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The Politics of Industry in Nehru's India*

Nasir Tyabji

From the mid-1960s onwards, up to the late 1980s, criticism had increasingly been voiced of state attempts in India to direct and regulate processes of economic development.[1] After the initiation of structural reforms in 1991, emphasis on the negative features of the policies followed during the years from 1947 to 1991 has virtually precluded serious analysis of any enduring gains from those policies. This is largely because current analysis abstracts from the distinctive problems that attempting post-war economic growth posed for countries situated in the Third World, such as India. Thus, the criticism has ignored any consideration of the crucial role of state-sponsored structural change, which accompanies economic growth (and industrial development, in particular) in predominantly agrarian societies.

Although the Indian economy was predominantly agrarian, it had specific features which made it possibly unique in the post-war world. With the development of the Indian cotton textile industry from the mid-19th century, and the involvement of Indians in large scale trading activities associated with the imperial industrialized economies, a (large scale) merchant and broker/intermediary community had crystallized.[2] The two world wars had allowed capital "accumulation" in other ways, including blackmarketing and swindling in government contracts.

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[1] Streeten and Lipton (eds) (1968); Bhagwati and Desai (1970).

[2] The formation of the Federation of Indian Chambers of Commerce and Industry in 1927 was the organized expression of this consolidation.

During the Second World War, in particular, existing accumulations of money capital were further swollen by speculative activities, while entry into new industrial ventures which could have been facilitated by war time import restrictions which relieved the pressure from international competition were, as the response to the Roger and Grady Missions shows, actively discouraged.[3] With the repatriation of British interests in jute, engineering, and the plantations at the time of independence, and with a secure home market assured, the swindler and blackmarketeer "accumulations" were invested in the associated enterprises, particularly in Eastern India. Some of these accumulations were spent on acquiring managing agencies, while others were expended in buying large blocks of company equity.[4] A large number of very reputable firms thus came within the control of individuals or groups who had a tenuous connection with the industrial economy. The point to be emphasized here is that while the merchants and broker/intermediaries had an appreciation of the imperatives of an industrialization process, the other social groups had none.[5] They were overnight

[3] The Roger Mission, led by Alexander Roger was sent by the British Ministry of Supply in 1940 to survey the development of Indian industry. While it attended the meeting of the Eastern Group Supply Council held in New Delhi in October 1940 and provided impetus to the formation of the Council, it could do little to ensure that Indian Industry had any substantial role in supplying defence requirements. Stevens (1941): 10, 15; Mitchell (1942): 18, fn 9; Birla (1944): 124. The Grady Mission was a technical survey team sent by the United States Government in early 1942 to assess the potential for developing Indian industry for war purposes. The Government of India's lukewarm response is described in Grazdanjev (1943) and Birla (1944).

[4] Goswami (1985): 245, Tables 4 and 5, show that the large-scale entry of Marwari controlled capital through the takeover of European companies took place between 1942 and 1945. Although he does not mention this, the initial impetus for the European exit probably came from the fears raised by the Japanese military advances into South East Asia.

[5] The attitudes towards workers and the trade union movement, even amongst the long established Mumbai textile industrialists, is discussed in Chapter 4 "The Unexplored Sources of Competitive Advantage: Contests on the Indian Shopfloor" and Chapter 5 "Managing Production and Managing the Shopfloor" of Tyabji (2000).

transformed from members of slightly risqué social groups, into "captains of industry".

The years between 1947 and 1966, covering the period from independence to the end of the third Five Year Plan, provided the arena for the most acute debates over the content of industrial development. In essence, these controversies centred on the form of ownership and control of the industrial undertakings which were already in operation and those which were to be established. Primarily at issue, thus, were the roles of the public sector and of the private sector on the one hand, and of Indian and Foreign capital *within* the private sector, on the other. This paper is based, however, on the proposition that industrialization in India involved not only the establishment of new enterprises by individual businessmen, or even by the government. It required measures of social engineering by the State. It was not simply a question of the State entering the industrial field in areas of high risk or those involving long gestation periods and/or large volumes of capital, leaving other fields to private enterprise. State activity, whether in the area of industry proper, or in complimentary spheres, was essential to nurture the development of entrepreneurs with a truly "industrial" frame of mind.

