Private Industry and the Second Five-Year Plan:The Mundhra Episode as Exemplar of Capitalist Myopia

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The resignation of T T Krishnamachari from the finance ministership in early 1958 was the culmination of three developments evolving concurrently. The first was the M C Chagla Commission of Enquiry Report, which ultimately led to Jawaharlal Nehru accepting Krishnamachari's resignation. The second, the "Mundhra episode" was media managed with the encouragement of industrial interests who found that the controls established as part of the industrialisation drive accompanying the Second Five-Year Plan made serious and unacceptable inroads in private capitalist decision-making. The third development involved social engineering, a concerted effort to push the bearers of merchant and usurer capital towards industrial capitalist norms. This paper, based on contemporary records, argues that the more profound reasons for Krishnamachari's fall was the "Rama Rau affair" of late 1956. It holds that the institutional subordination of the Reserve Bank of India was intended to mould monetary policy to the requirements of industrial development. It concludes that Krishnamachari tripped in attempting to coerce street-smart businessmen in control of industry to behave like true industrialists.

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In February 1958, musing over just how a situation had arisen by which an outstanding minister, T T Krishnamachari, was likely to be forced to resign over the fallout of the "Mundhra episode", M O Mathai, the special assistant to Prime Minister Jawaharlal Nehru, had the following explanation to offer.[1] In a note to Jawaharlal Nehru, Mathai argued that the great jubilation amongst Gujarati businessmen and some Parsi businessmen over the situation was basically due to the fiscal policies that Krishnamachari had pursued. Continuing, Mathai explained that, based on various kinds of information available to him, including messages from "decent" businessmen, it was apparent that the campaign was the first attack on (Nehruvian) socialism. It was, indeed, also an indirect attack on Nehru. Opponents of this ideology were openly proclaiming that socialism would disappear with Krishnamachari's exit. Further, so the argument went, as the head of the government, Nehru should also resign. A week later, bowing to the inevitable, Mathai pointed out that if Krishnamachari had to go, as seemed certain by then, there was an uncomfortable fact to be faced: that he had been sacrificed for implementing policies that he had introduced as a loyal comrade of Nehru's.[2]

This paper, based on contemporary records, reaches the conclusion that, while this was, indeed, so there was, a more viscerally felt reason for the opposition to Krishnamachari. This lay in the "Rama Rau episode". Though less glamorous, this drama had led to the resignation of the Reserve Bank of India (RBI) governor, B Rama Rau in December 1956 over his inability, in his perception, to prevent the infringement by the government of the RBI's autonomy in determining monetary policy. Actually, such a perception of events trivialises the historical importance of the episode: it was part of a strategy to institute an effective industrial policy by subordinating monetary policy to the demands of industrial development. Further, the paper argues that Krishnamachari tripped in attempting, through finance ministry stewardship, an ambitious programme of social engineering: he tried to force a section of the dominant bloc of businessmen, who had acquired control of industry, to behave like true industrialists, rather than engaging in moneylending, speculation in stocks and commodities, or asset stripping. In this, his political fall from grace provides an object lesson in political economy: the deadly consequences of misreading the limits to the relative autonomy of the state.

1 Protecting Industry from Predatory Capitalists

In early 1955, at its annual session held at Avadi, near Madras, the Indian National Congress passed its resolution declaring its aim to take India towards a socialist pattern of society. Even before this resolution, it was becoming apparent to British interests operating in the form of managing agencies that the halcyon days for their unhindered business activities were not likely to last much longer. Although they supported a determined effort to retain the managing agency system which ultimately continued for the next 15 years, repatriation of capital was clearly a major preoccupation (Tyabji 2009).

In the middle of 1954, the Dalmia group attempted to use this moment of vulnerability by attempting to buy a substantial block of shares in one of the major British managing agencies in Uttar Pradesh, the British India Corporation (BIC). Although this effort failed, a year later, Haridas Mundhra, who had successfully obtained control of British firms in the Calcutta area in the tea industry and in engineering firms such as Jessop and Company, also wrested control over BIC. Expressing his anxiety at the ability of Mundhra to do as he liked, right under the nose of the Government of India, T T Krishnamachari, minister for commerce and industry, asked C D Deshmukh, finance minister, to have procedures examined which would allow the government to examine the bona fides of an acquirer of any large block of shares in a company whose capital and other assets were valued at Rs 20 lakh or more in then current prices.[3]

Mundhra's large-scale acquisitions had reached the stage where they had attracted the attention of the United Sates newsmagazine *Time*. A message, presumably about Mundhra and probably intercepted by the revenue intelligence authorities was forwarded to Jawaharlal Nehru, who mystified by the then unknown name, also wrote to C D Deshmukh to ask whether there was any material in the finance ministry about Mundhra's origins.[4] Deshmukh's reply, sent three days later, was full of information, and given the importance of Mundhra to later events, is worth examining in detail.[5] Mundhra was, according to Deshmukh's information, a "self-made man", though as subsequent details show, with a considerable network of support, both in Marwari business circles and amongst the tea export traders. With finances of Rs 50 lakh, each provided by the firm of Bansilal Abhirchand of Nagpur and Vallabhswami, a Vaishnavite guru from Rajasthan, he started with tea exports before the second world war, subsequently building up his capital base in Britain by retaining both the sales proceeds and profits there.[6] With this collateral, he was able to gain further resources in India, buying up not only Jessops, but Richardson and Cruddas, Duncan and Stratton, some collieries, the Brahmaputra Tea Company and Oslers Electrical concerns. His other acquisitions were the Assam Tea Company and BIC. Throughout 1954 and 1955, Mundhra was in touch with large shareholders in the Assam Tea Company, and the resulting share price fluctuations were remarked on by the British financial press. The existing board of directors, as a defensive measure, had created a large number of shares worth one shilling each, with voting rights equivalent to the existing pound valued shares. Mundhra had been trying to obtain foreign exchange to finance the purchase of these shares, but Deshmukh claimed that his officials had been instructed not to allow foreign exchange outgo on this account.

In the case of BIC, although Mundhra had bought a small number of shares, the McRobert Trust owned the controlling block and Mundhra had worked hard to persuade the trustees in England to sell their holdings to him. The Singhania group, which already held a substantial number of shares, was prepared to buy Mundhra's block if he was unable to persuade the McRobert Trust. With this, the Singhania's would have gained control. However, Deshmukh wrote, that very day's edition of the *Statesman* newspaper had reported that Mundhra had succeeded in his effort, on condition that he, in turn, did not sell off. Mundhra's own managing agency, the S B Industrial Development Company Limited, managed many of his acquisitions in name, but his main appeal as a potential buyer in the British market lay in his preparedness to refrain from detailed interference in his managed companies.

