1

# Medha M. Kudaisya, “Tryst with Prosperity: Indian Business and the Bombay Plan of 1944” New Delhi: Harper Collins Penguin India, 2018.

# Edited by Sanjaya Baru and Meghnad Desai, “The Bombay Plan : Blueprint for Economic Resurgence,” New Delhi: Rupa Publications, 2018.

[The Bombay Plan 1](#_Toc534972381)

Medha Kudaisya’s Book

[Gurcharan Das’ Introduction 4](#_Toc534972382)

After years of public inattention 2018 saw the publication of two books on the Bombay Plan of 1944, one of the elements that went into the economic development of Post Independence India. Both books build on an extensive literature and discussion of the Plan in the academic literature over recent years, as the authors of these two volumes note despite a lack of general public attention to the Plan.[[1]](#footnote-2) As one would expect the earlier academic and present more general coverage stems from the fact that the Plan is the basis for discussion on both the path the Indian economy should have taken and should take now. The recent interest in what might be seen as an arcane bit of public policy archaeology is connected with a continuing debate about what India’s current policy should be.

## The Bombay Plan

The Bombay Plan was developed by a group of leading industrialists (JRD Tata, GD Birla, Kasturbhai Lalbhai, Purshottomdas Thakurdas and Lala Shri Ram) and economists (John Matthai, Ardeshir Dalal, and A.D. Shroff) connected with the Tata group of industries, and Lokanathan (connected with Birla group). It was drafted during the Second World War in Bombay and published in 1944-45 at which point it received widespread public comment. The Plan was designed to give guidance to the newly independent Indian government. For our purposes it was committed to the following points:

1.A dirigiste model of planning for the initial period involving for the initial period detailed government control of investment, prices and imports. “The planners were unequivocal that their plan could only be fulfilled through the energetic intervention of the state. Recognizing the limitations of the market, they proposed ‘an enlargement of the positive as well as the preventive functions of the state.’”They envisioned a mixed economy with roles both for the private and public sector.[[2]](#footnote-3)

Indian business had done very well during the War and was generally supportive of the planning and control imposed, though less so of the excess profit tax which had also been imposed. Many Indian businessmen were concerned that as the urgency of the War receded, the potential of the planning apparatus would not be used for developmental purposes. A similar concern with postwar policy effected the business communities in most of the Allied countries. Kudaisya cites at different places both efforts in the United Kingdom and the United States.[[3]](#footnote-4) In addition, the depletion of capital stock and destruction that the War had involved meant that the governments were reluctant to let the economy go on its own momentum until economic conditions returned to the preWar normal. The authors of the Plan did anticipate that the government would diminish its role over the first fifteen years of Planning, resulting in an increased role for the market and private enterprise. “The economy would “be based on both planning and free enterprise’ with the state playing a dominant role until a certain level of human development had been achieved.”[[4]](#footnote-5) That did not happen.

David Washbrook, a leading British historian of India, states:

« The conduct of the economy during World War Two made plain how close the relationship had become between the interests of private industrial capital and the public policies of the late colonial state. ».

He continues to say that this relationship continued and was strengthened after independence, confusing « state sponsored industrialization with state protected profits.  The early plans spawned Washbrook contends large conglomerates. [[5]](#footnote-6)

Everywhere, not only in India, an increased element of planning and government control was expected not only by organized business, but also by academics and government policy makers. Even Milton Friedman who was part of the United States planning apparatus during the War, There were few public advocates of Laissez Faire, though some such advocates did emerge over the next decade. Even Hayek’s book as Gurcharan Das notes only appeared in 1944, though there were certainly academic economists at all the leading universities who shared his position.[[6]](#footnote-7) The breakthrough for promarket policies came in Germany with the reforms of Ludwig Erhard in 1948 and in the United Kingdom only completely with those of Margaret Thatcher in the 1980s. The American experience was more complex and hindered by the crises connected with the outbreak of the Korean War and then in 1971 that during the Vietnam War. « …it was not until the 1970s that the stagflation of the period forced many countries to look for new economic systems. The emergence of neoliberalism … saw a wave of liberalism sweep the globe.”[[7]](#footnote-8)

The planning was to be done in collaboration with existing large scale Indian business, with new investment focused in manufacturing and heavy and basic industries. The Plan paid attention to agriculture and consumer goods manufacture. Nonetheless the relatively low degree of attention to agriculture was one of the criticisms laid against the Plan. The Plan also did pay considerable attention to the need to renew and expand infrastructure especially for transportation.

