

NATURE OF THE INDIAN STATE  
A POLITICAL ECONOMY PERSPECTIVE

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of award for the Degree of  
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C E R T I F I C A T E

Certificate that this thesis, Nature of the Indian  
State : A Political Economy Perspective, is a bonafide  
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### DECLARATION

I     by declare that the work presented in this thesis  
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with

L O V E

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## INTRODUCTION

In the recent years many Western Marxist intellectuals made sincere attempts to comprehend the dynamics of state in the advanced capitalist societies. Compared to the contributions of those western scholars, the Marxists of the Third World have not done much to explain the complex role that the state has been playing in the developing nations. It is true that voluminous literature has come out on problems of development and modernisation in the Third World and that there are passing references to the role of state in many of these works. These readings however, are not adequate to grasp the multiple dimensions of state in the developing societies. Survey of literature of the traditional communist parties and certain academic works of Marxist persuasion in India show that literature on the issue of the nature of Indian state is not an exception to the trend. Whereas majority of them reduced the study of state to the question of mode of production or to the cultural milieu, a few others, in name of relative autonomy ignored the dialectical relationship that the state has vis-a-vis the economic base and social classes. As a result, Indian Marxists could not come to any consensus on the question of the class character of the post-colonial state in India. The CPI sees India as an independent national bourgeois state. The CPI(M) however, defines it as a landlord - bourgeois state headed by the big bourgeoisie. Most of the factions of CPI(ML) still consider



that even now India continues to be a semi-feudal and semi-colonial state. On the other extreme, one can see academicians like Hamza Alavi, K.N.Raj and Anupam Sen who argue that Indian state is autonomous of all economically dominant classes in the Indian society.

Why do parties and persons claiming themselves Marxists come out with such varying interpretations of Indian state ? Though complexities in Indian social formation are usually cited as one of the important factors, it appears to us that the differences in methodological approaches of these parties and persons are more responsible for lack of unanimity on the question of nature of Indian state. Unless one is clear as to what the Marxist-Leninist methodology means, it is impossible to evaluate the competing versions. At the outset it should be said that approaches such as instrumentalism, economism and for that matter, even the so-called autonomous study of 'political' are alien to Marxism. Dialectical materialist approach, the heart and soul of Marxism-Leninism demands study of each phenomenon in itself, in its interrelationship, in its origins, development and transformation. Hence while critically evaluating the existing Marxist interpretations of Indian state, one should aim at developing a comprehensive theory of Indian state - its class character, form, functions and dynamics.

Among other aspects, such a study should be able to reflect on the following issues concerning Indian state and society:

1. Nature of any state basically depends on the classes which attain state power. Hence basing oneself on the class character of Indian nationalist movement, one should first ascertain the interests and roles of different classes involved in the anti-imperialist struggle and then therefrom determine the nature of class or classes which attained state power after the British rule.
2. Such a study should take note of the objective constraints - internal and external - within which the ruling classes are placed and then determine their potentialities and weaknesses under the given conditions.
3. It should see whether the state setup, constitution and other administrative and socio-economic institutions established after the British rule have corresponded to the objective necessities of the new ruling classes.
4. While being conscious of the impact of social forces on the dynamics of Indian state, one should examine how the state takes advantage of various social forces and use them to influence the civil society.
5. Since India is an inseparable part of the international system, it is very necessary to determine the status of Indian state in the world of nations and then reflect on economic compulsions influencing India's foreign policy.

6. More than these, the study should be able to answer the following questions confronting the Marxists trying to understand the dynamics of Indian state ; What is the principal direction of development of Indian economy ? At what stage of development does Indian economy now find itself and howfar does the state contribute to such development ? Which are the classes that actually got benefited by the economic policies initiated by the state ? Has the state strengthened the feudal system, made national interests subservient to the metropolitan bourgeoisie or initiated independent capitalist development ?

Since courses of social development can not be scientifically predicted in the absence of a correct knowledge of the state, a comprehensive understanding of the above mentioned aspects become very crucial for the Indian Marxists. Keeping this necessity in mind, an attempt is made in the thesis to develop a systematic theory of the dynamics of post-independent Indian state - with special reference to the role of state in economic development and its relationship with various classes and social forces. As examination of all these aspects becomes a pre-condition for understanding the role of state vis-a-vis the political and ideological structures in Indian society, the study would mainly concentrate on state, classes and economic development in the post - colonial India.

In contrast to the interpretations of the traditional communist parties and academic relative autonomists, the thesis aims to develop a minority perspective held by a very few Marxist scholars like Shibdas Ghosh, Bipan Chandra, A.R.Desai, Paresh Chatopadhyaya and Srikant Dutt. The thesis argues that India is an independent national bourgeois state now showing the tendencies of imperialism and fascism. To prove this hypothesis an attempt is made to show that indigenous capitalism developed to the stage of monopoly and that integration of private sector and public sector monopolies has given birth to state monopoly capitalism. Similarly merger and coalescence of industrial and bank monopolies led to the development of big financial institutions, which are now playing a key role in the export of finance capital through Indian joint ventures abroad. Because of this development, India which normally joins hands with other developing nations in their fight against imperialism does not hesitate to exploit the weakness of other Third World countries whenever its own interests so demand. The thesis also states that growing militarisation has now become an economic necessity in India and capitalist relations have already developed as dominant social relations in rural India. Finally the thesis also tries to account for the welfare role of the Indian state as an attempt to legitimise its own power and reflects on fiscal crises that set limits to the development of Indian state as a full fledged welfare state.

This major theme of the thesis is systematically developed in the seven chapters, each one reflecting on a particular aspect of the autonomous role of Indian state in economic development. In doing so, mediating role played by the classes and influence of these classes on the dynamics of the state and on direction of economy have been discussed at length. For a brief and general understanding of the structure, essence and significance of the thesis, content of all the chapters may be summarised.

The first chapter, " State, Classes and Economic Development in the Third World ", discusses the general characteristic features of the developing societies. While critically reviewing different radical theories of underdevelopment, attempts have been made to understand the role that the state is playing in all the developing nations. The chapter tries to locate the specificity of social formation in the Third World and stresses the need for studying each state separately with all its specificities.

In the second chapter, " A Critique of the Dominant Marxist Interpretations of the Indian State ", an assessment has been made of the interpretations of the traditional communist parties viz., the CPI, the CPI(M) and the CPI(ML) especially on questions related to the state, classes and revolution. Contributions of some of the academics subscribing to the idea of ' relative autonomy ' are also examined. While exposing the logical

inconsistencies and conceptual inadequacies in their theories an attempt has been made to give our own understanding of certain Marxist analytical categories which are crucial for the study of the nature and dynamics of Indian state.

The next chapter deals with the role played by the Indian state in initiating changes in the industrial and banking sectors. Development of monopolies in the field of industry and banking was recognised by many leftist scholars, as early as the 1960's itself. In the main, the communists did not fail to understand the fact that development of public sector in India only laid the foundations of state capitalism, not state socialism. Many serious academic works and commission reports appeared during the sixties to explain the consequences of such monopoly growth. However, after the enactment of MRTP Act and nationalisation of 14 commercial banks, the leftist scholars seemed to have lost interest in these areas. Study of recent developments in banking and industries are ignored or belittled in the Marxist discourse on India. Keeping these points in mind, the third chapter tries to throw some light on recent developments in the growth of state monopoly capitalism in India. Developments such as integration of public and private monopolies, birth of finance capital as a consequence of merging and coalescence of industrial and banking monopoly capitals and the role of financial institutions in exporting finance capital through Indian joint ventures

abroad - all these aspects are highlighted in the chapter, "Development of State Monopoly Capitalism in India".

The fourth chapter examines the relationship between defence and development. Ever since the Sino-Indian war of 1962, the policy makers continued to justify every increase in the defence budget on the grounds of threats to the unity and integrity of the nation. In contrast to the familiar arguments, this chapter argues that apart from external threat perceptions and India's own desire to become a regional power, there are certain economic compulsions forcing India to get militarised. Militarisation has now become an economic necessity to give artificial stimulation to the sagging capitalist economy by creating additional demand in the market. The role played by politicians, bureaucrats and capitalist organisations in laying foundation for the development of military - industrial - scientific complex, is the subject matter of the fourth chapter i.e., "Militarisation of Indian economy".

Status of Indian state vis-a-vis imperialism continues to be a matter of controversy among the Marxist circles in India. Whereas India's opposition to imperialism, racism and colonialism is cited by some to prove independent-progressive character of India's nonalignment, others show India's compromise with imperialism, recent liberalisation policies and increasing volume of foreign debts to brand India as a comprador state.



When it is very easy to obtain facts justifying both versions, it becomes very difficult to explain how the antagonistic view-points could go together at the same time. This difficulty raises many other related questions : What compels Indian state to follow nonaligned policy ? What makes a state which opposes imperialism to submit to certain dictates of imperialist powers ? Why is it that a state which considers itself a part of the Third World, does not hesitate to exploit the weakness of other developing nations ? Efforts are made to answer these questions in the sixth chapter, " Political Economy of India's Nonalignment".

The issue of pre-capitalist relations still continues to vex the minds of the Indian Marxists. For long, the study of the nature of Indian state has been reduced to the study of mode of production in Indian agriculture. Since mere understanding of the nature of mode of production is not sufficient to determine the character of any state, we would be introducing in our analysis of mode of production, a discussion of the autonomous role of the state and emerging dynamics of classes and other social forces in rural India.

Finally, in the last chapter, compulsions forcing Indian state to project itself as a welfare state are brought to light. While recording different social welfare programmes initiated by the Indian state since 1947, their actual impact on industrial



workers, rural poor, dalits and other subordinate communities is assessed. Contrasting Indian experience with that of the welfare state in the advanced capitalist countries, the inevitable fiscal crisis that sets limits to the development of Indian state as a full fledged welfare state, and the effect of such crisis on the state to deliver goods are discussed at length in this chapter. While assessing the strength of the challenges posed to the state, the probable options still open to the state to overcome the legitimacy crisis are explored.

To sum up, while highlighting the economic role of the state, the thesis throws light on the specific relationship that the state built up with the capitalists, rich peasants, metropolitan bourgeoisie and also the dominated classes in India such as the working class, rural poor and dalits. In course of examining these interrelationships the autonomous role played by the state in the fields of industry, banking, defence, agriculture and also in the international sphere has been discussed.

At the end, it needs to be admitted that the thesis has not covered certain other aspects of state dynamics. The author is not unaware of the fact that any discussion of the nature of Indian state remains incomplete unless the dynamics of state is related to the ever changing correlation of political and ideological forces and to their corresponding structures in the society. That necessitates introducing in our analysis

many other elements like categories like political parties, educational institutions, religious communities, linguistic groups and nationalities. The way these superstructural aspects influence and inturn get influenced by the state largely determines the form, if not the essence, of the state apparatus. Though this aspect is not altogether ignored, it should be admitted that detailed discussion of these dimensions of state dynamics could not be done in this work. Since a comprehensive study of the nature of state presupposes a measure of understanding of the dialectical interaction between the state and economy, and state and classes the thesis mainly concentrates on these interrelationships and highlights certain basic tendencies which have not been examined at length by the majority of the Indian Marxists. As far as the state's relationship with other superstructural elements is concerned, we hope that certain methodological points of departure suggested in the thesis would be of some use for all scholars interested comprehending other dimensions of the Indian state.

\* \* \* \* \*

I CHAPTER  
STATE, CLASSES AND ECONOMIC DEVELOPMENT  
IN THE THIRD WORLD

Emergence of the Third World, now covering more than half of the world territory and about two-thirds of the world population, is a significant event in the post-war world. Behind their appearance as new actors in the international system, there lies a history of about 100 years of anti-imperialist struggles. With the weakening of the imperialist chains during the II World War, these freedom movements gained momentum in most of the colonies and semi-colonies. The birth of socialist block as a powerful anti-imperialist force and the growing strength of the patriotic forces in colonies and semi-colonies made it difficult for the imperialists to stick on to their policy of colonialism. Taking advantage of the weakness of the imperialist forces, many countries in Asia and Africa attained political independence. Along with them, a few other countries like Iran, Maldieves, and some of the Arab States which were never colonies of any imperialist powers also identified their interests with the developing societies.

Eversince the Third World countries made their presence felt in the international politics, their dynamics began to attract the attention of the intellectual world. In the initial years, the intellectuals concentrated mainly on the problems of development and modernisation in the Third World. However after the mid-sixties, many scholars have started coming forward to understand the nature of state in the UDCs. Apart from

liberal thinkers there are many Marxist and other radical schools which attempted to theorise the dynamics of the underdeveloped countries. But the social formation in the Third World is so specific that it has become difficult to arrive at consensus about the character of the state in these developing nations. Since each nation in the developing world exhibits so many specific features, a comprehensive knowledge of the nature of the state in the Third World requires concrete analyses of the dynamics of class struggles, structure of civil societies and stages of development of economy in each particular country. Such a dialectical study is not possible unless a theoretical discourse is built by perfecting the existing Marxist analytical categories. Keeping this necessity in mind, an attempt is made in this chapter to evaluate different Marxist and other radical schools of thought, especially on questions relating to the state, classes and economic development in the Third World. Since such evaluation presupposes a fair knowledge of the Third World, one may first try to grasp the specificities of the social formations in the developing societies.