Mundhra had extensive support. One large British insurance company, at least, was behind his acquisisions. Even with all this Deshmukh noted, and with his reputed "phenomenal" luck, he could not have succeeded without the knowledge of the British Exchange Control Authorities. British Exchange Banks would have required a guarantee from their head offices in London before extending loans to him in India and this could not be provided without approval or acquiescence of the exchange controllers. What was clear was that Mundhra had satisfactory arrangements with the exchange banks and large overdrafts against the shares he lodged with them.

By the mid-1950s, Mundhra's wealth was reputed to be about Rs 1-1.5 crore. Apart from the Vaishnavite guru, Mundhra was also rumoured to have access to the resources commanded by Shanti Prasad Jain, chairperson of the Punjab National Bank. He was also a "bull" operator both for the shares of companies under his control and for those he wished to acquire. He was reputed to have a "thoroughly dishonest attitude" and the judge who had disposed of one of his appeals concerning income tax matters in 1954 had gone so far as to record that, given Mundhra's past record, he would have used his discretion to refuse any writ filed by him.

From Krishnamachari's and Deshmukh's accounts, it appears that at least three of the Marwari business groups, Dalmia, Singhania and Mundhra, with the support of a fourth business interest, S P Jain, were vying to gain control of major firms involved in the tea, textile and engineering industries, in the vacuum created by the repatriation of British interests. There were several points of concern here. First, whatever the failures of the British managing agencies, there was a vast difference between their professionalism and that of the Indian groups who were engaged in taking them over.[7] In fact, the differential quality of industrial management that the British and Indian managing agencies represented went beyond any normal range in capabilities. The Indian firms were either representatives of trading or speculative capital (Mundhra); in the other two cases of Dalmia and Singhania, they represented capital accumulated through trade and usury, painfully attempting the transition to industrial capital, a transition made doubly difficult because of the constraints placed on industrial investment by the at the end of the colonial period of India's history.

The consequences of such a pedigree were well-described by Bettelheim.[8] Basing his analysis on the RBI conducted All-India Rural Credit Survey of 1951, he argued that an overlooked feature of the effect of the high rates of return to rural moneylending capital was the drain on urban capital stocks. This differential was the cause of a continuous drain on newly formed industrial capital, taking it not only into financial and commercial operations, but into the rural areas. This led to a situation, where capital amassed in the industrial process was degraded into an accumulation of debts, an extraordinary transformation of capital into income in the hands of landlords and previous debtors.

Even if this flow could be reduced (by, for instance, the creation of the State Bank of India (SBI) with an extended network of rural branches), there was the second point of concern for the state. This lay in the predilections of these businessmen: rather than using their accumulated capital in greenfield investments, they were engaged in the takeover of existing companies. This practice enabled them to evade evolution into industrial capitalists. Finally, and perhaps most dangerously, stock market operations explicitly visible in the case of Mundhra, were driving the stock market forward, and encouraging other businessmen similarly to engage their resources in speculation on the markets.

The entire plan of industrial development which the Second Five-Year Plan was to lay out was threatened by these activities of private capital. For the 1948 Industrial Policy Resolution, soon to be replaced by the more clearly focused resolution of 1956 had laid out areas which were open for fresh investment by the private sector. It was within these bounds that private resources were expected to be channelled. For the representatives of merchant and usury capital, widespread forms of pre-industrial capital, on the other hand, textiles, sugar and other light industry were their preferred area of activity. With capacity in large-scale cotton mills limited by the policy measures designed to increase handloom production, acquisition of existing firms in textiles, tea and engineering, the last assured of market demand by planned expansion of public sector activity were far more attractive, being known quantities, with production processes well-understood and demand assured.

It was these considerations that led T T Krishnamachari to address the finance minister only a couple of months later, on the inexplicable boom in the stock market.[9] Curiously, the beginning of the boom seems to have coincided with announcement of the "socialist pattern of society", implying perhaps that the stock market realised that private industrial profits were going to rise in the foreseeable future. However, Krishnamachari was concerned that the degree of appreciation in share prices, which was qualitatively of a higher order as compared to worldwide trends. Such an increase would mean, as earlier mentioned that fewer resources would be available to take up shares in new companies floated in order to establish industrial capacities in areas hitherto untapped. Krishnamachari suggested that measures should be explored to channel investments into these newer areas, possibly by asking banks through the RBI to discontinue lending for investments in shares of existing companies.

It was not only British interests which were contemplating repatriating their holdings in India. In a letter to T T Krishnamachari, G D Birla explained the mysterious circumstances by which he was approached by "quite an important" man, who, coming straight to the point, wished to know whether Birla would be interested in buying out Neville Wadia's holdings in Bombay Dyeing, the major textile mill in Bombay.[10] The deal was to include the managing agency which would be transferred to the Birla group. From the trend of Birla's letter, it appeared that he was expected to show an interest and name a suitably inflated price, which would then be used to bargain with the Calcutta or Ahmedabad buyers, who were reputed to have offered double the then Bombay Dyeing share price of Rs 500. Birla reportedly advised the intermediary that if the Ahmedabad offer came from Kasturbhai Lalbhai, that should be accepted as this offered the prospect of far better management than would be provided by the Calcutta aspirers. Birla ended his letter by saying that he felt sorry at the prospect of industrialists selling off their interests. Birla mentioned Haridas Mundhra, Chiranjilal Bajoria and Shanti Prasad Jain as likely buyers, who would pay a "fancy" price but who were not, presumably in his estimation, industrialists. He also reported the perhaps politically correct statement at the age of 62, he had no desire to enter into a new business but wished only to create employment opportunities and wealth, neither of which aims could be realised by buying an existing company. This, then was the defining element of an industrialist, at least in that early period of industrial development in India.

Foremost amongst the capitalists whose outlook did not accord with those of industrialists were the jute mill owners of Bengal. T T Krishnamachari had remarked, nearly three years earlier on the Marwaris' "…notorious indifference to the efficient working of the industrial apparatus, both mechanical and human". This was in one of the earliest expressions of concern about the consequences of British interests selling out to the Marwaris. This was a colourful, yet acute portrayal of the attitudes of representatives of merchant and usurer capital to issues of industrial management, plant maintenance and modern systems of industrial relations. As Nehru noted, even B C Roy, chief minister of West Bengal, and no "socialist" ideologue, had spoken rather strongly about the jute mill employers and felt that steps should be taken to make them behave.[11] This was presumably a reference to their cavalier attitude, along the lines of absentee agrarian landlords, towards laws regulating labour conditions in their plants.