3.The Plan was pessimistic about the prospects for exports and concerned about protecting the Indian economy from being dominated by foreign enterprises — though more welcoming of multinationals and nonBritish firms. At the time the Plan was proposed there was considerable resentment of old style British business in India and a belief that it had frequently been exploitative. Sanyal, in his essay in the Baru and Desai book makes the point that the hostility to foreign investment was a key sticking point in the British resistance to accepting the Plan.[[8]](#footnote-9) In fact, it was precisely in this period that there was a massive exit of old style British businesses and businessmen; their enterprises were sold off to Indian businesses which used their wartime profits to purchase them. More modern British and other multinational corporations stayed, and were optimistic about their prospects in postwar India. The business press of the 1945 period is full of accounts of representatives checking out the Indian market. This process continued after the War. After the War as well German and Japanese multinationals were anxious to reestablish and expand their preWar position in the Indian market. American firms in particular envisioned new opportunities precisely because of the departure of British ones. It was similar pessimism about the competitiveness of Indian business which led to the formation of the evanescent “Bombay Club” as the Indian economy began its liberalization in 1991 by a group of large scale Indian industrialists.[[9]](#footnote-10)

4.Finally, the plan was very optimistic about the commercial and technological possibilities of the Indian economy. One of its forms of optimism was the expectation that India’s sterling balances, foreign (in 1944 especially American) loans and other investment funds would be available.[[10]](#footnote-11) These balances which represented sums owed to India for sales during the War and before were in fact never fully paid by some accountings but in any case dribbled out over a decade. The volume of investment proposed was several multiples of that actually proposed and certainly achieved in the ensuing actual Five Year Plans of Independent India.

In all of these respects the Bombay Plan differed from various competing plans offered by other groups from other intellectual perspectives (Gandhian, Marxist, academic economists) and for that matter plans that had been under preparation within the British Government of India.[[11]](#footnote-12) However, the British government was not as interested in the future as Indian industrialists. To quote Kudaisya: “Indian business leaders expected that the British would help develop basic industry in India, while the government was solely interested in producing goods for the War.”[[12]](#footnote-13) Nonetheless, both the Viceroy and other leading British economic observers greeted the Plan favorably. The Viceroy ordered his officials to study it and the Government of India hired one of the Plan’s authors, Ardeshir Dalal, to advise it on postwar planning. Gita Piramal in her chapter in the Baru/Desai book says Dalal was not listened to, frustrated and soon left the Government.

Unfortunately, none of these four features worked as envisaged:

The first problem was number four, limited resources, as many such as B.R. Shenoy had envisaged.[[13]](#footnote-14) Limited government finance was actually available and private investment was subdued. Thé Bombay Plan’s authors were already quite conscious of how much the Indian economy had been depleted by its wartime role, and the destruction wreaked by partition has been well documented. Initially, partially because of crisis conditions imposed by the World War II period and the partition of the country, only pre-existing government plans were implemented in the First Five Year Plan. To quote V.K.R.V. Rao: “…when the government of independent India started its planning exercise in 1950, the task was not so much to draw up new plan as to bring order out of the chaos of government expenditure.”[[14]](#footnote-15) The First Five Year Plan did encouraged the “organized sector” (which was mostly larger scale and private sector). This limitation of funds continued to be a constraint during the entire era of oldstyle planning, 1951-1991. The Second Five Year Plan’s ambitious expenditure had to be interrupted because of crop failures – to which the eventual response was the “Green Revolution.” Latter plans were interrupted because of funding constraints connected with wars with China and Bangladesh.

The planning process and the state role turned out to be different than expected. It was not that the Five Year Plans did not contain elements of the Bombay Plan. Many were there and are documented in some detail in two chapters of the Baru and Desai book.[[15]](#footnote-16)

Starting in the 1950s the Indian state moved in an antibusiness direction. The state sector expanded and private enterprises were nationalized or crowded out. The process of planning and control turned out to be slow, hostile to development and corrupt. The Avadhi Resolution passed by the Indian National Congress in 1956 is usually seen as a milestone in this direction. By the 1970s, the multinationals and even some Indian businesses shifted their development focus abroad, though typically retaining their profitable Indian operations. Gita Piramal documents the process in two of her books.[[16]](#footnote-17) The mood is captured in one of Kudaisya’s subheads, “From the High Noon of the Bombay Plan to the Wintry Despair of 1960,” or in Ajay Chhiber’s chapter in Baru and Desai, “The Surprising Genesis of our State Albatross.” “…Once official planning came to be entrenched by the 1960s, the bureaucracy increased its grip…During the 1950s and 1960s, the balance kept steadily tilting toward the public sector, which began developing a stranglehold over key sectors of the economy. This was accompanied by a deep suspicion of private enterprise…”[[17]](#footnote-18)

Finally, the countries of East and Southeast Asia surged ahead economically by integrating themselves into international value chains in a context of exploding international trade. Many Indians felt and still feel that they are missing out on this path to rapid economic development.