The thrust of the argument presented in this paper is that it is this major challenge, of achieving a large task of social engineering, which faced the political executives of the Indian state when planned industrialization became the proclaimed objective. And it is this challenge, both economic and social, that should form the context of a historical evaluation of State initiatives. It was not recognized in the early examinations of the planning process, such as those by the National Planning Committee, nor by contemporary or subsequent academic commentators. In other words, this factor has been largely, if not entirely, overlooked in the discussion on Indian industrialization.

Levkovsky's work noted that in the colonial Indian context, there were marked differences to the processes underlying the

Western European experience.[6] In India under colonial rule, the process of the emergence of the more complex forms of industrial organization, through the increasing division of labour demonstrated by the transition from independent artisanal production, to (manually operated) manufactories and finally to (power driven) factories, did not take place.[7] Factories emerged directly in the 19th century in a form of organization imported from Britain. However, while these institutions in Britain embodied concentration of industrial capital, in India, the factory form merely cloaked concentrations of merchant and usurer capital.[8] For a relatively long period, Levkovsky states, factory owners continued to engage in moneylending and trade alongside manufacturing operations. The process of an ever increasing concentration on manufacture, and in organized forms of trade and banking (as opposed to moneylending) was long drawn out. In fact, until the world economic crisis of 1929 to 1933, capital engaged in traditional trade and moneylending increased in absolute terms, though declining as a proportion of total non-agricultural economic activity.[9] Thus, while mercantile and usurious accumulations of money capital certainly formed the basis for the initiation of industrial enterprises, the influx of merchant and usury capital from associated enterprises continued alongside ongoing processes of industrial capital accumulation. Thus, even the growth of the assets in a manufacturing enterprise could not be taken to be entirely the result of industrial capital accumulation.[10] The critical point here is that if the *moment* in the process of development of industrial capitalism is to be assessed, the volume of capital invested in industrial enterprises can be only a proxy, though it is an important empirical measure.

This paper's analysis is based on the political economy premise that industrial capital, merchant capital, and usury capital are distinct forms of capital with identifiably different methods

[6] Levkovsky (1966): 44. See, also, Lamb (1955).
[7] Levkovsky (1966): 229.
[8] Levkovsky (1966): 229–30.
[9] Levkovsky (1966): 231.
[10] Levkovsky (1966): 243–44.

of accumulation associated with each. While merchant capital expands through profits made in the buying and selling of commodities, usury capital grows through the interest on the loans advanced by the moneylender. Industrial capital is unique in that interspersed between the two merchant transactions, of the operations of buying raw materials and labour power and the selling of the manufactured commodities, is the critical stage of production. An index of the degree of industrial development is then provided by the relative importance of these three methods of accumulation within a given economy during a specific historical period. In situations such as those that Dobb had examined in Western Europe, with industrialization the importance of industrial capital increased secularly while that of merchant capital declined relatively.[11] Usury was also gradually reduced in importance with the decline in the role of peasant-based agriculture with its related phenomenon of low and precarious incomes. Capital engaged in commercial credit facilities geared both to production and consumption did, of course, become increasingly important, but this was decidedly an activity distinct to usury.

There have been substantial contributions to the understanding of India's industrial growth during the pre-independence period. Starting with Gadgil, Buchanan, Vera Anstey, and Wadia and Merchant in the pre-independence period, there were major additions to the scholarly literature from the 1970s onwards which all addressed, explicitly or otherwise, the question of the impact of colonialism on the historical record of industrialization.[12] The most distinctive feature that differentiated the approaches, otherwise quite varied, was one of the two underlying views: either that arrested development was an empirically demonstrable phenomenon with colonialism as its principal cause; or that colonialism, while a historical reality, played no empirically significant role in the development of Indian industry.