To summarise the situation as it appeared to the Government of India at the beginning of the Second Five-Year Plan. Businessmen who had accumulated large funds through grey areas of economic activity had found that the stock market, buoyed by the prospects of high returns to industrial investment, was a source of high short-term returns. Simultaneously, established British and even some Indian industrialists, whether motivated by fatigue or uncertain prospects within a controlled economy were keen to liquidate their stock market based assets. There was then the prospect that well-established and well-managed firms would fall into the hands of unknown figures, some of whom had the reputation of being adventurers.[12] Apart from their own proclivities on the stock exchange, their manipulation of the market through insider trading was proving a lure to other capitals which might have been invested in new enterprises. With ambitious plans for private investment, the Government of India could not be indifferent to these phenomena.

2 Social Engineering through Fiscal Policy

Even before he became finance minister in September 1956, Krishnamachari was playing an important role in introducing innovative ideas into Indian fiscal policy. After a meeting with Nicholas Kaldor in March 1956, he wrote to Jawaharlal Nehru that he agreed with Kaldor that the existing taxation system took no account of human factors and presumed that by increasing the rate of tax, the desired redistribution would take place.[13] He emphasised also that Kaldor's proposals, with which he was familiar, having read his book on expenditure tax and his minute of dissent to the British Royal Commission on Taxation, formed parts of an integrated scheme and could not be introduced piecemeal. However, given the novelty of the scheme, Krishnamachari felt that considerable propaganda efforts would be necessary, both with members of Parliament (MPs) and within the Congress. He asked Nehru if he was agreeable to have a meeting in the Lok Sabha, to which Nehru agreed.[14]

Two months later, when a group of Congress MPs submitted a memorandum on taxation policy, a copy was sent to Krishnamachari.[15] The substance of their argument was that with the adoption of the "socialist pattern of society" (by both the Congress and the Lok Sabha), the recommendations of the Taxation Enquiry Commission had been made obsolete. So the proposal to tax basic items of consumption in use by the poor, so as to raise resources for the Plan, was not valid. The group demanded that a list of items which they indicated should not be taxed, but measures taken to ensure stable prices prevailed despite resort to measures of deficit finance. For this, not only price controls, but a system of buffer stocks in strategic locations had to be established. The resources foregone because of the exemptions on tax of these basic items could be balanced by increasing taxation levels of the higher income groups, whose income and wealth would necessarily increase with a "high pressure development programme".

Concerned by the implications of these trends in economic ideology, the World Bank took the opportunity of Krishnamachari's formal appointment as finance minister to deliver a few home truths.[16] Emphasising that it was his conviction that India's interest lay in giving private enterprise, both Indian and foreign, every encouragement, Eugene Black, president of the Bank, disparaged the intrusion of ideology in policy matters. He singled out the Industrial Policy Resolution in this regard, and argued that the targets for public sector investment were far too large. The deficit financing necessary to support this investment were sure to lead to unacceptable inflationary pressures, and create financial instability. As far as external finances were concerned, the Bank wanted a change from the existing policies that discouraged exports of textiles and vegetable oils, to the active support of these and other traditional exports.[17] Reiterating the Bank's willingness to support India's Plan, Black cautioned that the quantum of aid would necessarily depend on India's success in attracting foreign investment (phrased as "… external financial assistance… (which did not entail)…fixed foreign exchange commitments"). A specific area of policy reform, with which the letter ended, noted that Indian reliance on the expansion of the rail network, while welcome, should not ignore the importance of road and coastal shipping, a problem of transport "…which has particularly engaged the attention of the Bank, as well as of your own Government and of private interests throughout India".

The impact of this letter was evident a short time later, when the cabinet met to consider the subject of the financial resources required for the Second Five-Year Plan.[18] The terse minutes merely recorded that after consideration of a finance ministry paper on the subject, there was a broad agreement on the approach. However, it was decided that for the time being only the three proposals for a capital gains tax, an increase on tax rates on dividends, and controls on companies' reserves were to be implemented.

This was certainly a retreat from Kaldor's integrated scheme. However, the significance of the controls on the use of reserves by companies needs to be emphasised. From the 1930s, observers had noted the tendency of managing agencies to use these reserves as cheap sources of finance for a variety of purposes, with the concomitant that depreciation reserves were perpetually inadequate to meet replacement costs, particularly at times of technological change, or even of unusual levels of inflation.[19] Ensuring that reserves not intended to be utilised for upgradation of plant and equipment would not be eligible for tax rebate was an important step in social engineering, discouraging non-industrial forms of utilisation of company resources.

Another controversy that erupted at this time was that created by the resignation of the RBI governor, B Rama Rau.[20] The substantive issue was the government's proposal to increase the stamp duty levied on money market transactions. The RBI felt that the large increase in stamp duty, a "fiscal measure with monetary implications" in Krishnamachari's words, infringed on the prerogative of the bank to determine monetary policy. Apart from the government's action, Rama Rau was also incensed at the characterisation of the bank as a department of the government and offended at Krishnamachari's personal behaviour with him. Nehru supported Krishnamachari, and various commentators have noted and generally deplored the era of subordination of the RBI to the government that this episode inaugurated. What has not been remarked on is the fact that this institutional subordination was the expression of the primacy given to industrial policy over monetary policy.[21] As a measure of social engineering, this was even more critical than the controls on reserves. Basing himself on the empirical results of the RBI's All India Rural Credit Survey, Bettelheim had remarked on the large difference between the interest rates in the urban money markets and those in rural moneylending (the bank rate rose to a maximum of about 5% in 1958 as compared to agricultural moneylending rates of between 25% in Bihar and 40% and above in Bengal, Orissa and Himachal).[22] The tightness of the money market and requests for steps to ease controls were one, constantly repeated, theme in all of G D Birla's correspondence with Krishnamachari.[23] Shrewdly, he linked the market conditions affected to the difficulties it created in financing industrial expansion plans.[24]

3 The Mundhra Episode

The resignation of T T Krishnamachari from the finance ministership in early 1958 was the culmination of three developments, evolving concurrently, but distinct in their historical significance. The first was the actual sequence of events that led to Jawaharlal Nehru accepting Krishnamachari's resignation. This has been detailed in the public record, in the open proceedings of the M C Chagla Commission of Enquiry and notably, in G Balachandran's account in the volume of the history of the RBI authored by him.[25] The second, little noticed, is the way in which the "Mundhra episode" was media managed with the encouragement, if not at the behest, of industrial interests who found that the controls established as part of the industrialisation drive accompanying the Second Five-Year Plan made serious and unacceptable inroads in private capitalist decision-making. These were felt to be of an order that justified, in their minds, a multi-pronged political response, as will be seen. The third development, involved social engineering, a concerted effort to push the bearers of merchant and usurer capital towards industrial capital norms. It will be argued that it was an uneasy coalition formed by opponents of each of these developments that coalesced and led to Krishnamachari's resignation.