### Multi-structural Societies

All the underdeveloped countries (UDCs) are multi-structural

and multi-stratified societies exhibiting considerable variations in the levels of economic development. Many countries including those with the highest population are among the low income countries with highest percentage of people living below the poverty line. According to an estimate, 75 % of people in Bangladesh, 51 % in Indonesia and 34 % in Pakistan live in poverty. On the other side one can see some of the oil rich countries like Saudi Arabia, United Arab Emirates and Kuwait whose percapita income is equal to or sometimes more than many of the western capitalist countries. In addition there are newly industrialising countries like Singapore and South Korea whose per capita incomes remain around \$ 3,000.<sup>1</sup>

Despite these variations in the levels of economic development, in almost all countries capitalist and pre-capitalist structures exist side by side for a long time. Unlike 'pure' economic formations of the advanced capitalist societies, the developing nations are characterised by the existence of different modes of production. Even within the Third World, the nature of multi-structural economy differs from one country to another. The multi-structural socio-economic systems of Saudi Arabia and Bhutan can not be reduced to those of India and Sri Lanka. Yet it should be admitted that in all countries social forces having their roots in precapitalist social formations dominate the internal politics. Mention may be made here of castes in India, tribes in Africa and religions.

in countries like Iran, Bhutan, Nepal and Pakistan. The roles that these structures and their corresponding social forces play are so dominant in certain countries that they even overshadow the role of the classes and class struggles. Even in those countries where they play subordinate roles, they succeed in giving specific orientation to the class politics of these states.

Specificity of Classes in the UDCs :

As far as the question of the nature of classes is concerned, the developing societies show certain distinct features which can not be seen in the West. Though in certain countries of Africa classes are still in formative stages, one can see well developed classes in many of the nations of Asia and Latin America. But correlation of social forces is not alike in all these countries. In certain countries such as India, Pakistan, Malaysia, and Singapore capitalist growth reached the stage of monopoly. Taking advantage of the state control over production sector, in many African states a class of bureaucratic bourgeoisie developed. In Pakistan, Jordan, Morocco and in many countries of Latin America land lords who still inherit hundreds of acres of land reign as influential classes. But in countries where communal ownership dominates, say as in Tropical Africa and Oceania, there class of land lords is completely absent. Numerically dominant classes in the developing societies seem to be the peasantry and the petty bourgeoisie. Peasants constitute 60 % to 80% of the population of certain countries. Petty bourgeoisie including the professional and urban middle class

and semi-proletarian strata constitutes sometimes about 65 % of the population. As far as the working class is concerned, one can notice uneven development. In countries like India, South Korea and Egypt the working class is numerically a well developed class. But in countries like Kenya and Fiji the workers are yet to emerge as a class. In countries like Swaziland, Tonga and Western Sahara the working class is almost absent.<sup>2</sup>

#### Question of Ruling Class :

What constitutes the ruling class of such countries ? This is again a controversial question. As is mentioned earlier, most of the scholars tend to generalise the issue by basing on the experiences of one or 'a few' countries. During Mao's regime, the official circles in China used to argue that the ruling class in the Third World countries is composed of feudal lords and comprador bourgeoisie.<sup>3</sup> Hamza Alavi who based his arguments on his study of Pakistan, Bangladesh and Indonesia concluded that in the post-colonial societies the ruling class is constituted by " three propertied classes, namely the metropolitan bourgeoisie, the indigenous bourgeoisie and the landed classes".<sup>4</sup> Followers of A.G.Frank would argue that the underdeveloped countries are led by the lumpen bourgeoisie. On the other extreme, we have Michael Kalecki who says that most of the liberated countries have intermediate regimes where the petty-bourgeoisie and the rich peasantry form the ruling coalition.<sup>5</sup> However, such a wide generalisations seem to go against the dialectical method which demands study of the

particularities of each phenomenon before giving a general theory of it. Since classes and social forces which attained power after independence differed from one country to another, it is not appropriate to say that the class character of all countries in the Third World exhibit uniformity. Due to differences in correlation of class forces that led to the anti-imperialist struggles, the class character of the state also differ from one to another. Infact the questions related to the nature of liberation struggles and the classes or groups which attained state power are so complex that even those who claim themselves Marxists find it difficult to identify the nature of dominant classes in most of the countries of the Third World. For example, referring to Africa where indigenous bourgeois class is weak, Markovitz, Joel Samhoff and J.S.Saul argued that the bureaucratic bourgeoisie or 'the organisational bourgeoisie' became the ruling class.<sup>6</sup> But the communist activists like Baba consider that all the African states are dominated by the petty bourgeoisie or proto-bourgeoisie who act as lackeys of foreign imperialism.<sup>7</sup> In India also, even after forty years of independence the communists find it difficult to arrive at consensus about the class character of the state.<sup>8</sup> Such kinds of conflicting characterisations are unknown in the advanced western societies. Since



The classes which attained state power after independence differ from one country to another, one can see different kinds of states viz., national bourgeois states, bourgeoisified feudal states, bureaucratic or comprador states and also countries where state power is jointly shared by the capitalists and the land-lords.

Government and Political Regimes :

Now one may have a look at the specificities of the nature of government and political regimes in the Third World. The Third World is a laboratory which is experimenting different forms of government and testing all kinds of political regimes. At the beginning, most of these colonies tried to experiment with parliamentary forms of government implanted on their soil by their colonial masters. But due to lack of essential conditions necessary for successful experimentation with bourgeois parliamentary superstructure the limitations of the experiment came to light within a short span of time. Contradictions between political superstructure and the actual dynamics of internal socio-economic structure led to modification of the role of parliaments in the Third World. Most of the countries opted for military bureaucratic rule where parliaments became subordinate to the executive. In some other countries authoritarianism developed within the context of parliamentary forms of government. In countries like India legislatures became political power centres to reconcile the

conflicting interests of different classes, castes, tribes, regions and religious communities. In some other countries like Bhutan, Nepal and many Arab countries the parliaments remained as only consultative organisations without any real powers.

Certain amount of democratic freedoms are guaranteed in countries where the national bourgeoisie dominates other classes. But in most of the countries with monarchial, theocratic and bureaucratic forms of government, the rights of the people are restricted. Status of political parties may be taken as an instance. In countries like Saudi-Arabia and Bhutan even the ruling classes do not have parties of their own. The political parties are generally banned in countries where military takes over governmental powers. In certain countries communist parties are not generally allowed to function legally. In many of the African countries like Tanzania, Mozambique and Zaire there exists only one official party. But certain countries like Sri Lanka and India have multi-party system. However, it should be made clear that the nature and content of the single party system or multi-party system in the Third World are qualitatively different from those of the West.<sup>10</sup>

Another feature of the Third World is the transitory nature of its regimes. Generally no government or political regime remains stable for a longer period. Among the UDCs

there will be a very few states which did not experience any form of authoritarian government from the beginning. Such changing nature of the political regimes can be attributed to the changing correlation of class and other social forces within the Third World. International economic crises, external intervention, attitudes of the local elites and the dynamics of military officials, religious leaders and tribal chiefs - all these factors play important roles in giving particular colour to the government and the political regimes. If necessary, responding to the objective necessity to overcome the immediate problems, these political regimes mobilise one section of people against others. In the context of Latin America the roles that different regimes - populist, democratic, military and revolutionary regimes - could play in response to the necessity of managing different crises; the class or social forces that they could rally and the overall success and failures of all these regimes were well accounted in Gary W. Wynia's book, The Politics of Latin American Development.

#### Autonomy of the State in the Third World :

Whatever be the forms of government or political regime, the states in all underdeveloped countries enjoy certain amount of autonomy vis-a-vis the dominant classes and their economic base. Levkovsky argues that this relative autonomy is " objectively caused by the very socio-economic and class-political structure of the transitional societies".

Though all states enjoy some amount of autonomy, the forms of independence differ from one country to another. As Levkovsky puts it, " This increased relative autonomy of the state superstructure at various stages of revolution and under the impact of dissimilar objective and subjective factors, is realised in different forms".<sup>12</sup> In another sense, intellectuals like Hamza Alavi see it as the consequence of the weakness of the dominant classes within the post-colonial societies. To quote Alavi, " the state in the post-colonial society is not the instrument of a single class. It is relatively autonomous and it mediates between the competing interests of the three propertied classes namely the metropolitan bourgeoisie, the indigenous bourgeoisie and the landed classes, while at the same time acting on behalf of them all to preserve the social order in which their interests are embedded, namely the institution of private property and the capitalist mode as the dominant mode of production".<sup>13</sup> In the cases of certain Asian and African states sudden disappearance of colonial masters left a vacuum which could not be filled by the indigenous classes. Since none of the indigenous classes achieved the status or strength to be able to use the state power to its own advantage, the military-bureaucratic apparatus requires relative independence. The scope of such autonomy is however restricted in countries like India where the bourgeoisie is fairly developed even before independence and it was and is conscious

of its economic and political interests. But even in such countries the key role that the state plays in economy gives enough strength to the state to withstand any kind of pressure from the monopolist groups. Almost in all developing countries the state imposes many rules and restrictions to regulate the activities of the individual capitalists. While initiating the process of development in these multi-structural societies, the state creates condition for the development of certain classes and social forces. For example, by providing irrigation, banking and marketing facilities the state facilitates conditions for the transformation of individual land lords into the rich peasantry. If the conditions demand, to legitimise its own authority and to give credibility to the whole system, the state in the developing societies use nationalist ideology, religious dogmas or even pseudo-socialist slogans.

#### COMPULSIONS OF ECONOMIC DEVELOPMENT : IMPERIALISM & THIRD WORLD

Political instability in the Third World is , in one sense, the result of contradictions created by the low level of economic development. Except OPEC nations and the Western show pieces like Singapore, South Korea and Hongkong, all other countries are backward - with lowest per capita incomes in the world. The economic crises in turn aggravates the already existing political and cultural problems thereby posing danger to the stability and integrity of those new nations. The pressure

on states to play ideological and repressive roles will be relieved only when these countries can achieve economic self -- sufficiency. Awareness of this fact forces the states in the developing societies to play a complex role in economy.

With the achievement of political independence, one important phase of the history of imperialism came to an end. Political independence could keep the alien powers away from direct control of the affairs of the state and allow the newly liberated nations to decide their future. However, while setting up priorities conducive for their economic progress, no native rulers can overlook the power of the imperialism that indirectly continues to influence the economy and politics of the post -- colonial societies. Domination of foreign capital and unequal status that the Third World occupies in the world capitalist system force the UDCs to depend on the West. It only shows that political independence is not a sufficient condition for total liberation. Unless full economic independence is achieved political separation from the colonial powers becomes meaningless. At the same time it should be remembered that economic independence can not be achieved without prior political independence. As such achieving and maintaining political independence is a pre-condition for the attainment of economic self-reliance in these newly emergent nation states.

Once it is concluded that almost all the countries in the Third World are formally independent, then a discussion of efforts that these countries made in developing their economy becomes logical. In developing countries, the weakness of the indigenous ruling classes and the necessity of responding to the aspirations of the people for a decent living compels the states to take active roles in economic development. The tasks ahead of these countries are many. The monopolies perpetrated by the imperialists for their colonial exploitation should be overcome gradually. The pre-capitalist socio-economic structures that stand in the way of development need to be eliminated. The countries should develop the forces of production and achieve technological independence. They should limit the role of foreign capital in the native economy and carry on radical reforms in the agrarian structure of these countries. The whole economy must be systematically planned and utmost care should be taken to see that the plans are implemented properly by keeping in check the vested interests trying to preserve the status-quo. In addition to supervision and regulation of economic activities, the state should intervene in the priority areas to setup basic industries wherever necessary. If all these tasks are carried out to their logical ends, one can expect true economic independence.

In practice fulfilment of these tasks is not so easy. To an extent, success depends on internal structural constraints and the attitude of the imperialists who still exercise considerable influence over the native economies. As far as



the role of state is concerned, it has to be said that almost in all developing societies the states made attempts to develop their economies. Infact in most of these countries the state became a leading actor in economy. The state took over the responsibility of establishing and managing the priority sectors. The share of state sector in the national economy increased gradually in all countries. For example, in Algeria, Mozambique, Angola and People's Democratic Republic of Yemen (PDY) the state sector accounts for 70 to 90 percent of industrial output. In Tanzania 75 % of the mining and manufacturing industries and 75 % of the country's foreign and domestic trade are taken over by the state.<sup>14</sup> In Sri Lanka and Bangladesh the state sector controls about 40 to 70 percent of the assets of the industries respectively. Much of the capital investment in the developing countries is done by the state. In Syria, Burma Guinea its share is about 75 to 90 per cent. Even in Latin American countries like Brazil, Chile, Columbia, Peru, Mexico and Venezuela, the public sector contributes more than 50 % of the annual capital formation. In 1975, 56 out of 100 largest Brazillian enterprises are state owned.<sup>15</sup> In all these countries state took the responsibility of planning and supervising all major sectors of economy. Many laws are enacted to regulate the private sector. In India the government enacted number of acts such as Companies Act, Foreign Exchange Regulation Act, Monopolies and Restrictive Trade Practices Act, to regulate the activities of the private capitalists.