Starting in the 1980s and continuing until today with an abrupt switch in 1991, all of the first three Bombay Plan characteristics have been abandoned and a unprecedentedly rapid economic growth occurred involving inter alia, integration in international production chains, some dominated by India based firms. All of these twists and turns of economic policy have been influenced by events in and outside India and by India’s internal and external politics as well as intellectual arguments.

## Medha Kudaisya’s Book

Kudaisya’s book puts the Bombay Plan of 1944 in a more general historical, ideological, commercial and economic perspective. The book comes with a lengthy introduction by Gurcharan Das, the general editor of the series on Indian business history of which it is a part. The Introduction, as I will show below, makes its own independent but related argument. For this reason the present review is to some extent dual, one of the introduction and one of the book itself

Kudaisya’s book itself starts with a chapter describing the World War II background summarily covered above. It discusses the overall outlook for the Indian economy at the end of World War II, the time of preparation of the Bombay Plan. The book then gives the background of the people, especially the eight mentioned above, who actually produced the Plan. There are three core chapters on the intellectual background, actual content and ultimate fate of the ideas in the Plan. A good deal of the chapter on the intellectual background is presented in terms of the intellectual conflict between Hayek and Keynes in the United Kingdom and its echoes in India particularly among the economist authors of the Bombay Plan.[[18]](#footnote-19) Kudaisya is the standard academic biographer of GD Birla and has written extensively on Indian business history.

## Gurcharan Das’ Introduction

In his introduction, Gurcharan Das expresses his disappointment with (1) the dirigiste, antimarket orientation of the Plan itself, (2) the Plan’s pessimism about India’s international commercial opportunities, (3) as well as the fact that the Indian government later moved in an antibusiness direction. Das credits these three factors with the relative slowness of Indian economic development until the more recent period.

Gurcharan Das is concerned with the economic results which he connects with the policies and their administration during the 1947-1991 period. His introduction is not long enough to make all of the arguments necessary, which Das has made elsewhere. Like many liberals (there is nothing “neo” about it), he faults the adoption by India’s business of a dirigiste, more reclusive attitude towards the outside world and certainly multinationals for the lag in Indian development. Many of his criticisms are shared with many of India’s economists and economic commentators. If the policy makers in the 1956-1970 period were ignoring the large scale business community they were also ignoring some of the leading academics even though they continued to support the latter’s research and training activities.

## Sanjaya Baru and Meghnad Desai Book

The Kudaisya book is paralleled by another new book on the Bombay Plan by Sanjaya Baru and Meghnad Desai, the **Bombay Plan : A Blueprint for Economic Resurgence**.[[19]](#footnote-20) As the title indicates Baru and Desai are more enthusiastic about what the Plan represented, less critical of its dirigiste elements, and as regretful of the retarding impact the plans that were actually adopted entailed than Das.

The new book is a complex one. It contains the actual text of the Bombay Plan and some tables and schedules to put it in perspective. It also contains a variety of chapters by different authors, including the two listed editors on different aspects of the Plan. These chapters are from a variety of points of views, disciplines and focusses.

The contemporary article by Lokanathan in the American journal Foreign Affairs in 1945 reprinted in the Baru/Desai volume states:

“The Plan proposes doubling the present total of 300,000 miles of roads, increasing rail mileage by 50% from its present 41,000 miles, expanding coastal shipping and investing $159 million on improvement of harbors.”

Several of the contributions emphasize what they see as a positive experience, others see the Plan as a great disaster. The first, by Lokanathan is his positive 1945 piece which appeared in the American Journal Foreign Affairs, the organ of the unofficial establishment in American foreign policy, the Council on Foreign Relations. But The last chapter as noted, by Ajay Chibber is entitled, “The Surprising Genesis of Our State Albatross.”