In May 1957, as large quantities of shares of the Mundhra firms were held by commercial banks in the country, including SBI and several exchange banks, H V R Iengar, governor of the Reserve Bank had convened a meeting to take concerted action to prevent a sudden or haphazard unloading of these shares on the market.[26] However, this meeting was abortive and by June 1957, Mundhra was in serious trouble. He had approached G D Birla for help in liquidating a part of his holdings, but Birla felt that with the tight conditions in the money market, no one would be prepared to buy the shares. Birla suggested that Mundhra should meet Krishnamachari and ask for his advice.[27] By this time, the Punjab National Bank, which had been accommodating Mundhra, was pressing him to repay and Birla felt that Mundhra risked losing control of Turner Morrison.

Following a further meeting between the SBI, Life Insurance Corporation (LIC) and T T Krishnamachari in June, it was decided that LIC would attempt to reduce the pressure of the market by buying a large block of Mundhra's shares. The proposal was conceived as a short-term measure to maintain share prices in the market, but this step proved incapable of restoring confidence in the share market.[28]

Later in the year, SBI and LIC, both with very heavy stakes in the matter had reviewed the situation and in consultation with Krishnamachari, had agreed that SBI should take urgent action.[29] In November 1957, it was the turn of Iengar to report to Krishnamachari. The managing director of BIC was reported to have confided to Sachin Chaudhuri, who was a member of the State Bank of India's Calcutta local board at that time, that in payment for dues from Mundhra's mills, BIC had received Richardson and Cruddas shares. These shares had been supposedly held by the Punjab National Bank which had sold them. However, confidential enquiries with the bank showed that the endorsement for transfer had been forged; the shares neither belonged to the bank nor had they transferred them. The BIC managing director had lodged the shares in safe custody and Mundhra was demanding that they be returned. Although both the State Bank and the LIC were taking steps to ensure the security of their advances and investments in Mundhra's various firms, Iengar felt that the time had certainly come to stop Mundhra in his share certificate forging orgy.[30] Iengar followed with another letter, two days later informing Krishnamachari that the Managing Director of BIC had also lodged the share transaction form with the SBI, with an RBI lock installed for double protection. In the meantime, a large block of Mundhra's shares pledged to the Punjab National Bank were offered for sale, because Mundhra had not been able to pay his dues and his cheques were not being honoured. It was uncertain how many of these shares were forged.[31]

Events moved quickly after this. On 5 December, Iengar wrote to say that LIC and SBI would jointly present a petition asking the court to appoint a manager for Richardson and Cruddas and BIC, which were to be taken possession of under the hypothecation agreement they had entered into.[32] A criminal case was to be filed concerning the forged shares in the possession of the Punjab National Bank. Finally, an investigation under the Company's Act was to be initiated into the affairs of all the Mundhra companies. In his secret note, D L Mazumdar, then secretary, Department of Company Affairs added that LIC was also keen to change the management of Jessop and Company and was seeking the cooperation of other large shareholders, Punjab National Bank and the engineering firm, Burn, Brathwaite, Jessop and Co.[33] If this cooperation did not materialise, LIC wished to take action under the Companies Act with its 20% shareholding, but it was felt that no minority shareholder could bring about a quick and non-disruptive change in management. Mazumdar also reported that he was informed that at the time when LIC came to Mundhra's help in June 1957, no special powers of intervention had been sought from Mundhra, so that if the situation did not improve, LIC could decisively intervene in company management. In the event, before the Mundhra case became a cause célèbre, the Department of Company Law, SBI, LIC and RBI had agreed on the takeover through court action of the management of BIC and Richardson and Cruddas, police action against the share forgeries, and an investigation into the affairs of the Mundhra companies by the department.[34]

In the context of the controversy over the LIC purchase of the Mundhra shares, whether the shares should have been bought from Mundhra himself, whether Krishnamachari, or H M Patel browbeat the chairperson and managing director of LIC to buy these shares against their better judgment, the most critical factor seems to have fallen by the wayside. This was emphasised by a comparison of the two notes written by D L Mazumdar,the secretary of the Department of Company Law Administration in September 1957 and the second in December 1957. The first was addressed to Jawaharlal Nehru, at a time when Krishnamachari was in the United States.[35] Pointing out that the share purchases by LIC seemed not to have had any lasting results, the share prices continuing to fall, Mazumdar suggested two options before the government. The first was an investigation into the affairs of the Mundhra Group under provisions of the Companies Act; the second was an action against the management of specific companies of the group for contravention of articles defining sound principles of corporate governance. Mazumdar suggested that any process of formal investigation would be long drawn out, subject to judicial scrutiny and be detrimental not only to the "...interests of investors, but also of employees, and indeed, of production as such". As for action against specific companies, the department was considering a feasible action.

Curiously, the note did not suggest the takeover of at least those companies in the group in which the SBI had a decisive stake through the hypothecation agreements accompanying the loans advanced to both BIC and Richardson and Cruddas, a step that was taken finally, three months later. Similarly, the provisions under the Industries (Development and Regulation) Act (IDRA Act), allowing action by the government in the public interest were not considered at any time. According to Mazumdar, it was the evidence of Mundhra's widespread use of forged share certificates which made the governor of the RBI feel that urgent action was demanded. It was also the combined resolve of the RBI, SBI and LIC that led to the agreement by Krishnamachari in late November of these initiatives to gain managerial control.

What is being suggested is that in a long-term historical perspective, the issues that gained public attention at the time of the Mundhra episode were irrelevant. The question that needs to be asked is why these steps could not have been taken earlier. The conventional reasons offered, both by the Commissions of Enquiry, and later commentators, of a short-term nexus between Mundhra as an individual and the Congress Party's requirements of funds for the 1957 elections seem inadequate.[36] As has been mentioned, Mundhra had long-standing connections with the British exchange banks and even with the British government. The significance of the reluctance of Mundhra's creditor banks to take a combined action to protect their own interests at a meeting called by the RBI governor in May 1957 has already been noted. There was marked reluctance of the Punjab National Bank, which together with the LIC, was a major shareholder in BIC to initiate police action, even when it was discovered that the share certificates it held as surety were forgeries. It will be recalled that the chairperson of the bank was Shanti Prasad Jain, one of the persons under scrutiny in the Dalmia Jain case. It was suggested that the action to divest Mundhra of control of his companies until a stage was reached where action became imperative was actively discouraged because Mundhra belonged precisely to the category of short horizon businessmen, who were so entrenched in the political economic nexus that presided over at least a significant part of the Indian political economy.