The developing societies tried to overcome the adverse impact of foreign imperialism. Laws were enacted to regulate the role of foreign capital. Attempts were made to take possession of the natural resources of their country. Many foreign firms were also nationalised. At the international level all the developing countries came together through forums such as UNCTAD and GATT to pressurise the West for a just and mutually beneficial international economic order. Sincere efforts are made to change the existing unequal and one sided trade practices and secured some concessions from the West.<sup>16</sup> Similarly pressure was built around the developed countries to democratise the existing financial organisations such as the World Bank (IBRD) and International Monetary Fund (IMF) and to divert more funds for the economic development of the Third World.<sup>17</sup> Moreover, to overcome their dependence on the metropolis, the UDCs began to initiate South-South cooperation by forming regional organisations like Organisation of African Unity (OAU), Organisation of Petroleum Exporting Countries (OPEC), Latin American Economic System (LAES), South Asian Association for Regional Cooperation (SAARC) and Association of South East Asian Nations (ASEAN). By following nonaligned policy many of the Third World states took financial and technical assistance from both capitalist and socialist blocks, without subordinating their national interests to any super power. That the UDCs maintain their political independence is evident from the fact that almost all of them voted against the Western powers in the UNO, especially on questions of concerning neo-colonialism, militarism and racism.

But howfar such attempts have been successful ? It is not correct to say that there is no development in the Third World. However the development seems to be so uneven that it could not extricate most of the countries from underdevelopment. Implementation of plans could not bring solace to the people of the Third World. The so-called state sponsored industrialisation did not bring any expected changes in the lives of the poorest of the poor. The countries continued to be exploited by the multinationals. Dependence on foreign capital and technology increased. For example, the US investments in Latin America which was \$ 22,100 millions in 1975 increased to about \$ 39,100 millions in 1987. Between 1973 and 1979 direct investments of the US banks increased by six fold.<sup>18</sup> Foreign debt position reached alarming stage. The aggregate external debt of developing countries zoomed from 755 billion dollars in 1981 to a whopping 1,190 billion dollars in 1987. Their debt to GNP ratios rose up from 18 % to 28 % during this decade. Interest payments became an important problem. According to Deutsche Bank, the interest expenditure of the 15 highly indebted countries came to about 200 billion dollars in the past five years.<sup>19</sup> In Latin America, between 1960 and 1979, the interest payments swelled over 30 times i.e., from \$ 282 millions to \$ 8,994 millions.<sup>20</sup> The reaction of the Third World to this crisis is interesting. Some countries sought loans from the IMF to pay back the interest. Countries like Guyana, Trinidad and Tobago and Surinam started searching for foreign investors.<sup>21</sup>

Such state of affairs calls for a scientific explanation. What has gone wrong with the system? Why is it that the state in the Third World fail to achieve the much needed self-reliance in the economy? How come so many decades of planning could not bring any qualitative change in the lives of the masses? What are the obstacles that need to be overcome to initiate uninterrupted process of economic development? Is such process ever possible in the Third World? These are some of the questions which require answers from social scientists trying to understand the problems of development in the developing societies. But for us, these questions become important to the extent they throw light on the nature of state, its class character, and its dynamics and limitations.

Here it should be mentioned that with the failure of Western modernisation theories, the problems of development in the underdeveloped countries received the attention of many radical scholars of the world. Several radical developmental theorists came out with systematic theories of underdevelopment which while trying to locate the causes of underdevelopment, presented alternatives for bringing about development. Since the scope of present enquiry does not permit us to explain the view-points of all scholars, we would only discuss the contributions of a few important scholars with a stress on their understanding of the role of state in the Third World.

SOFT STATE : Radical Liberal View of Gunnar Myrdal

Gunnar Myrdal was perhaps the first liberal who made sincere efforts to understand the Third World by breaking the self-imposed limitations of liberal frame-work. By opting for the historical - institutional perspective - the method which the bourgeois theorists generally refrain, Myrdal tried to analyse the specificity of the new world. He studied the dynamics of different institutions and social forces within the specific institutional settings that they inherited from their predecessors.

Myrdal considers that halt in the growth of the indigenous industry and commerce, which is the consequence of the effects of colonial hangovers is one of the determinant factors for the continued underdevelopment of the developing societies. Economic stagnation, severe population problem and existence of precapitalist social and economic structures are cited as the causes for the poverty of the people of the Third World. In his book, Beyond the Welfare State, he observes that despite national planning the fate of the developing countries did not change. His search for underlying causes lead him to develop the concept of 'soft state'.

Myrdal opined that in varying degrees all UDCs are 'soft states'. Among other causes, this specific feature of the Third World constitute an important factor responsible for the underdevelopment of the Third World. What does the term 'soft state' signify? To him the soft state is understood

to have comprised " all various types of social indiscipline which manifest themselves by : deficiencies in legislation and in particular, law observance and enforcement, a wide spread disobedience by public officials on various levels to rules and directives handed down to them, and often their collusion with powerful persons and groups of persons whose conduct they should regulate".<sup>22</sup>

In the UDCs , keeping in view the aspirations of the masses, the policy makers at times enact various policies aiming at bringing social transformation of the traditional society. But at the time of implementation, the policies become so diluted that they fail to bring even moderate changes in society. Within the Asian context, he studied various policies such as land reforms, population policies and acts aimed at improving the status of women and dalits. But in all countries the author finds betrayal of the accepted goals that they themselves set to achieve. For example, deliberate delay in legislation and collusion of bureaucrats with the land lords are pointed out as the causes for the failure of land reforms in Asian countries like India, Indonesia and Pakistan. Lack of social discipline, structural linkages between the bureaucrats and the economic elites and rampant corruption that prevails in all branches of government result in social and economic stagnation.

Why do things go this way in the UDCs ? Myrdal sees the answer in the class character of the state. To him, " political power in the UDCs is held nearly everywhere by privileged groups, the first rank including big land owners, industrialists, bankers, merchants and higher military and civil officials".<sup>23</sup> In this ruling oligarchy he also places the 'middle class' which is composed of the professionals and intellectuals. These privileged sections are in unchallengeable position to prevent implementation of any policies that would upset their inherited pattern of social relations. Even officials and politicians entertain vested interests in preserving the status-quo. They assume greater powers in such society where controls are not integrated into plans and the directives for their use tend to be vague and application becomes merely a matter of administrative judgement.

Myrdal unhesitatingly asserts that in such ' soft state ' the political, legal and administrative systems are heavily and systematically weighted against the poor masses of these countries. The states are ruled by compromises, accommodation and sometimes by infighting among various groups that constitute the upper class. As far as the masses are concerned, in all the UDCs, they are merely the objects of politics - not its subjects. According to Myrdal, the so-called democracy in the Third World failed to organise the majority of the people for utilising the political power to advance its own interests. Naturally, " when that pressure from below is almost totally absent, as in most most underdeveloped countries, we should not be surprised that

the inequalitarian social and economic stratification from colonial times is preserved and that development moves in the direction of greater inequality".<sup>24</sup>

What is the way out of this impasse? Myrdal's solution would be reversing the present trend - by widening the scope for popular participation, education and organisation of the masses, overcoming the values that preach status-quo and ending all kinds of indiscipline and corrupt practices in the society. To sum up, Myrdal expects soft states to become 'hard states' - as in the Western welfare societies.

Myrdal does not see underdevelopment as a product of the crisis of capitalist crisis or of continued exploitation of the imperialist powers. Of course, he points out in his studies the disadvantageous position in which the UDCs are placed vis-a-vis the Western powers and criticises the short sighted policies of the Western world that threaten the interests of the developing societies. He even expresses his sympathy for the Third World nationalism. However, Myrdal strongly feels that the interests of the developed countries and the developing countries are complimentary and not contradictory. To him, there are two options open to the World - the first being the international conflict that could be permitted to grow to catastrophic dimensions, ending our civilisation in calamity. The other would be to resolve the conflict by a series of gradual accommodation with an aim to establish a democratic welfare world. Myrdal prefers the second alternative. His



belief in innate goodness of humanity makes him think that the western powers can be pressurised to initiate economic policies that would enable rapid economic development of the Third World states. He considers such a policy to be advantageous to the developed countries also. He says, " The stronger they become, the more the attainment of a new situation of world stability made possible. The stronger they become the more they will be in a position to abstain from policy measures which buildup resentment against them ".<sup>25</sup>

SEMI - FEUDAL STATE : Paul Baran's Enquiry into Political Economy of Backwardness :-

Among the Western scholars, Paul Baran belongs to the first generation of Marxist intellectuals who tried to account for the backwardness of the post colonial societies. He looks at the problem of underdevelopment from the point of view of the impact of imperialism in the erstwhile colonies and semi-colonies. In one sense, he is the founder of Dependency school. However Baran needs a separate study since he differs from other dependency theorists in his analysis of the problems of the Third World and in his characterisation of the class character of the state.

Karl Marx expected that colonialism would work as a blessing in disguise, in the sense that by shattering the traditional stagnant societies, colonialism would create a progressive momentum in the colonies and semi-colonies by sowing the seeds of capitalist development.<sup>26</sup> But Paul Baran observes that western capitalism, far from playing a progressive role affected adversely the social



and economic conditions in the UDCs, by introducing all the economic and social tensions inherent in the capitalist order. The ultimate result was not transplantation of western capitalist social and economic structures on the backward areas. What actually happened was superimposition of business mores over ancient oppressive structures resulting in compound exploitation.<sup>27</sup> For Baran, integration of the backward countries into the international capitalist net-work of exploitation leads to a partial disintegration of pre-capitalist modes of production and the incomplete development of capitalist economic and class structures making the countries 'semi-feudal'.

Baran attributes the continuing reproduction of semi-feudal status of the developing societies to the weakness of the 'middle classes' i.e., the indigenous bourgeoisie. Having grown up in countries that inherited backwardness and poverty, the middle classes could not acquire the necessary self-confidence to play a leading role in society. What is worse, instead of fighting the feudal rule, as in the West, they themselves started assimilating political, cultural and moral values of the feudal class. Such a class can not play its historic role of accomplishing the anti-imperialist and anti-feudal tasks of democratic revolution. Rise of labour radicalism and imminent danger of a social revolution destroyed the chances of capitalist classes-joining the democratic forces. Apparent or real threat of working class unity forced the middle classes to compromise with the church, landed gentry and foreign interests. This led

to the formation of counter revolutionary coalition in which " whatever differences or antagonisms existed between the monopolistic and competitive business, between liberal bourgeoisie and reactionary feudal lords, between domestic and foreign interests, were largely submerged on all important occasions by the overriding common interests in staving off socialism ".<sup>28</sup> As the popular pressure was mounting up, the middle classes cemented a new alliance of all conservative elements which defies all attempts at reform as assaults on the very foundations of society.

In a country dominated by such reactionary coalition all possibilities of economic development would be thwarted. Compromise with landed classes will not allow any radical transformation of agrarian structure. Extreme economic inequalities limits the market potentialities in the Third World. Lavish consumption pattern of the middle classes and their blind imitation of the life styles of the feudal classes drastically limit the savings that can be invested in the productive activities. Parasitic economic stratum depending on the service sector and the vested interests obstructing the productive utilisation of landed resources, hinder the possibilities of uninterrupted industrialisation. In industrial sector, the industrial entrepreneur responding to the monopolistic structure of the market involve in production of luxury goods which involve import of foreign capital and technology. As far as the establishment of basic industries is concerned,

their responsibility will be vested with foreign multinationals who in turn exploit huge amounts in the form of royalties, interests and profits. This relationship breeds 'mercantile bourgeoisie' whose interests are linked with those of foreign imperialism. In such societies, Baran feels that the establishment<sup>of</sup> state sector also proves tremendous waste since it only involves squandering of large sums for the maintenance of sprawling bureaucracies and the power of 'comprador bourgeoisie'.<sup>29</sup>

Baran thinks that there are possibilities of reverting such trends if the state takes up certain necessary responsibilities. If it can impose progressive tax system to check the inflationary tendencies by eliminating non-essential consumption, create the infrastructure necessary for the development of industry, provide technical education to the people, impose rigorous controls over speculation in scarce goods, excessive profiteering and then prevent capital flight, then it will accomplish radical change in the structure of effective demand in the UDCs. However, Baran feels that the state machinery manned by incompetent and corrupt officials can not take up this task. Even if policy makers announces blue prints of progressive measures such as agrarian reform, equitable tax legislation, their structural linkages with the dominant classes will sabotage the strict enforcement of the policies. As Baran puts it, "Setup to guard and to abet the existing property rights and privileges, it can not become the architect of a policy calculated to destroy the privileges standing in way of economic

progress, and to place the property and the incomes derived from it at the service of society as a whole ".<sup>30</sup>

Given the circumstances, how can these countries come out of backwardness ? Baran sees very little possibilities of capitalist development in the UDCs. Yet he attributes important role to the national bourgeoisie in deciding the fate of these states. To him, the possibilities of developing indigenous capitalism under conditions of underdevelopment depends on the economic and political strength of the national bourgeoisie, on the quality of its leadership, on its determination to dislodge the feudal and comprador elements from the position of dominance, on the intensity of the resistance on their part, and on the extent to which the international constellation " permits the elimination or considerable weakening of the support given to these strata by the world's imperialist powers".<sup>31</sup> In other words, " which way the historical wheel turn and in which way the crises in the backward countries will find its final solution will depend, in the main, on whether the capitalist middle classes in the backward areas and the rulers of the advanced industrial nations of the world, overcome their real fear or myopia. Or are they too spell bound by their narrowly conceived selfish interests, too blinded by their hatred of progress, grown so senile in these latter days of the capitalist ages as to commit suicide out of fear of death ".<sup>32</sup>

LUMPEN BOURGEOIS STATE : Analyses of Frank and School of Dependency.