[11] Dobb (1963).

[12] Gadgil (1971); Buchanan (1934); Anstey (1942); Wadia and Merchant (1957); Bagchi (1972); Ray (1979); Markovits (1985); Morris (1982); Roy (1999); Mukherjee (2002).

Common to all these analyses, however much they differ in their approaches is, quite naturally, a focus on industry (in Buchanan's phrase, on capitalistic enterprise). Perhaps the only exception was Brimmer's analysis of the "setting" of entrepreneurship in India.[13] The institutional setting for entrepreneurship, in Brimmer's view, was not the industrial enterprise itself but the organization that actually held all operational control over it, the Managing Agency.

In fact, his analysis made clear that the issue was momentous for a serious study of Indian industrialization. It implied that if the *moment* (the precise stage) of development of industrial capital was to be truly assessed, it was to be clearly noted that the managing agency firm *was the firm* in the sense in which this term was known in institutional economics. If the firm was defined as the institutional setting in which entrepreneurial decisions were made, it was immediately clear why the managing agency should be so designated. To achieve the ends of expanding their capital, managing agents had generally made use of the joint stock form of organization for the companies launched to undertake actual production and trade. These latter companies were then to be considered as operating units of the central, decision-making unit, the managing agency firm.[14] To understand the substance of economic activity encompassed by the Managing Agency system, then, it was critical to avoid a preoccupation with the Managing Agency merely as a legal entity, as also with the whole system of company law in India.[15]

[13] Brimmer (1955). What was particularly acute in Brimmer's observations was the distinction he made between British and Indian Managing Agencies. Although he does not analyse the material basis for these differences, it is a premise of this paper that though the British firms generally displayed a behaviour associated with cut-throat merchant adventurers, the financial capital they embodied was qualitatively distinct to the merchant and usurer capital embodied in Indian Managing Agencies. Misra (1999) has an account of British expatriates in a colonial setting which well depicts the *Lord of the Flies* milieu of Calcutta.

[14] Papendieck (1978) has an interesting analysis of the major Managing Agency of Andrew Yule and Company, and the operations of their coal enterprises. This empirical analysis bears out the general point being made in the text.

[15] Brimmer (1955): 559.

> …With a few notable exceptions, the Indian [Managing] agency firms seem to administer the operating companies under their control with a view to obtaining the maximum profit in the shortest possible time…the detractions [to the reputation of Indian industry] made by Indian [Managing] agency firms have been made by businessmen *still in the process of maturing* [emphasis added].

The implications of this understanding are more profound than may be immediately apparent. If a manufacturing firm is merely an operating unit (or even only one unit of many) of a Managing Agency, which is itself an organizational expression of an accumulation of merchant or usury capital, then it cannot be held that the capital that is comprised of the agency and associated manufacturing units necessarily represents *industrial* capital as a whole. The situation is analogous to the historically familiar case represented by a handicraft establishment subordinated to a trader. The trader in this case, not the master artisan nominally in control of production, was the actual entrepreneur. There is extensive discussion in Indian Economic history of whether enterprises of these types represented production of an industrial capitalist form or provided even the "pre-conditions" for industrial capitalism.[16]

This paper differs from earlier studies in that while its argument is firmly located within the view that colonialism did play the single most important role in retarding the growth of the Indian economy, its focus is on the development of industrial capitalism in the sense that political economy views the process, rather than on "capitalistic enterprise". It postulates that for this reason the Managing Agency system, and not the enterprises that were established and controlled by these agencies, should be the focus.

