University of Singapore. She researches Indian business and economic history. Her publications include *The Life and Times of G. D. Birla* (Oxford University Press, 2003) and (edited) *The Oxford India Anthology of Business History* (Oxford University Press, 2011). Her current research interest is on economic planning. She is completing a book on the Bombay Plan, to be published by Penguin.

[125] H. V. R. Iyengar's address at the second A. D. Shroff Memorial Lecture delivered under the auspices of the Forum of Free Enterprise, Bombay, 27 Oct. 1967.