Though Paul Baran is considered as the father of the Dependency school, it was actually in the hands of Andre Gunder Frank that the Dependency theory blossomed into a theoretical framework which could subsequently attract many intellectuals in and around Latin America. Frank and Baran do not have any dispute on the question of dependency. But Frank differs from Baran in his analysis of internal economic structure of the UDCs. Whereas Baran considers that backwardness of those countries is to be attributed to semi-feudal character of these states, A.G. Frank believes that once the metropolis - satellite relationship is established, then the internal structure of the periphery also tends to acquire capitalist features. Baran attributes underdevelopment to the difficulties involved in transition to independent capitalist development in the periphery. On the contrary Frank asserts that there is no scope of escape from underdevelopment within the framework of world capitalism.<sup>33</sup>

Frank's theory of underdevelopment is based on three hypotheses :

1. " Underdevelopment is not due to the survival of archaic institutions and the existence of capital shortage in regions that have remained isolated from the stream of world history. On the contrary, underdevelopment was and still is generated by the very simple historical process which also generated economic development : the development of capitalism itself ".

2. " The satellites experience their greatest economic development ... if and when their ties with their metropolis are weakest ".

3. " The regions which are most underdeveloped and feudal - - seeming today are the ones which had the closest ties to the metropolis in the past ".<sup>34</sup>

According to Frank the same process which brought development in the metropolis is also responsible for the development or the development of underdevelopment in the satellites. On the question of reproduction of dependence, Frank like Baran argues that the centuries of close association with the metropolis leaves the satellites with economic and class structure which is characterised by differentiation in income distribution. The market structure, formed as a consequence of this, forces the native industrialists to accept production of luxury goods, leaving the basic industries to foreign entrepreneur. It leads to greater dependence on the foreign capital and technology and throws the country into the vortex of a host of economic problems such as severe balance of payments, absence in production, underutilisation of productive capacity and huge foreign remittances in the form of profits and royalties - all these leading to further dependence on the metropolis. Such dependence makes the UDCs subservient to the desires and preferences of the industrially advanced nations. The result is that each tortured inch of industrial advance becomes a giant step backward.

The ideas of Frank are further developed by intellectuals like Dos Santos, F.H.Cordoso and E.Faletto. Dos Santos considers that the historical forms of dependence are conditioned by 1) the basic forms of the world economy which has its own laws of development, 2) the type of economic relations dominant in the capitalist centres and the ways in which the latter expand outward and 3) the types of relations existing inside the peripheral countries which coerce them to the status of dependent nations within the world capitalist order.<sup>35</sup> Dos Santos distinguishes different types of relations of dependency - colonial, industrial - financial and industrial - technological. Like Santos, Cordoso and Faletto also emphasise the differences and discontinuities between different types of dependency and between the internal structures which result from them.<sup>36</sup>

Though there are some differences among the Dependency theorists on certain aspects, all of them stress the role of local elites in the transfer of economic surplus from the periphery to the metropolis. All these classes sharing the state power in such countries are called by Frank as 'lumpen bourgeoisie'. When he calls them, 'lumpen' he does not mean that in the UDCs there can be bourgeoisie which can be national but not lumpen. He considers entire national bourgeoisie in the Third World as lumpen, since none of them can disentagle the national economic good from their own interests. Infact all these sections are benefited by perpetuation of such lumpen development.



The Dependency theorists see that the structure and composition of the ruling coalition are determined by the particular forms that dependency relations take place in course of economic development. According to Cardoso and Faletto, in all developing but dependent countries " social structures reflect the double edge of the economic system : its external links and internal roots. Social dynamics and social conflicts express both kinds of interests and pressures, those that derive from external influences and those that are national ".<sup>37</sup>

In Latin America, almost from independence to the beginning of 20th century traders, merchants, financiers and groups such as latifundistas, agricultural capitalists and mine owners constituted as ruling coalition under one or the other hegemonic class. It was in the first three decades of the 20th century that the industrial bourgeoisie made their appearance felt. Even during this transitional period, the ruling coalition remained tied to the export sector. However, between the depression and the end of the II world war, when the ties with the metropolis were weakened and the necessity of import - substitution arose, attempts were made by the populist regimes in different Latin American countries to bring about rapid industrialisation. During this period, as a consequence of development and consolidation of the state sector, the industrial bourgeoisie also strengthened its position. By the 50's it became a strong faction within the ruling coalition - at times dominating even the landed aristocracy and export enclaves.<sup>38</sup>



The Dependency theorists gave considerable importance to the role that the state plays in such countries in mediating the interests of different classes and class factions of the ruling classes. With the development of bureaucracy, military and technocracy, the dynamics of state became more complicated. The state plays a major role in perpetuating the dependency. Different policies of the government such as liberalisation of controls for capital and intermediate goods, repeated currency devaluation and halt in agrarian reforms are cited to point out how the state is involved in promoting the lumpen development.<sup>39</sup> Though the role played by the public sector in the industrialisation of the Latin American countries is recognised, the Dependency theorists argue that in the post-war period, the public sector became subservient to the interests of the multinationals. They however accept that dependent development does not take place in a smooth manner. It occurs through frictions, accords and alliances between the state and the vast sections of the people worst affected by this development. Cardoso and Faletto point out that in order to counter the popular opposition, now becoming more and more strong in the Latin American countries, the states are expanding and fortifying themselves by having recourse to repressive and anti-people policies. Under the given conditions authoritarian forms of state become the only alternatives for the national bourgeoisie to continue its domination.<sup>40</sup>

In such conditions where the state and the national bourgeoisie are involved in fostering dependency and under-development, the dependency theorists do not find any scope for independent capitalist development in the Third World. The only alternative that Frank suggests is a radical break with imperialism and immediate transition to socialism through anti-imperialist socialist revolution. While attempting to find out the principal enemy, Frank asserts that, "the immediate tactical enemy is bourgeoisie itself .... inspite of the fact that, strategically principal enemy is imperialism".<sup>41</sup>

ANTI-IMPERIALIST STATE : Expectations of the Russian Marxists :-

During the Stalin period, the Soviet theoreticians believed that the independence gained in countries like India under bourgeois or petty-bourgeois leadership would only be formal and that such countries could not but act as the puppets of their erstwhile colonial powers. However the Soviets gradually began to realise that the dynamics of the Third World can not be seen in such simplistic terms. The first Asian Congress of 1949, Korean and Indonesian crisis and the Bandung conference of 1955 showed that the developing countries like India can play a positive and independent role in the world despite the fact that they may not be proletarian states. After seeing all these events the Russian Marxists who earlier characterised the newly emergent states as lackeys of imperialism, started painting them as "potential anti-imperialist forces in the world". The dynamic roles of the countries like India, Egypt and Indonesia made their party ideologues realise that

it would be a great mistake to minimise the historical significance of the process of decomposition of the colonial system only because it has brought in its wake non-socialist states. Whatever be the form of national liberation of the colonies and semi-colonies might be, this liberation is a great blow to imperialism and consequently, necessarily does not strengthen, but weakens the world capitalist system.<sup>42</sup>

In the wake of development of this new paradigm, many Soviet scholars began to comprehend the role of state and classes in the developing societies. Unlike their Chinese counterparts, the Soviet scholars undertook strenuous empirical surveys to understand the specificity of the state in the UDCs. They argue that due to differences in correlation of class forces in developing societies, ruling classes may differ from one country to another. The Soviet scholars themselves identified that there are national bourgeois states, bureaucratic bourgeois states, bourgeoisified feudal states and states where the state power is jointly shared by the bourgeoisie and landlords.<sup>43</sup>

Like many other developmental theorists, the Russian Marxists stress the impact of the imperialist exploitation and the consequences of unequal status that the UDCs enjoy within the world imperialist system. In addition, internal factors such as the existence of outmoded production relations, low development of productive forces, lack of adequate capital

and shrinking internal market are identified as the factors responsible for the backwardness of the developing societies. In short, foreign imperialism, internal precapitalist elements and the local elites ( big bourgeoisie / feudal lords / tribal chiefs ) allied to foreign imperialism are generally cited as obstacles to the path of development in the Third World. Russian believe that there are possibilities of considerable economic development in the UDCs, if the state power is used to destroy the outmoded production relations, develop productive forces, mobilise internal national resources, free the economy from the control of the foreign monopolies and broaden the internal market by generating industrialisation and agrarian reforms. Soviet theoreticians attribute positive role to the public sector. As V.V.Rymalov puts it, " state sector in industry and other branches of the national economy of the former colonies and semi-colonies is the decisive instrument for attaining the economic aims of the liberation... Its all round development is designed to create the strongest possible progress ".<sup>44</sup> Development of state sector and nationalisation of private industries are considered as progressive steps having anti-imperialist and anti-monopoly characteristics. Further the Soviet scholars recognise that it is not possible to undertake such massive developmental programmes without having necessary technological development and financial help. So they see the necessity of dependence of the UDCs on foreign capital and technology. Though such dependency gives an opportunity for the neo-colonialist exploitation, the Soviet Marxists

argue that by taking advantage of the presence of the socialist block, they can utilise the foreign capital and technology for their own advantage without sacrificing their political independence. Close ties with the socialist block and mutual economic interdependence of the countries belonging to the South, are cited as external prerequisites for economic development. Hence the Soviet theoreticians place nonaligned movement on high pedestal and claim themselves as its natural allies.<sup>45</sup>

Depending on the attitudes that different states take on questions relating to the implementation of the tasks ahead of them, the countries are designated as progressive or reactionary. Based on the path of development that they opted and foreign policy they adopt, the Third World is classified into the capitalist oriented and socialist oriented countries. All countries which have taken the capitalist path of development are included under the category of capitalist oriented countries. State power in these countries may be with the national bourgeoisie or bourgeoisified feudal lords or the proto-bourgeois sections. Soviet theoreticians argue that other than countries where the national bourgeoisie is in power, radical reforms necessary for economic self-reliance can not be implemented properly. In these countries land reforms fail due to opposition from the landlords and bureaucrats. Potentialities of state capitalism can not be realised properly. In most of these countries, the state sector bows down to pressures exercised by the private capitalists

and foreign imperialists.<sup>46</sup> Due to weak industrial base and lack of diversification in production and exchange, the process of development initiated in these countries become susceptible to the pressures of unjust international economic order.

Parellel to the capitalist oriented countries, the Soviet Marxists believe, there are socialist oriented countries which follow non capitalist path of development. Such countries identified by them include Algeria, Tanzania, Mozambique, Guinea Bissau, People's Democratic Republic of Yemen, Angola and Afghanistan. In these countries, where the bourgeoisie is weak, the state sector dominates the industrial sector. In many of these countries, 70 to 90 percent of total industrial product is attributed to the public sector. In the main, land reforms are strictly implemented and many foreign firms are also nationalised. The state in these countries gives considerable importance to the social welfare activities such as education, housing and health care. Russian scholars believe that these steps could be possible owing to the presence of working people and peasants in the state power of these nations which declare socialism to be their ultimate goal. Inspite of these progressive attributes, the Soviet Marxists accept that there are reactionary forces in these countries trying to capture the state power and then reverse the process of development.<sup>48</sup> However the Russians think that if the states adhere to the same path, these countries could sustain uninterrupted development without the becoming victims of all those economic crises that impede the development of the capitalist states.

Finally it should be mentioned that the Russians consider that all Third World countries - whether socialist oriented or capitalist ones - are unconscious vehicles in achieving World socialism. As N.A.Simoniya puts it, " Given this situation the development and certain degrees of capitalist relations in some countries does not at all imply "rejuvenation" or strengthening of world capitalism. The liberated countries not only are not a source of reserve potential for the last exploiting system, but bring new contradictions into capitalist and complicate and aggravate the old contradictions ... (All) these contradictions heighten the possibilities of the revolutionary alternative " i.e., revolution.