The Managing Agency was a closely held firm, whether a single proprietorship, partnership or limited liability company

[16] Habib (1969); Chicherov (1971); Pavlov (1978).

through which, under specific agreements, a variety of enterprises covering the field of industry, trade, and moneylending came under unified control. "Agency Houses" originated in the late 18th century as partnerships of employees of the East India Company.[17] They provided the means for private business activities, whereby loans were advanced to indigo manufactories and manufactured dye received on consignment for sale in Europe. They were also the means through which surplus funds were invested in government securities, in shipping and docking services and in sugar production. The bulk of international trade, including the shipping of opium to China, and the private trade between Bengal and Europe was channeled through their hands. In their time the agency houses held unchallenged control of the commercial life of Calcutta.[18]

The agency houses also operated the handful of joint stock associations founded before 1834. Though the joint stock form was limited to insurance and laudable societies, the employment of agency houses as managers provided the organizational model for the later Managing Agency system.[19] Use of the joint stock form of organization freed the agency from the full risk of the new enterprise, while its agency agreement permitted it to maintain control over all management decisions.

In the subsequent 120 years of its unregulated existence, the Managing Agency survived despite criticism that was regularly voiced. Various liberal commentators have claimed that although the Managing Agency system may have outlived its utility, it played an important role in supporting early efforts in industrial development: in particular, that industrial enterprises were floated at a time when there was little possibility of public participation in share issues, and that the managing agencies nurtured these firms until their viability and profitability had been demonstrated. What is not clear is whether the promoters took an exhorbitant

[17] Kling (1966): 38; Misra (1999), Chapter 1.

[18] Ibid.

[19] Ibid.

commission over an extended period in return for providing this time bound initial support.[20]

The relationship between the Managing Agency and the associated enterprises remained unregulated, in any meaningful sense, by Company Law during the entire colonial period, and it was only in the 1950s that this nexus became subject to legislation. The paper holds the view, further, that it was the institution of the Managing Agency that enabled the infusions of money capital, accumulated through varied non-industrial activities mentioned earlier, into industrial enterprises; it also allowed the reverse: the transfer of industrial surpluses into trade and rural moneylending.

The conglomerate nature of large Indian capital including its operation through the business group, comprising firms in varied industrial fields and modern banking, but also in trading and indigenous banking operations, had been widely noticed even before the first systematic exploration by Asoka Mehta in 1939.[21] However, beyond occasional references to the "merchant" characteristics of industrial capitalists, the implications of such group structures on industrial performance were not fully appreciated. Typically, in what is still regarded as the classic account of industrial organization in the interwar period, Lokanathan did mention the fact that Indian Managing Agencies were generally firms which had had a financial, rather than an industrial, character; he also noted the critical point that rather than using the banking system, these agency firms often invested surplus cash in *hundi*s (traditional forms of negotiable instruments through which prospects of earnings were of an order greater).[22] However, neither of these insights underlies his analysis. Vera

[20] cf. Papendieck (1978).

[21] Originally published under the title of "India comes of Age", the article was republished along with a similar study of the situation in 1949 in Mehta (1950).

[22] Lokanathan (1935): 301, 303, 315. Managing Agencies and their role in permitting unfettered business operations under the legal protection of limited liability are discussed in Tyabji (2009).

Anstey also remarked on the shortcomings of Managing Agencies, and mentioned the charge that the surplus funds of firms were often cornered by shroffs (indigenous bankers) who were also their managing agents, but as the points were made in the course of acknowledging a litany of accusations made against them, she was not compelled to address this issue.[23] Much later, Brimmer characterized the Indian Managing Agencies as "primarily financial in character"; at about the same time, the situation was described in more detail, but yet again in a footnote disassociated from the analysis in the text:[24]

> This [class of business leaders] is a new class of financiers, who have no traditions, except those of speculative finance and usury. Some of them earned their fortunes on the stock exchanges and commodity markets. But their spread of activities includes sowcari (village money lending), sarafi (urban indigenous banking and money-lending combined), dalali (intermediary finance, mostly on the stock exchange, bullion, and commodity markets), &c…

There is recognized here the distinction between industrial capital on the one hand, and merchant (trading), or usury (moneylending) capital even when in ownership, control and operation of *industrial* enterprises.