If this was indeed so, then a more promising area of enquiry was raised by the brief mention in the *Salivati Newsletter*, a broadsheet published from Bombay and evidently in the know of Bombay share market gossip.[37] According to this account, in March 1957, the union commerce minister was alerted by the chief minister of Uttar Pradesh to the accumulation of stocks at the BIC mills and the imminent threat of closure of the mills leading to unemployment for 20,000 workers. After a visit to Lucknow and discussions with the chief minister and Mundhra, the union government officials advised Mundhra to reduce the labour force by dismissing a section of workers. He was also offered financial help, but after the refusal of the National Industrial Development Corporation, the SBI and the exchange banks to advance further funds, attention was to focus on LIC. According to the *Salivati Newsletter*'s sources, between four and six members of the union cabinet were in favour of financial help to Mundhra, and quite contrary to the predominant view that the financial improprieties were the result of a series of ill-considered and unsound directives issued by Krishnamachari, it was held that actually he was guilty of an inability to withstand the pressure from his cabinet colleagues and was merely an instrument in the decision to purchase the shares by LIC.[38]

4 The Forum for Free Enterprise and the Democratic Research Service

Almost simultaneously with the adoption of the resolution on the socialist pattern of society in January 1955, and its endorsement by the Lok Sabha soon afterwards, Bombay businessmen began to voice their dissatisfaction with the trend in economic policies. As a result, the government agreed to a series of consultations with major figures in the industrial field. In 1955, the major concern was the Companies Act, and a meeting was held with the Congress president, U N Debar, Morarji Desai, the chief minister of Bombay State and G D Birla, J R D Tata, Gujarmal Modi amongst others. The discussion began generally on the socialist pattern. While both Tata and Modi were very gloomy and felt that the future held out little hope, Birla and some others took the line that adaptation to changing conditions and acceptance of major policies laid down by the government was essential if private industry was to function properly. Ultimately, both Tata and Modi though probably not wholly convinced, toned down their criticism.[39]

By February 1956, with the imminent announcement of the new Industrial Policy Resolution, the feelings of apprehension were quite apparent to G D Birla, who reported the mood at a lunch hosted by Tata. Birla's attempt to inject some optimism apparently entirely failed.[40] Led by the Tata Group, these misgivings materialised in the Forum for Free Enterprise.[41] According to its manifesto which was published in the Bombay edition of the *Times of India* in July 1956, the forum was to be a non-political and non-partisan organisation, disseminating authoritative information to educate public opinion on the achievements of private enterprise, and the manner in which it could contribute to the economic development of the country.[42] It called for support from those in service, profession, agriculture, trade and industry. However, in its far-flung effort to explain the purpose of its establishment, A D Shroff, one of its chief organisers, clarified that the forum would have its political activity in the shape of organising public opinion against the government's economic policy, including the threat of nationalisation implicit in the takeover of the airlines, the imperial bank, and life insurance. The 1956 Industrial Policy Resolution was responsible for creating apprehensions in businessmen's minds, as also in the broad investing public.[43] M R Masani, founder of the Democratic Research Service, spoke more explicitly at Bangalore: lovers of freedom, he said, should be alert enough to shift their fire and their aim from one source of the centralisation of power and privilege to another.[44] In his opinion, the social forces represented by industrial management, trade, organised labour, the professions, industrial proprietors and religion could provide the checks and balances necessary to curb power. Morarji Vaidya, president of the Indian Merchants Chamber, in an article in the *Times of India* criticised both nationalisations, but extended the basis for opposition by referring to the "attitude" adopted by the State Trading Organisation.[45] Further activity was reported with 120 trade organisations in Bombay contacted in the course of five meetings in July 1956, 50 MPs in Delhi in September 1956, members of Mysore Chamber of Commerce and the Indian Institute of Culture at Bangalore, also in September.[46] Meetings in Calcutta were held with "prominent citizens, with the Upper India Chamber of Commerce in Kanpur, and the Gujarat Chamber of Commerce in Ahmedabad, Finally, an All-India Essay contest was organised for students on the subject "Free Enterprise and Economic Progress", and, under the auspices of *TREND* magazine, a meeting for women was held at the Taj Mahal hotel, where the audience was reminded that as consumers of domestic goods, they provided adequate regulation of the industry, thereby making state regulation superfluous.

So as to make the aim of the forum plain beyond any doubt, according to another intelligence report, A D Shroff, speaking to the Commerce Graduates Association in October 1956, referred to the letter from Eugene Black, to T T Krishnamachari, criticising the direction of his economic policy. Black was, according to Shroff, a "real and sincere" friend of India. By December 1956, the ambitions of the sponsors of the forum, perhaps fortified by the response to their campaign, had extended to the overtly political. Japan Singh, an MP of the Jharkhand Party was approached to gain his support for the candidatures of M R Masani, A D Shroff, H P Mody and Leslie Sawhney, J R D Tata's brother-in-law, in the 1957 parliamentary elections from the Jharkhand area of Bihar.[47] Tulsidas Kilachand, another industrialist-MP, had joined the "Tata crowd" who were simultaneously in touch with N C Chatterjee, extending support to 15 candidates in constituencies where the Hindu Mahasabha and Jan Sangh had a political base. The Democratic Research Forum and the Forum for Free Enterprise, having collected Rs 10 lakh, were in need of more money. A political attaché in the US Embassy, "…working directly under the orders of Mr Allen Dulles…" [CIA Director] had offered considerable financial assistance from secret service funds.[48]

Apart from the broader relevance of these developments to India's political trajectory, and the increasing pressures towards modifying economic strategy, by April 1957, it was clear that the immediate target of attack was T T Krishnamachari. H V R Iengar informed Krishnamachari of a conversation he had with Shroff.[49] To a query about whether Shroff was aware that he was doing a great deal of injury by the reckless manner in which he was attacking the government, he immediately turned the conversation towards Krishnamachari personally, and to his supposed open hostility even to any legitimate criticism of his policies. While reiterating that Shroff's idiosyncracies were well known to Krishnamachari, Iengar warned that the broader intent of Shroff's criticism was being shared with some of his colleagues in the cabinet. This aspect of Shroff, of allowing bitterness towards policies affecting him in relation to unrelated areas of government's functioning was noted by Nehru, too.[50]