#### IN SEARCH OF A THEORETICAL FRAME-WORK :

In the context of peculiarities of socio-economic conditions in the Third World, we have so far reviewed different interpretations of the role of the state in the economic development of these backward societies. Different authors threw light on different aspects related to state, classes and economic prospects in the Third World. Though there are certain points of similarity here and there, the authors seem to entertain competing and at times even conflicting views about the nature of the state and the ruling classes in the developing societies. In one sense, these differences are the products of the paradigms within which they happen to see the problems of the UDCs. Hence critical evaluation of these paradigms become necessary to develop a more meaningful and comprehensive Marxist Leninist



frame-work for the study of the nature and dynamics of state in the developing countries.

Gunnar Myrdal offers an 'institutional theory' that analyses the economic structure and living standards, agriculture and industry, social stratification and ideology - not as separate problems but in their totality and inter-connection. He even recognises the reactionary role of the dominant classes within these countries and the impact of centuries of imperialist exploitation. However his solution he offers is not uncompromising struggle against imperialism and vested interests within these nations. Like all humanists he believes in the possibility of reconciling the interests of different classes within the countries and also the conflicts between the UDCs and imperialists, through a gradual process of mutual understanding, reconciliation and accommodation. But the logic of historical process of development makes it difficult to realise Myrdal's myth of 'welfare world'.

Paul Baran correctly understands the historic limitations of the bourgeoisie of the developing societies. He understands that in an era of imperialism and proletarian revolutions, the bourgeoisie can not but compromise with foreign imperialism and local feudalism. However his attempts to generalise the causes for underdevelopment as joint exploitation of capitalism and feudalism, his innate belief in the progressive character of capitalism even in this era and the decisive role that he



assigns to the national bourgeoisie in directing the course of development need a second look. He prefers socialist alternative. But what is the course of revolution he propose - anti capitalist socialist revolution or people's democratic revolution where even the national bourgeoisie become allies in the revolution ? It seems, he considers that at this stage of development semi - feudalism and imperialism are the main enemies - not the national bourgeoisie. He comes to this conclusion by his analysis of the stage of development of economy in the UDCs.

A.G.Frank, by defining capitalism as production for profit goes to another extreme of characterising all dependent relations in the Third World as capitalist relations. He thinks that the national bourgeoisie of the Third World ( He calls them as 'lumpen bourgeoisie ) can never escape dependent relationship because of its specific relationship with the world imperialist system. Like Trotskites, he sees anti-capitalist socialist revolutions as the only solutions left for all developing nations. It may be true in case of a few Asian and Latin American countries where the state power basically lies with the capitalists. But this solution does not hold good in countries where inspite of considerable capitalist development the state power still lies with the feudal lords or comprador bourgeoisie. He makes the same mistake as his counterpart, Baran in determining the present stage of revolution in different countries of the Third World.

The Soviet scholars are better informed, in the sense that they understood the peculiarities of the developing societies and did not generalise the class character of the state and stage of development of economy. Through systematic empirical work, they argued that the classes which came to state power in the Third World differed from one state to another. The Soviets see the prospects of development only in two sets of countries - progressive national bourgeois states and states with socialist orientation. However, complete economic independence is possible only in socialism - a goal which will be accepted by all developing countries sooner or later by following non-capitalist path of development. It is surprising however to note that inspite of their recognition of differences in the class characters of the states belonging to the Third World, the Russians point out imperialism as the main enemy and prescribe national or people's democratic revolutions as the present stage of revolution for all developing countries.

Though all the analyses reviewed so far give us some understanding of state, classes and economic development in the Third World, the dialectical interaction between these categories are not properly established. There seems to be a tendency of reducing one structure to another - without comprehending the relative autonomy that each structure or social force has vis-a-vis other structures or social forces. Ignorance of pluralities of the socio-economic structures of these societies

make the scholars generalise their experience of a group of countries to the entire Third World. Attempts to comprehend the complexities of the social formation in the Third World within the rigid framework of concepts developed in the context of the western societies cannot make any head way. Take the instance of classes in the Third World. In some countries, the classes are still in formative stages. In some other states, though the classes are well-developed, their members are so much influenced by other pre-capitalist structures like castes, tribes and religions that it becomes very difficult to judge one's class character by the apparent ideology. To put it other way, a bourgeois in the UDCs behaves not only as a capitalist but also as a man belonging to a particular caste, tribe or religion. How to characterise the role of such pre-capitalist structures is again a problem. Whereas these structures are obstructing the capitalist path of development in certain countries, in many others, they are co-opted in such a way that they play a complementary role in development. For example, religion as an institution might have become an obstacle to development in countries like Bhutan and Nepal but in countries like Iran religious nationalism led to implementation of many radical reforms. Finally, one need to say that there is no eye to eye relationship between the class character of the state and the economic role that it plays. There are semi-feudal or bourgeoisified feudal states such as Nepal and Saudi Arabia where the ruling feudal elites were compelled to initiate capitalist path. On the other hand, one can find predominantly capitalist states

like Brazil and Pakistan compromising with feudal and semi - - feudal elements in their countries.

In view of these multiple complex relationships between the classes and the states, classes and other social forces and the base and superstructure in the Third World, one should stop generalising about the nature of state in the developing societies. It however does not mean that one should not totally ignore the features common to all developing nations. What is to be stressed is the study of each Third World countries in all its specificities and its interrelationship with the general. Developing and perfecting the concepts such as classes, class interests and ruling classes become necessary. In addition a meaningful political discourse on the nature of state requires arriving at consensus about meanings assigned to terms such as 'comprador state', 'semi-feudal state' or 'independent national bourgeois states'. All these guidelines would be kept in mind in developing an analytical frame-work for the study of the nature and dynamics of Indian state.

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## II Chapter

### A CRITIQUE OF THE DOMINANT MARXIST INTERPRETATIONS OF THE INDIAN STATE

#### INTRODUCTION :

Complex problems involved in the study of nature and dynamics of state in the Third World have been highlighted in the first chapter. While analysing the characteristics common to all the developing countries, it was pointed out that the nature of the state in the Third World should not be generalised. Since the classes which attained political power after the eclipse of colonial rule differed from one state to another, the Third World exhibits different forms of state. This point should not be overlooked in the study of nature of the post-colonial state in India. India being a part of the developing world, dynamics of the Indian state can not be fit into the frame-work that is usually provided to the study of the state in the Western capitalist societies. At the same time, it should also be stated that apparant similarities should not tempt one to reduce the nature of Indian state to some fixed model built on the basis of study of one or a few underdeveloped countries. Since its social structure, economic development and political history have their own specificities, the Marxists interested in comprehending different dimensions of Indian state should make concrete analysis of the concrete situation in India.

Indian Communists are of course aware of these basic tenets of Marxist Leninist method of enquiry. But somehow even after 40 years of independence, parties and persons claiming themselves communists could not come to a single accepted conclusion about the class character of the post-colonial state in India. A lay man interested in knowing the Marxist view-point would get confused to see competing and often conflicting interpretations of Indian state. Since it is obvious that all interpretations can not be true at one point of time, it becomes necessary to evaluate all those interpretations on the anvil of Marxism Leninism in order to examine whether or not any of the existing analysis comes near to Indian reality. Though we would like to reflect on interpretations of all parties<sup>1</sup> and persons claiming themselves Marxists Leninists, due to limitations of the study, we would be limiting ourselves to the study of the contributions of only traditional communist parties viz., the Communist Party of India, the Communist Party of India (Marxist) and the Communist Party of India (Marxist Leninist) and also the works of certain academic relative autonomists. While reviewing the interpretations of these parties and academics wherever necessary, their methodological fallacies and conceptual inadequacies would be pointed out and possible alternative explored. At the end of the chapter, an attempt may be made to develop a more meaningful and dialectical frame-work for approaching the problem of Indian state.

TRADITIONAL COMMUNIST PARTIES :

Diverse interpretations given to the Indian state are not to be attributed to the breakup of the united Communist Party of India. Even when the communists were united the party could not stick on to one single view of Indian state. Though all of them express their allegiance to the theoretical document of 1951,<sup>2</sup> the interpretations given to this line changed in course of time. The Madurai Congress of the united Communist Party convened in 1953 endorsed the Party Programme of 1951 which characterised the Indian state as a semi-feudal and semi -- colonial state.<sup>3</sup> But this kind of interpretation could not explain many of the post 1947 developments in India. For the communists, the dynamics of the Indian state, especially its foreign policy remained a hard nut to crack. Unable to digest how a semi-feudal and semi-colonial state could follow an independent foreign policy, the Delhi meeting of the Central Committee gave an argument that it is possible for the Indian state to adopt an independent foreign policy since the influence of the national bourgeoisie on the Indian economy, and over the government and the state was on the increase.<sup>4</sup> The next congress held at Palghat in 1956 characterised the Indian state as " landlord bourgeois state in which the bourgeoisie is the leading force ".<sup>5</sup> Though the basic strategy of anti-feudal and anti-imperialist democratic revolution was not changed, the Communist party then stopped calling India a stooge of imperialism. Such changes within the united communist party are in a sense

inevitable consequence of lack of homogeneity among the members of the Party. Bipan Chandra's article, " A Strategy in Crisis" has clearly pointed out the diverse view points held by different groups within the united communist party. Their differences on questions related to the nature and dynamics of Indian state have subsequently got manifested with the breakup of the united communist party into CPI(M) and CPI(ML).

Before judging whether the method of approach adopted by the different communist parties and the conclusions to which they have come are in accordance with the basic tenets of Marxism Leninism, a brief study of their analyses of the state and the ruling classes in India becomes necessary.

#### CPI : National Bourgeois State :-

The Communist Party of India (CPI) has been characterising the Indian state as a National bourgeois state. After the breakup of the united communist party, the CPI openly endorsed the 20th Party Congress of the Communist Party of Soviet Union (CPSU)<sup>7</sup> which saw the possibility of peaceful transition to socialism in countries like India by following non-capitalist path of development. Khrushchev's attempts to see an element of progressive nature in national bourgeoisie has profoundly influenced the theoreticians of the CPI. It was contended that because of their participation in the anti-imperialist struggle, certain sections of the bourgeoisie have become progressive in

their outlook and practice. It is because of their presence in the state power that the Indian state has been able to take up many progressive steps. It seems, according to CPI the class of nationalist bourgeois does not include monopolists who tend to compromise with feudalism and imperialism. The CPI opines that though the monopolists exercise powerful influence over the policies of the state, the Indian state as such is not dominated by the private monopolists. The leaders of the CPI argue that the public sector has developed to such an extent that no individual monopolist can excel the state sector either in its size or scope of its activities. Because of this advantage the CPI believes that the national bourgeois state can take up many anti-monopoly measures, provided it has a political will to do so.<sup>8</sup> To the CPI, governmental policies like nationalisation of banks and industries, development of public sector and enactment of measures such as MRTP Act are anti-monopoly in their content. Their leaders consider that if the state has a political will, then it can nationalise all monopoly organisations. Similarly, in the nonaligned foreign policy of the Indian state, the CPI sees anti-imperialist and pro-socialist content. The CPI leaders think that the development of the public sector with the Soviet aid, would help the state to fight both the internal monopolies and foreign imperialists. The CPI accepts that the land reforms initiated by the state led to the development of capitalism in agriculture though they say that there are still vestiges of feudalism here and there. Their belief

in the progressive character of the national bourgeoisie make them give a call for 'National Democratic Revolution' directed against feudalism, imperialism and monopolies. They believe in peaceful transition to socialism through non-capitalist path of development.<sup>9</sup> The national bourgeoisie will be an ally in such revolution.<sup>10</sup>

Such understanding of the CPI may tempt one to make certain observations. Though the CPI's conception that the Indian state is a state of national bourgeoisie may be accepted, their arguments that some sections of the national bourgeoisie even in this era of imperialism can remain consistently progressive and that they can be made allies in the revolution seem to be against the fundamentals of Leninism. Again, whether capitalism has run its full course or not, is not relevant to the question of revolution. As Lenin says, "The basic question of every revolution is that of state power".<sup>11</sup> Further elaborating this point, Stalin observed, "In the hands of which class or which classes is state power concentrated, which class or which classes must be overthrown, which class or which classes must take power such is the main question of every revolution".<sup>12</sup> So, when the CPI accepts that the national bourgeoisie has come to power, then according to Leninism the national bourgeoisie must become the target of revolution. Surprisingly the CPI makes it an ally. Further it may also be said that their National Democratic Revolution has no relevance to India. Lenin's conception of non-capitalist path of development in backward

countries with pre-capitalist modes of production<sup>13</sup> is not applicable to India which has already witnessed considerable development of capitalism and given birth to the classes of bourgeoisie and proletariat. Further it is not desirable to make distinction between the national bourgeoisie and monopolies, since in reality, monopolists also become a part of the national bourgeoisie. The government policies like nationalisation of banks and industries, development of public sector and the policy of nonalignment are not indications of anti-monopoly character of the Indian state; all these activities are necessitated by the general interests of the capitalist class, of which the monopolists form an important segment.