Trading or moneylending activities, empirically distinct from manufacturing had, of course, been identified. However, the critical distinctions between these forms of existence of capital, *when in ownership of industrial enterprises* have generally been omitted from analysis. The ownership of a diversity of enterprises implies not only an obvious diversity of economic interests which engaged the attention of the owners of the group, but also underlay the "diversity" of their social identities, at various stages of evolution from speculators, moneylenders, and traders, to industrialists. It was not, as has been implicitly assumed, that business group policies were neatly "industrially oriented" when

[23] Anstey (1942): 114–5; 273–75; 501–5.
[24] Brimmer (1955): 558; Rangnekar (1958): 123–24, fn. 4.

they concerned industrial firms in the group, and trader or moneylending oriented in the case of trading or traditional banking firms.[25] There was an integrated management philosophy that guided strategic decisions covering all the capital resources at the disposal of the group. Thus:

> A typical Marwari family firm, unlike a European jute mill, was linked to several activities—from aratdari and kutcha baling in the up-country marts to manufacturing, baling and fatka in Calcutta-all controlled, like zaibatsus by the family patriarch and his ruling council and operating by consensus. Though the firms were nominally under different names and registered separately, the attempt was to maximise overall profits covering interdependent complementary and competitive activities. Thus, a Marwari firm's profit calculus was quite different from, and often at variance with, the norms of … [the Indian Jute Mills Association] … and the European mills.[26]

Again, empirically, it was recognized that in the jute industry some entrepreneurial interests, after accumulating capital through trading or moneylending, established entirely new jute mills (Birla and Sarupchand Hukumchand), while others bought controlling blocks of shares in existing mills and elbowed their way onto the boards of these companies, and even displaced the incumbent managing agents.[27] These quite distinct ways in which Indian industry grew were representative of equally clear distinctions in processes within the political economy. The first embodied the transformation, however partial and slow, of capital accumulated in trade and/or through moneylending *into* industrial capital as

[25] Rajat Ray is one of the few authors to have moved beyond merely noting the conglomerate nature of Indian business groups to granting that this implied the simultaneous engagement with manufacture, trade and moneylending. He too, however, does not consider the accompanying dilution of the industrial imperative when undertaken in these combinations. See his discussion of the role of G.D. Birla's concern for "real entrepreneurship" in the "Introduction", to Ray (1992): 58–59.

[26] Goswami (1982): 154.

[27] Goswami (1985): 231–34 describes these two processes.

the enterprise grew, while the second signified the phenomenon of the parasitic control of an industrial unit by representatives of yet incompletely transformed merchant or usury capital.[28]

There were two further challenges little noticed or commented on, academically, that faced the political executive. There was the lure of the quick and high returns available to urban industrial capital through diverting its resources to the rural money market. One effect of the colonial constraints on industrial development was that surplus funds in the hands of capitalists found channels of high returns through commercial operations in rural land transactions, and in extending funds to rural moneylending. This phenomenon was empirically substantiated by the investigations of the Central Banking Enquiry Committee in the early 1930s.[29] Twenty years later, the RBI Survey of Rural Credit confirmed the continuing existence of links between urban large-scale capital and the rural money market.[30] This flow not only bled the industrial sector of funds to cover replacement costs of plant and machinery, but provided a stable base for an economic nexus between urban industrialists and rural moneylenders. In this context, the paper points attention to an ignored aspect of the bank nationalization measures of 1969. This was the effect of state control over credit disbursement in reducing the flow of urban money accumulations into the rural money market.

Finally, the Indian situation was unique in that the capitalists who had emerged during the pre-independence period were drawn

[28] Thus: "In the first place, the surplus funds of a concern are often taken over by the managing agents as deposits with them, and although the usual interest may be paid on them, they are utilized in their own agency businesses or loaned out to allied concerns. Secondly, funds are borrowed in advance for the purpose of making extensions, and till the time they are actually needed, they are employed elsewhere in allied concerns or in the managing agent's own business". Lokanathan (1935): 301. Again: "Some managing agencies had even utilized the funds of mill companies for speculating in shares & securities, but they may be regarded as exceptional". Ibid: 303.
[29] India (1931): 99.
[30] Reserve Bank of India (1954): 176–80.

into the national movement, specifically, into influential positions within the Indian National Congress. This early support gave them not only privileged access to senior politicians, but also a moral authority to project policy measures which they could claim were not based solely on a narrowly focussed self-interest. The very close nexus long established between some sections of capital and the Congress party, made decisive political action problematical. This nexus is often overlooked when comparisons are made between the indecisiveness of Indian policies and the precision with which the Government extracted appropriate responses from private entrepreneurs in East Asian societies.