5 'Right Reaction': Krishnamachari's Exit and Re-entry

After the presentation of the 1957 budget, it seemed as if the campaign to create a fear psychosis amongst the middle class had reached such proportions that Nehru, while strongly reiterating his support for the fiscal measures, had to warn Krishnamachari of the prevailing current of opinion.[51] Almost simultaneously, Krishnamachari was told by the old established Congressman and the governor of Bombay State, Sri Prakasa, of his own misgivings about the budget proposals.[52] Sri Prakasa specifically pointed to the opportunities for harassment, not only directed at businessmen, but also to the middle class who would, reportedly, be required to maintain records of expenditure. In the fortnightly report that state governors were to send to the president, Sri Prakasa elaborated his concerns, a copy of which he sent to Krishnamachari. On his part, pointing out that it was the business of government to carry every shade of opinion without sacrificing its principles, Nehru emphasised the need when a policy opposed any sectional interest, to "…hurt him as little as possible, that is, to put it at the lowest in a politician's way." Not only had the Congress Party in the Lok Sabha to be taken along in support of these measures, but the people generally. "Running down" of the propertied classes, though often justified, ended in not only demoralising them, but also the large middle class and even the lower middle class.

In replying to Nehru's letter of warning about the currents of opposition created by the 1957 budget, Krishnamachari made an astute point.[53] While agreeing that all the major moulders of public opinion in the press were sharply critical of the fiscal measures proposed, Birla was singled out as a friend. But even "…he feels hurt because the prospect of running the type of business as he has been doing in the past will not be possible in the future". While Birla could adjust to the new circumstances, other businessmen, presumably deeply enmeshed in the usurious, speculative and commercial modes of operation could not easily do so. According to Krishnamachari, Birla was thus torn between his loyalty to the Congress (his friends) and to his "clan", this latter breed of businessmen. It was this breed of businessmen whose financial manipulations were investigated by the Vivian Bose Commission (India 1963).

These were no ordinary businessmen. Amongst them were groups whose trajectory was graphically described by D R Gadgil in his comment on the report of the Bose Commission:

> The problem posed by the findings of the Commission may be described as follows. It has been found that a group of businessmen has acted together in the past, in all kinds of devious, patently unfair or even illegal ways, and has, as a result, not only made large gains for its members, but has enabled them to attain to such dominant economic position that a part of the old group, as such, and most of its members individually, today are amongst the most powerful and prosperous of business concerns and businessmen in India.[54]

Where Krishnamachari's shrewdness seems to have failed him was in his unwittingly creating an alliance between Birla's "clan" and the modern Bombay-based supporters of the Forum for Free Enterprise. While the former reacted to his measures of social engineering, the latter objected to the institution of controls that, in their opinion, impinged on their sources of authority and power. Together, they created the situation that forced Krishnamachari's exit from the cabinet.

After the 1962 elections, Nehru offered a re-elected Krishnamachari any cabinet post of his choice except finance (held by Morarji Desai after a brief interval following Krishnamachari's resignation in 1958). In a bitter letter to Nehru, Krishnamachari claimed that it was Morarji Desai who had played a major role in ensuring a situation in which his resignation became inevitable. His charges were formidable:[55]

> …you are a mature politician and the Prime Minister of a great country. In the course of the discharge of your obligations, therefore, it does happen that you might have to walk over the corpses of your friends. I realise it might be necessary and I, for my part, have no grievance. But I cannot be a good friend and unilateral though it might be I consider myself to be one …., if I did not tell you that you do wrong. It is for you to

decide whom you are keeping as helmsman of the economic affairs of this country. You will appreciate also that I cannot serve in any ministry charged with some economic mission with the present FM as economic director. There are two angles to it – one personal and the other a matter of principle. Mr M[orarji] D[esai] had a fair share in the launching of the campaign against me when I was F[inance] M[inister]. I know more of it after I left. His minions in the Lok Sabha and outside did the dirty work. You knew that he brought Moulana [Abul Kalam Azad] into it at one stage. He suborned the loyalty of officials whom I had trusted and even specially favoured by offers of preferment and made them give false testimony before the [first Vivian] Bose Commission. His agent [,] a journalist at the time [,] lobbied with the UPSC (Union Public Service Commission) and got rewarded as news editor in A[ll] I[ndia] R[adio]. The nasty speeches in the discussion on Bose's report, etc, were made by his agents – known to be such to all members of the Lok Sabha. On the public issues he was the apostle [of] all that I was against. The Finance Ministry has become a veritable paradise of the vested interests these last few years. My tax measures were drastically amended and such that remain have been made dead letters administratively…I hear that the Central Board of Revenue has been asked to prepare a paper supporting a scheme to abolish the wealth tax and expenditure tax. Tax evasion during these four years has gathered momentum and officers are afraid of Bombay vested interests…The Swatantra Party against which you have been fighting is not really led by Rajaji [C Rajagopalachari] but by the big guns of industry and trade and the F M and another in your cabinet are their firm supporters. At the appropriate time they would change the band wagon….

When the report on the Dalmia Jain Group was released in 1963, its quite startling revelations gave pause to even those members of the government, long inured to the ways of the business world. Its implications were such that Krishnamachari, finally back in the cabinet, felt that a carefully chosen official would need to be appointed to examine the report and suggest remedies. He feared that the forces which would oppose action were so powerful and resourceful that nothing might conceivably be done at all.[56] D R Gadgil, in an unsigned note in response to a request from Pitamber Pant, Head of the Perspective Planning Division of the Planning Commission, set out in clear terms the reasons why the controls instituted by the government had failed to deal with determined efforts to prevent activities which though not technically illegal, had serious implications for society.[57]

Discussing the possible ways of preventing similar occurrences in the future, Gadgil argued that the two principal legislative enactments, the IDRA and the Companies Act, were inadequate to deal with such situations. IDRA was framed so as to promote industrial development, to maintain continuity and efficiency in production, and to conservation of resources. Only one subsection, added in 1953, enabled the government to initiate an investigation when any enterprise was seen to be managed in a manner highly detrimental to the industry as a whole, or to the public interest. However, Gadgil noted, the addition of this sub-clause had not made any difference to the rest of the act: public interest remained a fifth wheel in the structure of the act.[58] In the case of the Companies Act, Gadgil pointed out that following the example of British Company Law, the Indian Act abstracted from economic policy, and more critically, the courts in India had examined proposals for corporate action that came before them in a narrow framework, and public interest again was entirely absent in their consideration of a case.[59] Turning to international experience in dealing with economic offenses of the Dalmia Jain type, Gadgil pointed out that only in post-war West German legislation did offences include those which "…violat[ed] the interest of the State in the conservation and integrity of the economic order as a whole or in individual branches". Moreover, he added, in relation to this new classification of economic offence, the measurement of the gravity of the offence was also innovative: the yardstick was not only the gravity of the interest that had been injured, but also the mens rea (degree of criminal intent) of the offender.