CPI (M) : Landlord Bourgeois State:-

The CPI(M) views the Indian state as " an organ of the rule of the bourgeoisie and landlords, led by the big bourgeoisie who are increasingly collaborating with foreign finance capital in pursuit of the capitalist path of development ".<sup>14</sup> After 1947, the state power in India has been captured by the big bourgeoisie in collaboration with the landlords. The big bourgeoisie being reactionary and compromising in its nature, the Indian state has failed to accomplish the tasks of democratic revolution which involve elimination of the feudal, semi-feudal and imperialist elements in India. Though the CPI (M) theoreticians call India a nation state, they avoid naming the big bourgeoisie as national bourgeoisie. Reacting to those who characterise the Indian state as a state of the national bourgeoisie the CPI (M) circles ask, " How is it



that we have a state of the bourgeoisie and all its policies only lead to the further strengthening of foreign monopolist position on the country's economy ?.... Why is it that feudal and semi-feudal relations in land have not been abolished ? Why is it that the policies of the Congress rule are directed to pauperising the general mass of peasantry ? ... How is it that in this whole period of independence it is the big monopoly houses that have amassed riches while medium and small-scale sectors have been pushed into the crisis after crisis ? ... Is this the consequence of a state of the bourgeoisie or of a state led by the big bourgeoisie ?".<sup>15</sup> Their inference is clear - all such things will not happen in a national bourgeois state, therefore Indian state is only a state of the big bourgeoisie. To overcome this state of affair, the CPI (M) gives call for People's Democratic Revolution by which they mean essentially an agrarian revolution directed against feudalism, imperialism and big bourgeoisie. The rich peasants and the broad minded national bourgeoisie can also be allies in the revolutionary front directed against the main enemies.<sup>16</sup>

Now let us examine how much Marxian is this interpretation of Indian state. Firstly, one may say that the characterisation of any state simply as a land-lord bourgeois state headed by the big bourgeoisie is theoretically inadequate. The CPI (M)'s position does not clearly explain whether by 'landlord' they mean feudal lords or capitalist landowners. In many of their recent analyses, the CPI (M) itself admits that capitalism is making in-roads into agriculture. Study of their party docu -



ments shows that the landlords (class enemies) and rich peasants (class allies) do not have any qualitative differences except for the fact that the landlords hold more acres of land.<sup>18</sup>

However from their saying that the landlords employ wage labour, use modern technology and produce for market, one can infer that the landlords are basically " the landowners who had become bourgeoisie " .(Lenin's expression). Similarly the CPI (M) does not clearly say whether the native bourgeoisie is national or comprador in nature. Yet their characterisation of India as a nation state and their statements about the contradictions between the native bourgeoisie and imperialism drive one to the conclusion that the bourgeoisie can not be anything but national. As is explained in our reflections on CPI's position, it is wrong to make distinction between the big bourgeoisie and non-big bourgeoisie and then brand only big bourgeoisie as a reactionary force compromising with imperialism and feudalism. Even Prabhat Patnaik, known for his CPI (M)'s leanings admits that not simply the big bourgeoisie, even small monopolies also collaborate with foreign firms, ofcourse with the aim of competing with the big bourgeoisie.<sup>18</sup> Finally the question whether capitalism has matured or not is not a criterion to judge the state of revolution. If it is accepted that the national bourgeoisie is in power, then no matter whether all other tasks of democratic revolution are completed or not, the next stage of revolution in this era of imperialism should be anti-capitalist socialist revolution.

Answering to Utsa Patnaik's criticism,<sup>19</sup> Paresh Chatopadhyaya rightly observes, " The state of development of capitalism in Russia did not qualify her for socialist revolution. When Lenin, in his April Theses advanced the thesis of transition to socialist revolution, it was not because Russia's capitalist development had suddenly taken a qualitative leap but because through the events in February the bourgeoisie had assumed state power in Russia.... To put the matter schematically, Lenin based his arguments not so much on economics as on politics."<sup>20</sup>

CPI (ML) : A Semi-colonial and Semi-feudal State :-

The Naxalites are now no more homogenous. Their parent party, CPI (ML) has now got divided and redivided into several factions and groups. However even now, almost all groups<sup>21</sup> inspite of many tactical differences, still hold on to the view that India is a semi-feudal and semi-colonial state, which has not even gained political independence. According to them the fear of revolutionary upsurge of the common masses forced the bourgeoisie and its political party, the Indian National Congress to come to an understanding with feudalism and imperialism. Except for the fact that the political power has changed from the hands of the British lords to the Brown lords there have been no basic changes in any sphere after 1947. To put in words of T.Nagireddy whose work, India Betrayed is accepted as an authority by many of the Naxalite factions, " the characteristic features of new government in name of independent India

was continuity of the old regime, of the social and economic order, the same administrative machinery of Imperialism, the same bureaucracy and the police ".<sup>22</sup> The reforms introduced by the new government " have not changed the foundations of the Indian society in general and the ruling classes in particular .... There is no change in their foundations of power ".<sup>24</sup> According to the extremist factions the state power in India is shared by feudal lords, imperialists and comprador bourgeoisie. Thus they basically stick on to 1951 Party Programme of the united CPI which considered destruction of feudalism, distribution of land to the landless and tenants and achievement of complete and real freedom for the country as the primary objects of the present stage of revolution.<sup>24</sup>

Since the CPI(ML)'s thinking has powerful impact on most of the leftist intellectuals in India, one can not ignore the necessity of making general reflections relevant to the Marxist-Leninist conception of state and revolution. Firstly, one may take up the question whether the Indian state is politically independent or not. The Naxalites influenced unconsciously by the logic of Dependency school generally show economic facts to argue that the Indian state is dominated by the imperialists. But according to Lenin the question whether the state is a semi-colony or not is basically a political one. In the words of Lenin, " Self determination of nations means the political separation of these nations from alien national bodies and the formation of an independent nation state ".<sup>25</sup> Criticising Rosa Luxemburg's conception that due to the increasing

penetration of the imperialists in Poland and other Balkan states there is no possibility of these states emerging as nation states, Lenin correctly pointed out, " For the question of political self determination of nations and their independence as states in bourgeois society, Rosa Luxemburg has substituted the question of their economic dependence ". It is precisely what the Naxalites in India do. It may be true that India is economically dominated by the imperialists, but it has no relevance to the question of emergence of India as a nation state. It is wrong to consider that only in semi-colonies the foreign capital can penetrate. To quote Lenin, " finance capital is such a great, such a decisive force in all economic and in all international relations, that it is capable of subjecting and actually does subject to itself even states enjoying the fullest independence ".<sup>26</sup> out of their own necessities, at times politically independent states also depend on the metropolitan bourgeoisie. " Not only small states, but even Russia, for example, is entirely dependent economically on the power of the imperialist finance capital of the rich bourgeois countries. Not only miniature Balkan states, but even nineteenth century America was economically a colony of Europe, as Marx pointed out in Capital ... but this has nothing to do with the question of national movements and the nation state ".<sup>27</sup>

Since the question of semi-colony is in a sense related to the existence of comprador bourgeoisie, one may be driven to examine CPI(ML)'s conception of comprador bourgeoisie.

According to its theoreticians there are two sections within the bourgeoisie - comprador and national.<sup>28</sup> They tend to identify all capitalists who collaborate with foreign monopolists as comprador in character-even the public sector built with foreign assistance - is comprador in nature. But this argument is simplistic and at any rate inadequate. While analysing foreign collaborations, one should examine whether such collaboration is made entirely in the interests of the foreign finance capital or whether such collaborations are invited to meet the requirements of the indigenous capitalist development. One should also see whether our capitalists while making certain economic concessions to the foreign finance capital show its willingness to sacrifice, if necessary, even the political independence of our country. If state power is in the hands of the comprador bourgeoisie, how come the state nationalise certain foreign firms ? If the Indian state is a puppet in the hands of the imperialists, how can the state shift its tilt from one superpower to another and as against the intentions of both the super powers, the state manages to extend its hand of friendship to China ? These questions need to be answered by all those who subscribe to Naxalite ideology.

Finally one may also make an observation that inheritance of political structure of the British imperialists, in itself is not a sign of lack of nationalism on the part of nationalism on the part of the bourgeoisie. It is wrong to expect that the national bourgeoisie which is equally exploitative in

nature attempts to destroy the colonial state structure and place it by a new pro-people's state. All the changes necessary for the political rule of the bourgeoisie have been initiated immediately after the transfer of power. The existing parliamentary institutions, with centralised bureaucratic and military setups have nothing in common with fragmented state<sup>29</sup> in China before revolution. As Lenin says, " the development, perfection and strengthening of the bureaucratic and military apparatus proceeded during all the numerous bourgeois revolutions, which Europe has witnessed since the fall of feudalism ".<sup>30</sup> Even Karl Marx pointed out, " All revolutions perfected this machine instead of smashing it. The parties that contended in turn for domination regarded the possession of this huge edifice as the principal spoils of the victor ".<sup>31</sup> So, to expect the bourgeoisie to take up mission of the proletariat and criticising it for not doing so, is not a scientific way of understanding the history.

#### ACADEMIC RELATIVE AUTONOMISTS :

Except for the scholarly insights shown by a few social scientists like A.R.Desai, Paresh Chattopadhyaya and Srikant Dutt into certain important aspects related to the state, for decades, the question of nature of Indian state has remained almost untouched by Marxist academics in India. Even when they are to analyse certain trends in Indian politics, they generally neglected to take into consideration the specificity of Indian society. Sometimes in the name of class analysis, these Marxists

undermine the significance of the autonomous roles played by different social forces like castes, religions, tribes and linguistic groups. Even in the much trumpeted class analysis a trend of reducing the study of classes to the mode of production or to the question of extent of concentration of foreign capital, has dominated the left minded academics in India. Being the victims of economism, a characteristic typical of traditional communist parties, the leftist scholars could not succeed in giving a comprehensive theory of Indian politics. As a result, even now the Indian academic research continues to be dominated by the liberal interpretations of Indian politics.

However, thanks to the Western debate over the question of relative autonomy of the capitalist state, in the recent period, atleast some of the Indian scholars have got themselves liberated from the clutches of economism and instrumentalism. The necessity of studying the positive and autonomous role that the state plays has been recognised. Certain studies concentrating on the relationship between the state and the dominant classes have come to light. Though a comprehensive study of the nature of state on these lines has not yet come out, one has to explore the potentialities and weaknesses of this trend in the broad interests of developing Marxist Leninist framework to understand the complex role that the Indian state has been playing. With that aim, an attempt may be made in this section to review some of the contributions of academics like K.N.Raj, Hamza Alavi, Sanjeeb Mukherjee, Pranabh Bardhan and Anupam Sen as far as they are related to the question of relative autonomy of the Indian state.



Perhaps the first intellectual reaction to the instrumentalist view of the state in India has come from the wellknown Indian economist, Prof. K.N.Raj. Following Kalecki,<sup>32</sup> K.N.Raj has argued that the governments in the intermediate regimes, of which India is an example need not necessarily serve the dominant propertied classes namely the big bourgeoisie and the feudal lords. Certain developments in the post-war world created the conditions which enable the state to play a different role. These favourable conditions include 1) numerical dominance of lower middle classes at the time of independence, 2) extensive involvement of the state in economic activities and 3) availability of credit from socialist countries. K.N.Raj considers that given the conditions, "the state could .... perform the role of dynamic entrepreneurs, undertake the basic involvements necessary for economic development, and promote a pattern of amalgamation of the interests of the lower middle classes with state capitalism".<sup>33</sup> The state can consolidate its power by gaining a measure of independence from foreign capital; by carrying out land reforms and by creating conditions necessary for a continuous economic growth. According to Prof. Raj, the lower middle classes and the rich peasantry constitute the ruling class of such intermediate regimes. Lower middle classes include, along with small proprietors in agriculture, industry and commerce, a wide variety of professionals, doctors, engineers, teachers, bureaucrats and others - irrespective of whether they are



self-employed or work as wage earners. By rich peasantry they mean capitalist land owners. What brings these two classes together seems to be their dependence on state capitalism for their own development.<sup>34</sup>

At about the same period, Hamza Alavi has come out with a different theory of the state in post-colonial societies. In his analysis of the nature of Pakistan state which he thinks has relevance even to Indian state, Alavi takes up more or less a Structural Marxist view. He sees the state as a military-bureaucratic structure, relatively autonomous of the economic structure on the one hand and the dominant propertied classes on the other. The specific conditions that enable the state to play such an autonomous role in the post-colonial societies include 1) inheritance of overdeveloped state from the imperialist power at the time of independence and 2) inability of the dominant classes and their parties to use the state as their instrument. The state in such societies, "mediates between the competing interests of three propertied classes, namely the metropolitan bourgeoisie, the indigenous bourgeoisie and the landed classes; while at the same time acting on behalf of them all to preserve the social order in which their interests are embedded, namely the institution of private property and the capitalist mode as the dominant mode of production".<sup>35</sup>

Contribution of Sanjeeb Mukherjee, another relative autonomist is also worth mentioning. He seems to be very much influenced by Poulantzas and Miliband. He takes up in his analysis of Indian state some of the assumptions of Poulantzas as his hypothesis.<sup>36</sup> But ironically he more or less adopts Miliband's empirical methodology to prove his hypotheses. According to him, heterogenous character of Indian bourgeoisie lack of consciousness on the part of the bourgeoisie to visualise its own interests and their desire to have political stability in the country - all these necessitate presence of a stronger state. Just like Poulantzas, he presupposes that the state can comprehend the 'real' or 'true' interests of the bourgeoisie. In Sanjeeb's view, the bourgeoisie in India shares the state power with other dominant classes like feudal lords, capitalist owners and imperialists.