A great deal of attention is paid to the question of why the Plan slipped from public view and is not given the credit it deserves for the extent it was influential. The consensus seems to be that it was not convenient for any of the leading forces in Indian policy making over the next several decades to emphasize this continuity with a big business generated plan. The question is dealt with in some detail at the end of Sanyal’s chapter cited in an earlier footnote in this review.

The book emphasizes the Plan’s role in the debut of organized business as a political force in India and its continuity with the nationalist intellectual commitments of its authors, who, especially Birla had been major supporters of the Congress. Sanjaya Baru, former Secretary General of the Federation of Indian Chambers of Commerce and Industry, particularly focusses on the question of business participation in public policy debate. Though strong nationalists the protagonists of the Bombay Plan were also India’s leading industrialists and had to walk a treacherous path particularly during the Quit India Movement of 1942. Nonetheless they were also among the key financial supporters of Congress from 1918 onward.

Another focus in several articles especially Meghnad Desai’s “Whatever Happened to the Indian Bourgeoisie,” is on the division within the business community between those like Tata who directly campaigned for pro business and pro market policy and those like several Birla (GD and KK) who felt that accommodation was a wiser path. Incidentally, I am not sure why Desai says that Birla testified against American investment in an Indian steel mill in the 1960s to the US Congress. The reverse is the case. Birla argued that a public sector mill would stimulate the Indian private sector.[[20]](#footnote-21) Desai emphasizes the “national bourgeois” nature of the Indian business basin his own background and expertise in Marxism.

## Criticism from the Left

The more general left position, beyond Desai’s assertions, is that the Bombay Plan was (1) only phrased in the “socialist” direction it was because the supporters did not think, given the contemporary consensus any other one would work and (2) with differences in meaning that reflected real differences despite the use of similar phraseology.[[21]](#footnote-22) But more significantly, once planning found its stride in the late 1950s, thé process was subverted for their own purposes by the Indian large scale private sector. To quote Benjamin Zachariah : « The 1950s, when the alleged socialist project was at its height, were also the time of the greatest growth of orivate capital, which never again had it so good, even during the period of ‘liberalization.’ »[[22]](#footnote-23)

More specifically there is the allegation sometimes both from the right and left that a parasitical group of capitalists seized control cutting off both genuine public and private sector entrepreneurship. The critics allege that businessmen, particularly “crony” versus entrepreneurial ones, took over the planning process, perverted it to their purposes and are thus responsible for the dragging development of the country. As the historian David Washbrook states it — independent Indian policy makers “confused state sponsored industrialization with state sponsored profit.” [[23]](#footnote-24)

On the specifics of the Zachariah quote, from a book which integrates extensive research both on the Bombay Plan and what ensued in the Indian economy and is based on sources he cites. – it seems difficult to argue that even in real terms the volume or even base of reported growth of the Indian organized sector was higher 1950-1960 was higher than 2000-2015. Perhaps the quote was by error left in from the first edition in 2005. Whether the private sector or some section of it « had it so good » is after all a matter of subjective judgement – though most sources would report that its leading figures did not agree. Whatever the analysts may say businessmen, Indian and international, generally experienced the 1948-1991 period especially after 1971 as one in which they were frozen out, as is demonstrated in the several Gita Piramal books which are based on interviews with leaders among them and cited earlier in the present review.

Perhaps a centrist position is contained in Tirthankar Roy’s text on Indian business history:

“Business development in India changed from the 1990s not because it bade goodbye to socialism, but because India reset its transactions with the world economy. In spirit, this was a return to the kind of economic change the region had seen in the late 1800s, when transactions with the world created extraordinary opportunities to borrow abroad, or buy technology and skills from abroad. In practical terms, the goods and services now exchanged differ a great deal from those of the past.

It is easy to go overboard celebrating all this. Years after the liberal reforms began, India scores poorly on several benchmarks that indirectly measure the quality of capitalism. Some parts of the older historic legacy, such as the lingering effects of family management and lax corporate governance may still persist, along with the legacy of the statist and closed regime, like the inefficient government-dominated banking system. « [[24]](#footnote-25)

Thé meta issue is why dirigiste Indian planning yielded such disappointing results, while comparable Japanese, Korean, even Indonesian and Singapore dirigisme was apparently more successful. The left would say, and some rightists as well, that the problem was not not so much the dirigisme as the fact that the dirigisme worked against rather than with private business. Sometimes this is a cultural argument – that the cultural consciousness of the civil servants, « the service class , » in Indian English was inimical to that of the « commercial clas. ». Some have tried to document this difference in recount the travails of civil servants charged with admistering enterprises under the economic regime that existed in India from 1957 onward. The pro is that private enterprises of certain sorts in most societies have been quite happy to hire retired civil servants. So whether itis the specific orientation of Indian civil servants or their general hostility to business, or yet some other factors that were involved, many cited in Mircea Raianu’s notes from his talk, is still to be determined.