Gadgil concluded that action that was to be taken was not at all a matter for the lawyer. Only when public interest was invoked and the approach defined as that relating to the totality of the economic system that a solution would be possible to halt, if not reverse, a "steadily worsening situation". Concretely he suggested that, the group's managing agency control over public companies should be forcefully broken, there should be an expropriation of the assets of the group, and the firms under their control should be taken over by the government. Finally, the persons indicted were to be prohibited from holding office in any joint stock company whether closely or widely held.[60]

Although, largely as a result of the outrage provoked in the Lok Sabha by the revelations of the Commission's report, the managing agency system was abolished effectively from 1969, there was never a return to the range of social engineering policies that Krishnamachari had introduced in the 1957 budget.[61] The strategy seemed now to curtail businessmen's proclivities in the financial sector (for instance, by nationalising channels of delivery of funds for agriculture through takeovers of commercial banks), rather than the explicit measures that had cost Krishnamachari the finance minister's post in the earlier government.[62]

NOTES

1 M O Mathai, Secret note 2 February 1958 Jawaharlal Nehru Papers (subsequently JN Papers), File 590, p 82. *Collections of Jawaharlal Nehru* and T T Krishnamachari papers held in the archives of the Nehru Memorial Museum and Library, Teen Murti, New Delhi.

2 Note 11 February 1958 JN papers File 593, pp 241-43.

3 Secret letter D O No 349-CIM/55 23 August 1955 T T Krishnamachari Papers (subsequently TTK Papers) Subject File 8(B), p 16.

4 Secret letter No 177-PMH/55 18 September 1955 JN Papers File 384, p 190.

5 Secret letter No 084/PSF/55 21 September 1955 JN Papers File 385, pp 116-17.

6 Rai Bahadur Bansilal Abhirchand's firm had come to the notice of the Central Provinces Banking Enquiry Committee, reporting in 1929-30. At that time the Abhirchand firm was the only indigenous bank in the province. It had eight branches in the province and 17 outside. Although not operating under the Companies Act, it transacted business like modern banks, with payment by cheques. However, unlike banks, it also engaged in trade and advanced loans against the security of immovable property. *The Central Provinces Banking Enquiry Committee 1929-1930 Vol I* (Government Press, Nagpur), p 98 quoted in Levkovsky (1966), p 231.

7 Brimmer (1955), pp 556-59.

8 Bettelheim (1971), pp 74-79.

Bettelheim (p 76) quotes the Majority Report of the Indian Central Banking Enquiry Committee (p 99), which stated in 1931 that "…commercial banks…occupy a significant place in the financial superstructure that is available to the village moneylender, the urban moneylender, the indigenous banker and the trader in agricultural produce".

Given that all the major groups had large-scale commercial banks within their fold, the link between "…big monopoly and financial capital with rural money lending capital", was quite apparent to Bettelheim (p 78).

9 Secret letter 26 October 1955, copied to Jawaharlal Nehru on the same date TTK Papers correspondence with Jawaharlal Nehru 1955, pp 145-46.

10 Personal and confidential letter 17 February 1956 TTK Papers correspondence with G D Birla, pp 33-35.

11 Letter to Khandubhai Desai, Labour Minister, No 605-PMO/56 17 November 1956 JN Papers File 489, p 34.

12 Deshmukh in his letter to Jawaharlal Nehru referred to Mundhra as someone willing "…to take risks – and heavy risks involving his personal fortune too…" Secret letter No 084/PSF/55 21 September 1955 JN Papers File 385, pp 116-17.

13 Secret letter DO No 96-CIM/56 15 March 1956 TTK papers correspondence with Jawaharlal Nehru 1956, pp 38-39.

14 Confidential letter No 115-OMO/56 15 March 1956 TTK papers op cit, p 40. It was presumed by both that C D Deshmukh, the titular finance minister would be consulted only as regards the details of the meeting.

15 Members of Parliament's letter 27 April 1956 to the prime minister enclosed with Jawaharlal Nehru's confidential letter No 1180-PMH/56 16 May 1956 TTK papers op cit pagination unclear.

16 Letter 5 September 1956 circulated with Planning Commission Circular No PC/CDN09/1/56 1 October 1956, distributed widely within the Planning Commission. JN papers File 477, pp 5-8.

17 In fact, in December 1956, a committee of secretaries set up to make recommendations for increasing exports identified sugar, cotton, vanaspati, groundnuts, and salad oil as commodities for special attention. There was an opposition to export groundnut oil from the ministers in charge of agriculture, food, and commerce and consumer industries. "Recommendations of the Committee of Secretaries for Increasing Exports", Ministry of Finance, Department of Economic Affairs, nd, enclosure to secret letter 28 December 1956 from T T Krishnamachari to Jawaharlal Nehru JN papers File 498, pp 94-98. Chakravarty (1989), p16 claims that in the case of cotton textiles, exports were not encouraged not because of considerations of maximising internal supplies but because of the regional concentration of the industry and the political issue of supporting particular groups of industrialists at the expense of others. If this was so also of vegetable oils, a regionally concentrated industry, this would amount to a serious indictment of the political management skills of the cabinet. It is significant that in an undated note in 1957 Krishnamachari suggested to the commerce and industry, food and agriculture and steel, mines and fuel ministers that distribution and export organisations should be established on a statutory basis for the sugar, textiles, cement, and iron and steel industries. TTK papers correspondence with Jawaharlal Nehru 1957, pp 17-19.

18 Meeting of the Cabinet held on Thursday, the 15 November 1956, at 9 am, Financial Resources for the Plan Case No 308/66/56 JN papers File 488, p 204.

19 See, for instance, Samant and Mulky (1937), p 167.

20 The Reserve Bank's view of these developments is in Balachandran (1998), pp 715-24. While this account is largely framed as an account in inter personal and inter institutional issues, later, on pp 729-30, Balachandran comes close to the present discussion, although it is framed in a Keynesian cum structuralist cum "modernist" versus monetarist policy perspective. The present account is also based on the following documents JN papers File 494: Secret and Immediate letter No 2816-PMH/56 6 December 1956 from Jawaharlal Nehru to T T Krishnamachari p 157; Secret letter No G 8-300/56 10 December 1956 from B Rama Rau to H M Patel, enclosing Secret Memorandum No B-34 Memorandum to the Central Board Implications of certain provisions of the Finance Bill, 1956, 10 December 1956, pp 172-76; Letter 11 December 1956 from T T Krishnamachari to Jawaharlal Nehru, p 177; Secret letter 689-PMO/56 12 December 1956 from Jawaharlal Nehru to B Rama Rau, pp 307-08. Also JN papers File 498 Secret letter No G 8-311/56 29 December 1956, from B Rama Rau to Jawaharlal Nehru, pp 102-08 with enclosure "Extract from the statement by Shri B Rama Rau, Governor, Reserve Bank of India, at the Bank Annual Report Discussion (25 September 1956)" on p 101.