Among the recent Indian writers, Pranab Bardhan has given an interesting account of the dynamics of Indian state. He thinks that the general view of relative autonomy i.e., the state acts not at the behest of but for all practical purposes on behalf of the dominant propertied classes, is highly inadequate. Opposing the instrumentalist view, he argues, "There are ofcourse serious constraints posed by the imperatives of the dominant propertory classes but to

focus exclusively on them is to ignore the large <sup>range</sup> of choice in goal formulation, agenda setting and policy execution that the leadership usually has and the powerful impulses shaping policies and actions that are generated within the state fuelled by its conception of national interest".<sup>37</sup> Bardhan repeatedly asserts that the Indian state is relatively autonomous of the dominant coalition constituted by capitalists, landlords and professionals. He attributes relative autonomy of the state to 1) existence of over developed state<sup>38</sup> 2) direct ownership and control in the economic sphere and 3) enormous prestige and sufficiently unified sense of ideological purpose of the state elite. This relative autonomy enables the state to shape the class alignments, provide material basis for the new classes and undertake the regulating and development role in the economy.

Finally one may have a look at Anupam Sen who gives an extreme version of relative autonomy of Indian state. Sen believes that the Indian state was and is autonomous of all classes in India. To quote his own words, " Briefly our thesis is this : the state in India, conditioned by the nature of its social formation, was and still is autonomous, and this autonomy has had and still has a positive impact on the character of the economic development and underdevelopment of India during the pre-British, British and post-independence periods ".<sup>39</sup> While autonomy of the state in pre-colonial India was attributed to the Asiatic mode of production, he thinks that co-existence of

different modes of production - Asiatic, feudal, capitalist and colonial - is responsible for the autonomy of Indian state during the colonial era. To him, even the post-independent Indian state enjoys autonomy because of factors like inheritance of the colonial social formation, state ownership of the basic industries, support from the petty-bourgeois elements and failure of the bourgeoisie to transform agriculture into capitalist undertaking. According to Anupam Sen, at the time of independence Nehru and his Congress Party " whose leadership was predominantly made up of petit-bourgeois origins " confronted the state which had " considerable leverage, free from any dominant class hegemony, to plan and determine India's future social development ". Nehru used the socialist rhetoric to build up the public sector and thereby strengthened the economic power of the state and made it independent of economic subservience to the capitalist class. Anupam Sen seems to believe in the absolute superiority of the state over all classes. As he himself puts it, " The state in India manifested itself over almost all classes, the bourgeoisie, the peasants and the workers. If it had any relationship on the basis of inputs with any class, it was to some extent with petit-bourgeoisie . However in terms of output, it would be very difficult to locate the state in any class because, as it appears, its policies were and are principally directed towards the augmentation<sup>40</sup> of its own power and not the power of any social class " .

PROFESSIONALS AND BUREAUCRATS AS RULING CLASSES :

There seems to be a strong opinion among the intellectuals of different shades<sup>41</sup> in favour of including the professionals and bureaucrats as members of the ruling classes in India. One may observe the tendency even in the arguments of K.N.Raj and Pranabh Bardhan. It would be interesting to know how they justify their view-points. According to Bardhan and K.N.Raj, professionals and bureaucrats constitute a new class of rentiers. They argue that along with physical assets, possession of certain kinds of knowledge and skill ( for ex., administrative, managerial, scientific and technical) should also be considered as private property which has taken different forms. To quote Bardhan, " if physical capital can be the basis of class stratification, so can be human capital in the form of education, skills and technical expertise ".<sup>42</sup> In that case, the income the professionals and bureaucrats derive is not wage and hence they are not to be equated with the working class. K.N.Raj infact quotes Ossowsky who says, " The proletariat is a man who is unprotected from the extremes of exploitation by any special qualifications, which would prevent him from being replaced by another worker with equal physical strength. According to Marx's intentions, this criterion would exclude the engineer or doctor from the class of the proletariat".<sup>43</sup> It is also argued that because of their privileged positions and accessibility to different state organs, these professionals and bureaucrats manage to "direct

education investments away from the masses --- (They) have been able to protect their scarcity rent, and by acquiring licence giving powers at various levels of bureaucracy some of them have increased their capacity to multiply this rental income ".<sup>44</sup>

Having gone through all their views, it now becomes necessary to examine whether all these arguments have their base in Marxism. Though Marx and Engels spoke of the significant role played by these sections at various moments in history they did not clearly say whether those groups can be considered as separate classes. Quotations from the early works of Marx ( as Bardhan does ) are not enough to state Marx's position. In such cases it becomes necessary to fillup the gaps by enriching the Marxist understanding. With that goal in our mind, an attempt is made to develop a theoretical framework which can clearly establish the status of professionals and bureaucrats in the social dynamics.

The dynamics of each aspect of society depends on the nature of different social forces at play. Infact civil society represents all kinds of social relations that exist among the members of the given social formation. Yet in Marxist analysis one should make distinction between primary and secondary social forces influencing the dynamics of civil society. In this context, one needs to comprehend the differences between the classes and social categories. It is necessary to define the terms 'classes' and 'social categories'.

It is reasonable to define classes as those groups of people who have similar status in economy and possess particular ideological outlook and political practice corresponding to their status in economy. By social categories, one may mean, those groups of people who inspite of occupying different positions in economy get united by certain other common interests which may be real or imaginary. Along with social groups like castes, tribes, religious communities, students, linguistic communities one may also include the professionals and bureau - crats under the title, 'social categories'.

Each social category has its own specific interests. In the process of attempting to realise their interests, social categories also influence the state and politics of that society. At times, for their own interests social categories make some kind of alliance with one or the other classes. While some of them align with the ruling classes, some other keep in touch with the dominated classes. These class loyalties may not last for long. Their own particular interests may necessitate shifting of their alliance from class to another. The mobility of these social categories also depends on the ability of the classes to influence them. The Marxists should have clear understanding of the potentialities and dynamics of these social categories. Nevertheless it should be kept in mind that in the ultimate analysis, the determining forces of the history of all class divided societies will be classes - not social categories.



It is wrong to reduce social category to any particular class, for, each social category is in turn composed of members occupying different status in economy. Since the economic status and the class outlook and class practice that they acquire differ from one to another, social categories represent multiplicity of classes. Hence reduction of professionals and bureaucrats into any one class should be avoided.

QUESTION OF POLITICIANS AND IMPERIALISTS :

How relative is the relative autonomy that the Indian state enjoys ? On this point there is no unanimity among the relative autonomists. Anupam Sen believes in absolute superiority of the state in all matters. Others do not take such extreme stand. Sanjeeb Mukherjee considers that the relative autonomy of Indian state is inversely proportional to the power of the ruling classes.<sup>45</sup> While attempting to prove this hypothesis, Sanjeeb Mukherjee more or less reduces the state power to the power enjoyed by the politicians (that too Congress leaders) and the bourgeoisie to mere capitalists. Then he undertakes to study how the state elite (politicians) is superior to the bourgeoisie in its ability to comprehend and realise the 'true' interests of the ruling classes. This conception seems to be narrow even from Miliband's point of view, for, to Miliband the concept of state elite is a wide category



which includes civil servants, military officials, police, judges and politicians.

Pranabh Bardhan slightly deviates from this narrow conception of relative autonomy. Bardhan feels that the Indian state has enjoyed greater autonomy up to the sixties. But with the waning of the aura of legitimacy of leaders; failures in the economic field and constraints imposed by the articulated interests of the dominant propertied classes, from the seventies onwards, the relative autonomy of the state is reflected more often in its regulatory role than its developmental role.<sup>46</sup> Though this observation may be correct one needs to remember that he is also more or less reducing the state to the state elite.

Hamza Alavi's position is completely different from others. He says that the state is relatively autonomous of the dominant classes namely the metropolitan bourgeoisie, indigenous bourgeoisie and landed classes. But to him, the state means a 'military-bureaucratic structure'. He has many reservations to include politicians in the state structure of the post-colonial societies. He thinks that the politicians in a country like India will only play the role of brokers.<sup>47</sup> There is hardly any class based political parties in the Third World. In the case of India, the multi-class character of the ruling Congress Party and the weakness of the indigenous propertied classes allow the Indian state a measure of relative

autonomy, so much so, that the state can continue to serve the interests of the metropolitan bourgeoisie even after independence.

This view appears to be very confusing. One may rightly question how the contradictory interests of the indigenous propertied classes and the metropolitan bourgeoisie before independence suddenly turns into competing interests after the dawn of independence. The nonaligned movement is a clear example to show that in some respects, the metropolitan bourgeoisie and indigenous propertied classes are antagonistic in nature. To say that the state is forced by its own objective position to make certain concessions to the metropolitan bourgeoisie is one thing and to argue that since the state is relatively autonomous it can continue to serve the interests of the metropolitan bourgeoisie is another thing. One should be able to distinguish between the two.

Finally, contradicting Hamza Alavi, one may say that by the time India secured independence, it has witnessed the development of a homogenous national bourgeois class fairly conscious of its economic and political interests. That the capitalists have contradictions within themselves should not make one ignore their unity vis-a-vis other antagonistic classes. Recent studies<sup>48</sup> have shown that after 30's, the capitalists have gradually consolidated their position within the Indian National Congress. Moreover, it may be made clear that though Congress was an umbrella party of different

classes and groups, its leadership from the beginning continued to be in the hands of the politicians who are liberal in their outlook and practice. If one applies the criterion that we used to judge the class character of the professionals and bureaucrats, the political leaders of the Congress, despite their contradictions with the capitalists become a part of bourgeoisie. As political representatives of the bourgeoisie, Indian political parties, especially the Congress Party, played a very conscious role. To say that all the farsighted policies of the state like land reforms, development of public sector, nationalisation and nonalignment are initiated by the 'military--bureaucratic structure' and that the Indian politicians only played the role of brokers is against historic reality.

#### IN SEARCH OF MARXIST LENINIST FRAMEWORK :

While analysing the views of traditional communist parties and recent academic relative autonomists, an attempt has been made in the above two sections to expose their methodological fallacies and conceptual inadequacies. In this concluding part of the chapter, on the basis of our critical reflections on different approaches reviewed so far, an effort may be made to develop a more dialectical and more meaningful Marxist-Leninist perspective to the study of Indian state.

The interpretations of the traditional communist parties - the CPI, CPI(M) and CPI(ML) are partly economic and instrumentalist in their content. The Indian state is characterised

as 'landlord -bourgeois state' or 'semi-feudal -semi-colonial state' just because there exist certain semi-feudal and colonial handicrafts in the economy and culture. Relative autonomy of the state and the specificity of politics are usually ignored. Their mechanical understanding of the Marxian classics and subjective study of the Indian state are primary causes for such diverse interpretations of the concrete reality. Paradoxically, the same mistakes made the parties arrive at consensus about the stage of revolution. There may be terminological differences but the substance is the same. Whether they call it 'National Democratic Revolution' or 'People's Democratic Revolution' or 'New Democratic Revolution', all of them hold that the present stage of revolution should be directed against feudalism, imperialism and the big industrial houses ( whereas CPM calls them big bourgeoisie, CPI names the same as monopolies and CPI(ML) brands them as comprador bourgeoisie ). All these parties hold on to the view that it is only the big bourgeoisie / monopolies / comprador bourgeoisie which collaborates with imperialism and feudalism. But other sections of the bourgeoisie are progressive, anti-imperialist and allies of 'their' democratic revolutions. All of them have a belief in the progressive character of the national bourgeoisie. Hence they attribute non-accomplishment of the tasks of democratic revolution either to the presence of feudalism or imperialism or to the big bourgeoisie; never to the inability of the national bourgeoisie and to the moribund character of Indian capitalism,

As a reaction to the traditional interpretations, the concept of 'relative autonomy' is gaining support among the academic circles in the recent days. Though this new trend seems to have certain advantages over the traditional method, it seems one need not expect too much from this change. At the outset, one may observe that there is no general agreement among the subscribers of this new trend as to what exactly the term, 'relative autonomy' should mean. As is the case in the West,<sup>49</sup> different meanings are assigned to this concept. These academics have not yet developed a methodological framework necessary for a vigorous theoretical discourse. They entertain diverse views on composition of the ruling classes. More than these, it should be said that their very conception of state is not yet crystallised. Whereas one sees it as an institutional structure, others reduce it to 'government', to 'executive' or just to the political leaders holding the executive authority. Finally one may argue that mechanical application of the Western theories of state to Indian context may be counter productive. While the necessity of criticising the instrumentalist approach should not be underestimated, one should also realise that compartmental studies undertaken in the West in the name of relative autonomy are also far away from the Marxian dialectical method.