1. Kudaisya, gives extensive citation to the literature in her footnotes.

 [↑](#footnote-ref-2)
2. Kudaisya, p. 118. [↑](#footnote-ref-3)
3. Kudaisya,, p. 187. [↑](#footnote-ref-4)
4. Kudaisya, p. 118. [↑](#footnote-ref-5)
5. David Washbrook, « The Rhetoric of Democracy and Development in Late Colonial India, » in Sugata Bose and Ayesha Jamal Eds., **Nationalism, Democracy and Development**, Calcutta : Oxford UP, 1997, pp. 36-48. [↑](#footnote-ref-6)
6. Backhouse, Roger E., **Founder of Modern Economics: Paul A. Samuelson, Volume I : Becoming Paul Samuelson, 1915-48**, New York: Oxford University Press, 2017. [↑](#footnote-ref-7)
7. Wikipedia article “Economic Liberalization in the Post-World War II Era,” accessed 02/01/2018. [↑](#footnote-ref-8)
8. Baru and Desai, p. 51. [↑](#footnote-ref-9)
9. Piramal, Gita, **Business Maharajas**, New Delhi : Penguin, 1996. [↑](#footnote-ref-10)
10. Marcelo de Abreu, “Britain as a Debtor : Indian Sterling Balances, 1940-1953,” **Economic History Quarterly**, July 31, 2016 accessed 02/03/2019. [↑](#footnote-ref-11)
11. Sanjoy Bhattacharya and Benjamin Zachariah, “’A Great Destiny’; The British Colonial State and the Advertisement of Post-War Reconstruction in India, 1942-45,” **South Asia Research** 19, 17, 1999. [↑](#footnote-ref-12)
12. Kudaisya, pp. 14-15. [↑](#footnote-ref-13)
13. B. R. Shenoy, **The Bombay Plan and Its Financial Provisions**, Bombay 1944; P. A. Wadia and K. T. Merchant, **The Bombay Plan : A Criticism**, Bombay, 1945. [↑](#footnote-ref-14)
14. Kudaisya, p 151. [↑](#footnote-ref-15)
15. Baru and Desai, Amal Sanyal,” The Making of a Mythical Forerunner,” pp 19-63 and Onkar Goswami, “A Vision Derailed,” pp. 94-123. [↑](#footnote-ref-16)
16. Piramal, Gita, **Business Maharajas**, New Delhi: Penguin, 1996 and **Business Legends**, New Delhi: Penguin, 1998. [↑](#footnote-ref-17)
17. Kudaisya, p. 151. [↑](#footnote-ref-18)
18. Kudaisya, pp. 79-88. [↑](#footnote-ref-19)
19. Delhi: Rupa, 2018. [↑](#footnote-ref-20)
20. Engerman, David, **The Price 0f Aid: The Economic Cold War in India**, Cambridge, MA: Harvard University Press, 2018. He records the following statements by G.D. Birla during trips to Washington all endorsing Indian public sector enterprise from the point of view of the private sector in memcons in the US Archives: P. 446, with Averill Harriman June 13, 1962 USAID records RGb286,64; with Eugene Black in World Bank Archives Folder 183568, January 6, 1960; with Philip Talbot on Novembr 7, 1962. His brother B.M. Birla published a piece to the same effect in the **Economic Weekly** of Mumbai on November 17, 1962. [↑](#footnote-ref-21)
21. See works like Benjamin Zachariah, **Developing India : An Intellectual and Social History**, New Delhi, Oxford University Press, 2012. Kamal Aron Mitra-Chenoy, **The Rise of Big Business in India**, Delhi:Akar, 2015 but drawing on his earlier work. Or Nasir Tyabji, **Forging Capitalism in Nehru’s India : Neocolonialism and the State**, Delhi : Oxford University Press, 2015. [↑](#footnote-ref-22)
22. Zachariah, p. xiii-xiv. [↑](#footnote-ref-23)
23. Washbrook, op.cit. [↑](#footnote-ref-24)
24. Tirthankar Roy, **A Business History of India : Enterprise and the Emergence of Capitalism from 1700***,* Cambridge UK, Cambridge UP, 2018, pp. 254-255. [↑](#footnote-ref-25)