The tricky point, as T.T. Krishnamachari, Minister for Commerce and Industry, was to remind Jawaharlal Nehru, that while they might privately agree that some industrialists were unsavoury, they were the only industrialists that the country had.[31] Business had to be done with them. However doing business could not be coterminous with allowing the firms to be managed in any way the industrialists chose. Interestingly, there is also evidence that the necessity of administrative coercion in these matters was understood by the more advanced industrial entrepreneurs. Sumant Moolgaonkar, of the Tata promoted firm of Tata Engineering and Locomotive Company (TELCO), currently known as Tata Motors, pointed out to Krishnamachari that the Government was the only agency through which the productive efficiency of the manufacturing sector could be increased.[32] As

[31] Letter dated September 2, 1954 from T.T. Krishnamachari to Jawaharlal Nehru, T.T. Krishnamachari (subsequently TTK) papers, subject file 8 (A), pp. 120–24. T.T. Krishnamachari (1899–1974), initially elected to the Madras Legislative Assembly as an independent member, later joined the Congress. In 1946, he became a member of the Constituent Assembly and of the Constitution Drafting Committee. From 1952 to 1956 he was Minister for Commerce and Industry and from 1956 to 1958 the Finance Minister. He became a Minister again in 1962, holding the portfolio for Economic and Defence Cooperation and then the Finance Ministry, from 1963 to late 1965.
[32] Letter dated October 5, 1953 from Sumant Moolgaonkar to T.T. Krishnamachari, TTK papers, correspondence with S. Moolgaonkar file, pp. 1–2. Sumant Moolgaonkar (1906–1989) was an engineer trained at the City and Guilds Institute and Imperial College, London. In the pre-independence

an industrial manager, Moolgaonkar saw the problem at the level of the individual firm, while the critical problem, of course, lay at the level of the social composition of the industrialists.

Theoretically, too, the importance of moving away from the firm to the social group is emphasized by a consideration of the role of the State in extending the time horizons of the business community. This, along with the appropriate technological educational inputs, helps in the problematical transformation of a class of merchant-usurers to industrialists.[33] In India, the major instruments for channelling resources into activities necessitating longer time-horizons were, apart from the fiscal instrumentalities of the state, in the form of legislation, specifically the Capital Issues Control Act, the Companies Act, and the Industrial Development and Regulation Act (IDRA). All these Acts represented potentially coercive administrative measures aimed at strengthening the "industrial" characteristics of private resource allocation decisions. In the event, the Capital Issues Control Act, playing a subordinate role to the industrial licensing system, instituted by the IDRA, was of little independent significance. The IDRA, the key to social control at the level of the firm, did not ever achieve this goal.[34] Initially instituted during the period when the "Economic Consequences of Sardar Patel" were most visibly present, it was finally legislated shorn of its more significant social and political attributes.[35] It was thus the

period he worked in the cement industry and helped develop the manufacture of cement machinery during the Second World War. After the formation of TELCO in 1945, he was closely associated with its development until his death. He played an active role as a consultant in planning the development of the heavy engineering industry.

[33] Policy towards the small-scale sector has been examined in Tyabji (1989).

[34] Chibber (2004): 137–42; 152–55; 173–78 provides a detailed account of the chequered path of the IDRA from the 1949 Bill to its actual passage in 1951.