21 It is significant in this context to note that 35 years later, the Economic Survey of the Ministry of Finance for 1992-93 noted explicitly a reversal of this situation: henceforth, industrial policy would be complementary to trade, fiscal and exchange rate management policies.

22 Bettelheim (1971), pp 82-83.

23 See, for instance, his letter 28 February 1956 (in which he mentions that he had voiced the same concern in an earlier letter), TTK papers, correspondence with G D Birla, pp 36-37; see also, letter 8 June 1957 where the money market is mentioned twice with reference to Mundhra's increasingly serious "fix", ibid: 78-80.

24 In asserting that Krishnamachari's controls on the use of reserves needed to be relaxed, he warned that a collapse of the Mundhra edifice would further aggravate the tight money situation. Fresh share issues by Tata Steel and Indian Iron and Steel required substantial resources for the call money to be payable, and Birla argued that investment prospects in both public and private sectors were being jeopardised by the reserve deposit scheme, ibid.

25 Balachandran (1998): Appendix D "The Bank and the Mundhra Affair".

26 Secret note by D L Mazumdar 5 December 1957 UOD No 1600/SCLA/57 6 December 1957 TTK papers Subject File 21, p 50.

27 Letter 8 June 1957 TTK Papers, correspondence with G D Birla, pp 78-80.

28 Secret note by D L Mazumdar op cit, p 50.

29 Ibid.

30 Secret letter DO No G 8-309/57 28 November 1957 TTK papers Subject File 21, pp 29-30.

31 Secret letter DO No G 8-317/57 30 November 1957, ibid: 35-36.

32 Secret letter DO No G 8-329/57 5 December 1957, ibid: 37-38.

33 Secret note op cit TTK papers, pp 53-54.

34 Secret note op cit TTK papers, p 56.

35 Secret and Priority note UOD No 1390/SCLA/57 18 September 1957 JN papers File 587, pp 273-74.

36 See the views of the Vivian Bose Board of Inquiry, quoted by Balachandran op cit, pp 803-04. See also the issue of the *Salivati Newsletter*, published from Bombay, Vol 1, No 25, 27. December 1957 JN Papers File 580, p 66.

37 Ibid.

38 It is significant that Balachandran gives some credence to the opinion that Krishnamachari's decision to deny any knowledge of the LIC deal at the public hearings conducted in the course of the Chagla Commission was on the advice of the Home Minister, G B Pant. Op cit, p 802.

39 Confidential letter No 353-PMO/55 18 August 1955 from Jawaharlal Nehru to C D Deshmukh JN papers file 371, p 194.

40 Personal letter 28 February 1956 by G D Birla to T T Krishnamachari TTK papers. correspondence with G D Birla, pp 36-37.

41 A D Shroff's presentation reported in "Minutes of the Meeting of the Departmental Heads of Tata Companies convened by the chairman on the 23 April 1957" TTK papers Subject File 10, pp 13-15.

42 Top Secret note "Forum of Free Enterprise" undated JN papers File 485, p 97a.

43 A D Shroff's speeches in Calcutta to a group of businessmen, September 1956, and in Bombay to the Commerce Graduates Association in October 1956. Ibid: 97a.

44 Ibid.

45 Ibid: 96.

46 Secret note "A note on the 'Forum of Free Enterprise' " no date JN Papers File 492, pp 34-39.

47 It is interesting to note that it was G D Birla who suggested to H P Mody, in February 1956, that if he wished to contest the Lok Sabha election, he should stand from an area near Jamshedpur, rather than from Bombay. Personal letter from G D Birla 28 February 1956 to T T Krishnamachari TTK papers correspondence with G D Birla, p 36.

48 Personal note by M O Mathai 1 December 1956 JN papers File 493, p 29. Nehru sent the substance of this note to U N Dhebar, Congress president, in his secret letter No 676-PMO/56 6 December 1956 File 494, p 121. In a secret note to the secretary general of the Ministry of External Affairs written on the same day (to which, significantly, he attached a copy of Mathai's note), he suggested that at the impending talks with the US Government "...some general reference might be made to these reports of American funds being offered for election purposes here." File 494: 103.

49 Strictly personal letter 4 April 1957 TTK papers correspondence with HVR Iengar, p 10.

50 Secret letter No 585-PMH/59 11 March 1959 to Fazl Ali, governor of Assam JN papers File 676, p 257.

51 Secret and personal letter No 1357-PMH/57 2 August 1957 JN papers File 543, pp 137-38.

52 Secret and personal letter 1 June 1957 TTK papers correspondence with Jawaharlal Nehru 1957, pp 80-87.

53 Nehru's secret and personal letter No 1357-PMH/57 2 August 1957 JN papers File 543, pp 137-38. Krishnamachari's secret letter No 344/FM/57 3 August 1957 JN papers File 543, pp 192-94.

54 Gadgil note p 3 TTK Papers correspondence with Jawaharlal Nehru 1963, pp 60-64. Also JN Papers File 743, pp 277-81.

55 Hand written letter 24 March 1962 TTK papers correspondence with Jawaharlal Nehru 1962, pp 11-14.

56 Letter No 49/MEDC/63 28 January 1963 to Jawaharlal Nehru TTK papers correspondence with Jawaharlal Nehru 1963-64, p 22.

57 Gadgil note, p 1 letter 736/-PMH/63 19 March 1963 from Jawaharlal Nehru to Pitamber Pant acknowledges that the note came from him.

58 Gadgil note, p 2.

59 Gadgil note, p 1.

60 Gadgil note, pp 3-4.

61 Shirokov (1973) whose close reading of contemporary material is evidenced by his bibliography, notes that the 1956 Industrial Policy Resolution was forced through by "middle ranking" sections of capitalists. However, the further development of capitalist industrialisation marked the end of "bourgeois radicalism" (p 59).

62 Interestingly, the report which is generally held to be the basis of the decision to nationalise the private commercial banks in 1969, mentions the advantages that nationalisation would provide in curbing flows from the banking system to the unorganised money market (cf Bettelheim's comments mentioned earlier). See Congress Parliamentary Party (1967), pp 65-66.

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