[35] The phrase is from the title of Asoka Mehta's pamphlet, Mehta (1949). Asoka Mehta (1911–84) helped organize the socialist wing of the Indian National Congress, along with Jaya Prakash Narayan, and was closely involved in the politics and government of the city of Bombay. Mehta was an active participant in the Quit India movement and was sentenced to rigorous imprisonment five

Companies Act, identifying thereby the focus of social engineering as the *company* (a financial unit), rather than the *firm* (a productive unit), that provided the most effective legislative key to social engineering. And it is the Companies Act with which this paper is mostly engaged.

A project to extend the time-horizon of an entire social group and that of the dominating social force at that, requires not only the acquiescence by the more advanced sections of this group of proto-industrialists in the necessity of such measures. It also requires the politically adroit combination of measures to ensure compliance with the accumulation norms of an industrial society.

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 had the following explanation to offer.[36] 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

times. After independence, he helped organize trade unions in Bombay and was one of the founders of the Indian National Trades Union Congress (INTUC). Mehta retired from active politics in the early 1950s and wrote several books on his experiences, on India's independence movement, and the importance of socialist oriented reforms. He was a founder member of Socialist Party and when in September 1952 the Kisan Mazdoor Praja Party and the Socialist Party merged to form the Praja Socialist Party (PSP), Asoka Mehta became new party's general secretary. He was Praja Socialist Party's president during 1959–63.

[36] M.O. Mathai was Special Assistant to Nehru, Secret note 2 February 1958 Jawaharlal Nehru (subsequently JN) Papers File 590 p. 82. For fuller details of this case, see Tyabji (2010).

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.[37]

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 Rao episode". Though less glamorous, this drama had led to the resignation of the RBI Governor, B. Rama Rao 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 trivializes 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.

More successful was the effort to unravel the Dalmia Jain Group's mode of operation.[38] This paper postulates that the Group represented one of the largest concentrations of largely unreformed merchant/usury capital, and that their methods of using the nexus between their Managing Agencies and associated

[37] Note 11 February 1958, JN papers File 593, pp. 241–43.
[38] See Tyabji (2009) for a full account of this case.

manufacturing firms quintessentialized the behaviour of this form of capital. Ultimately, the disclosures of the Dalmia Jain Investigation led to the abolition of the Managing Agency system in 1969. It should also be noted that despite the dramatic aspects of the Haridas Mundhra case, his operations were stock market speculations, unconcerned even with gaining management control except in the very short term; much more corrosively, Dalmias specialized in devising means of squeezing all the liquid assets out of well functioning industrial enterprises which came under their control.

To recapitulate, the thrust of the argument of this paper is that the existence of a class of businessmen does not automatically mean the existence of such a group of industrially oriented entrepreneurs, because the development of industries is not necessarily the only money-making activity available to them. Even acquiring the position of being in charge of industrial ventures does not automatically convert businessmen into industrialists because they could very well use their control to divert resources to other non-industrial activities.[39] It therefore requires a historical process of a definite nature for a class of true *industrialists* to come into being. In the Indian case, colonialism and "arrested development" formed the context within which emerged the group of businessmen responsible for managing industrial ventures after independence. They were an imperfectly formed group of industrialists possessing characteristics that reflected their background of engagement in non-industrial activities, activities in which they continued to be involved even as they acquired control over industrial companies. In 1949, the Bombay Shareholders' Association in a memorandum listed questionable practices by managing agencies owned by Birla Bros., Dalmia Jain, Karamchand Thapar, Jaipuria, Walchand, Surajmull Nagarmull, Sarupchand Hukumchand, Kamanis, and Bajoria amongst the more prominent business groups. This made them all, it is being argued, prone to a particular kind of fraud

[39] The possibility of such moves (admittedly in the short term) even in a fully industrialized economy has been suggested by Dillard (1980): 259.

greatly inimical to the industrialization effort.[40] It also meant that the State had to play a crucial part in transforming this group into a class of true industrialists. The 1950s and 1960s are naturally important in this regard being the critical early years of post-independence industrialization.

[40] Bombay Shareholders' Association (1949): 74–82. Further empirical evidence for this proposition is available in Bombay Shareholders' Association (1936); see, also, India (1958a); India. (1958b); India (1963).

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