In view of these inadequacies in the dominant perspectives on Indian state, it becomes necessary to develop a comprehensive Marxist-Leninist framework which may be useful to the study of

Indian state in all its dimensions. In order to buildup Marxist theoretical discourse, one may suggest certain essential methodological points of departure necessary for comprehending the dynamics of Third World state in general and Indian state in particular :

1. Though it is essential to take note of the status of classes in economy, it is necessary to avoid looking at classes as mere economic categories. Homogenous classes which may be defined as "groups of people having similar status in production relations, followed by corresponding ideological outlook and political practice " are rarely found in the developing societies. In case only one's position in productive relations is stressed, one comes across a wide strata of people in the Third World who can not be grouped under any one class. Hence assigning more importance to the aspect as to whose class interests a member of group is "consciously" serving in day to day praxis becomes necessary for identifying one's class position. The term, "consciously" is important, for, we should ignore the unconscious victims of ideologies and praxis of other classes. In this sense, even if a member is not a capitalist, if he or she consciously acquires bourgeois ideology, then he or she is to be called a bourgeois. In case of mixed categories dominant ideological position and political praxis may be taken into consideration. These criteria are needed to identify class status of certain social categories such as politicians, intellectuals and professionals.

2- By the term 'class interests' we should not mean what individual members of the class consider to be in their interests. Class interests in Marxian category refers to the objective possibility of a class to realise, under the given conditions, its basic urge to hold or ensure that which they possess or aspire for that they need to possess. Along with economic interests, each class shall have certain political and ideological interests. By the term 'possession', we mean both material production and realm of ideas corresponding to it.

3. Wide generalisations about the role of the classes - without taking into consideration the given context - need to be avoided. For example, while trying to understand the dynamics of the bourgeoisie in the Third World, we should first see whether they are initiating policies that lead to widest and speediest development of capitalism under the given national and international conditions. To expect the bourgeoisie in the post-colonial societies to behave like the bourgeoisie of the Western Europe is not a dialectical way of looking at the reality.

4- The word, "comprador" should not be misused. All economically dependent states need not be "semi-colonies" or "comprador states". Some measure of dependent relationship becomes inevitable for all Third World countries. Among the economically dependent countries, possibility of existence of national bourgeois states need not be ruled out. The basic issues involved here are as follows : whether one willingly accepted dependent relationship or not; whether one made efforts to use all available possibili-



ties to achieve economic self-sufficiency or not; whether all activities of the bourgeoisie promoted the interests of foreign imperialism or it also contributed to indigenous capitalist development and whether or not the class used all its potentialities to fight foreign imperialism to the extent its own national interests are involved. All these points need to be examined to judge the nature of indigenous bourgeoisie.

5. The other aspect is related to precapitalist socio-economic structures. While it is necessary to recognise that the UDCs are multistructural and multi-stratified societies, it should also be noted that all structures and strata are not evenly developed. Identification of the dominant structures and social strata is necessary to know the direction of economic development. If any state is to be characterised as feudal or semi-feudal, one should first examine whether they acquire dominant status or play subordinate role to the dominant capitalist mode of production. The third aspect is to observe whether the state policies are perpetuating those feudal or semi-feudal relations or trying to change them gradually into bourgeois relations.

6. It may be noted that many a times such identified categories may not be in essence feudal or semi-feudal. Traditional structures like castes, tribes and religious communities may modify their roles in such a way that they may not be in conflict with developmental process. Hence it is necessary to know whether such relations are obstructing the capitalist path



of development or whether they themselves started changing their roles in the wake of new opportunities thrown open to these sections in course of development of economy.

7. So is the question of traditional culture. In the Third World countries like India traditions play a very important role in shaping the psychological makeup and value preferences of the people. Political and economic structures are considerably influenced by the traditions. Capitalist development at times faces obstacles due to certain traditions and cultural practices. Yet under certain circumstances the bourgeoisie itself may use feudal or pre-capitalist structures. It may be the result of its compromise with feudal elements or for its own political necessity to divide the unity of the masses. In view of these different possibilities, one should examine the following aspects :

- 1) Do the feudal and semi-feudal traditions remain as remnants of the old society, or are there any semi-feudal or pre-capitalist structures at the base reproducing the old traditions at the superstructural level ?
- 2) Does such culture promote the interests of any group which can clearly be identified as semi-feudal or whether they are only used by the bourgeoisie for promoting its own interests.
- 3) Finally what is the role that the state plays in dealing with these kinds of traditions and cultural values.

In the light of all these guidelines, dynamics of Indian state may be studied by relating variations in the forms of government and political regimes to the changing correlation of class and other social forces inside the country. The role that

the oppressed and exploited classes play in shaping the policies of the state may also be highlighted. All these dimensions need to be examined in the context of the status that the ruling classes and the state occupy in the world capitalist system in general and the Third World in particular. Since it is difficult to do justice to all these dimensions of the state in one work, in this thesis we would be primarily concentrating on the autonomous role of the state in economic development. While the impact of other structures and social categories would be touched wherever felt necessary, the thesis stresses on the dialectical relationship that the state has with the economic base and different class forces.

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## NOTES

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1. Normally Indian scholars writing on the leftist movement in India talk as if only CPI, CPI(M) and different factions of CPI(ML) constitute the Indian left. But it has to be recognised that along with these traditional communist parties, there are parties like Socialist Unity Centre of India (SUCI), Revolutionary Socialist Party (RSP) and a few Trotskyite groups in India which also claim their allegiance to Marxism. Hence their views should not be ignored in the analysis of Indian state.
2. Sen, Mohit, ed., Documents of the History of Communist Party of India : Vol. VIII, People's Publishing House, 1977, p.8
3. Ibid., p.19
4. Ibid., p.420
5. Ibid., p.545. Palghat resolution also says, " The state policies are motivated by the desire to develop India along independent capitalist lines. About India's foreign policy it says, " The Republic of India in recent years has played an increasingly important role, a role that has heightened India's international prestige and evoked in every patriotic Indian a sense of national pride ". More than this the document claims that " the emergence of India as a sovereign independent republic upholding the course of peace and freedom is a factor of profound significance in the present day world". (p.526)
6. Chandra, Bipan, ed. Indian Left : Critical Appraisal, Vikas, 1983, pp. 259-400
7. Kruschev said, " It is quite probable that the forms of transition to socialism will become more and more varied; moreover, achieving these forms need not be associated with the civil war - it is not true that we regard violence and civil war as the only way to socialism ". He also said, " In present conditions the ruling class in many

capitalist countries has a genuine opportunity to unite the overwhelming majority of people under its leadership and to ensure that basic means of production are placed in the hands of people .... (Uniting with) the working peasantry, intellectual and patriotic forces (working class) has an opportunity to turn the parliament ... into an agency of genuine democracy ". Quoted in Emberec, G.D., Soviet Union between Nineteenth and Twentieth Party Congresses 1952-56 , Martinus Nijhoff, 1959, pp.301-302

8. Sen, Mohit, " Indian Monopoly - Necessity and Possibility of Elimination ", his ed., Monopolies and Public Policy, People's Publishing House, 1972, p.57
9. Sinha, Indradeep, Crisis of Capitalist Path of India : The Policy Alternatives , Communist Party Publications, 1982, p.28
10. " Noncapitalist path does not mean negation of the whole capitalist society. Noncapitalist path does not presume the complete absence of capitalist development in the country concerned. Noncapitalist development means cutting short further stages of capitalist development and even reversing some development (monopoly) that have already taken place ". Ibid., pp. 30-31
11. Lenin, Selected Works Vol. II, Progress, Moscow, 1977, p.35
12. Stalin J.V., Collected Works Vol. IX , Moscow, 1954, p.203
13. Lenin, Selected Works Vol. III , Progress, Moscow, 1977, pp. 406-407
14. Quoted in SUCI - CPI(M) Polemic Ganadabi, Calcutta, 1984 p. 71

15. " Once More on the SUC ", People's Democracy, May 20, 1973
16. CPI (M) Programme and Rules and Regulations, Prajashakti, 1986, p.61 (Telugu version)
17. Those with 5 to 10 acres of wet land or 10 to 20 acres of dry land are categorised as rich peasants and those who own more than that as landlords. See Basava Punniiah, Tactical Line: A Review, Prajashakti, 1986, pp.32, 36. ( Telugu version)
18. Patnaik, Prabhat, "on the Political Economy of Economic Liberalism ", Social Scientist, July-August, 1985
19. Patnaik, Utsa, " On the Mode of Production in Indian Agriculture ", Economic and Political Weekly, September 1972, P-A- 148
20. Chatopadhyaya, Paresh, "Mode of Production in Indian Agriculture ", Economic and Political Weekly, December, 1972, P-A- 186
21. The exceptions being the Communist League of India which considers India to be an independent capitalist state and Mass Line group which recognises development of capitalism and characterises India as a neo-colony; not semi-colony.
22. Nagi Reddy, T.. India Mortgaged, Anantapur, 1978, p.10
23. Ibid., p. X
24. Sen, Mohit, Documents of the History of Communist Party of India , Vol. VIII , op.cit., p.19
25. Lenin, The Right of the Nations to Self Determination, Moscow, 1983, p.9
26. Lenin Imperialism the Highest Stage of Capitalism Moscow , 1978, p.77

27. Lenin, The Right of Nations to Self-Determination, op.cit., p. 11
28. Venkateswara Rao, D., People's Democratic Revolution, Proletarian Line, Hyderabad, pp. 21 -22
29. For a clear understanding of the nature of the fragmented state in pre-colonial China refer, Singh, Viendra, The State in Post-Colonial Societies, Ph.D.thesis submitted to Punjab University, 1988
30. Lenin, Selected Works Vol. II, op.cit., p.258
31. Marx and Engels, Selected Works Vol.1, Moscow, 1976,p.477
32. See Kalecki, Michael, Selected Essays on the Economic Growth of Socialist and Mixed Economy, Cambridge University Press, 1972
33. Raj, K.N., "The Politics and Economics of Intermediate Regimes ", R.R.Kale Memorial Lecture, Gokhale Institute of Politics and Economics, Pune, p.1
34. Ibid., p.9
35. Alavi, Hamza, " State in the post-Colonial Societies ", in Goulbourne, Harry, ed., Politics and State in the Third World, Macmillan, 1979, p.
36. Mukherjee, Sanjeeb, "Bourgeoisie and the State " in Teaching Politics, Vol. VIII, No. 2, 1982, pp.38-39
37. Bardhan, Pranab, Political Economy of Development in India, Oxford University Press, Delhi, 1955, pp.33-34
38. Unlike Hamza Alavi who traces the over development of state to colonial past, Bardhan argues that the history of overdeveloped state structure goes back to pre-colonial days Ibid., p.37

39. Sen, Anupam, State, Industrialisation and the Class Formation in India , Routledge & Keganpaul, 1982, p.2
40. Ibid., p.105
41. For example, see Patnaik, Prabhat, " Imperialism and Growth of Indian Capitalism " in Blackburn, Robin, ed., Explosion in a Sub-continent , Pelican, p.52; Bagchi, Amiya Kumar, Political Economy of Underdevelopment , Cambridge University Press, 1982, p.179; Recently many intellectuals like Ashok Rudra and Andre Beteille also reflected on the idea of ' Emergence of the intelligentsia as a Ruling Class ' in India. See, Economic and Political Weekly , Vol. 24, No.3, 1989
42. Bardhan, op.cit., p.51
43. Quoted in Raj, K.N., op.cit., p.37
44. Bardhan, op.cit., pp. 52-53
45. Mukherjee, op.cit., p.38
46. Bardhan, op.cit., pp.38-39
47. Alavi, op.cit., pp. 44-45
48. See Raj.K. Ray, Industrialisation in India , Oxford, 1982, pp. 292-334; Desai, A.R., Social Background of Indian Nationalism , Popular Prakashan, Bombay, 1960, pp. 200-208; Chandra, Bipan, Nationalism and Colonialism in India , Orient Longman, 1981, pp.144-170 and Chatopadhyaya, Paresh, "State Capitalism in India", Monthly Review , March , 1970.
50. Even in the Western debate over relative autonomy, there was no unity among the participants. According to Miliband relative autonomy means " the degree of freedom which the state has in determining how best to serve what these

who hold power conceive to be national interests which in fact involves the service of the interests of the ruling classes. For Poulantzas, relative autonomy is a structural element. Relative autonomy is necessary for the state to act as a factor of unity in a social formation composed of specific and relatively autonomous levels. German Derivatists think that the relative autonomy becomes indispensable for the state to fulfil certain social requirements necessary for capital accumulation. For a summary of this debate see my M.Phil Dissertation, On Relative Autonomy of the Capitalist State, University of Hyderabad, Hyderabad, 1985. ;

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### III CHAPTER

#### DEVELOPMENT OF STATE MONOPOLY CAPITALISM IN INDIA

##### INTRODUCTION

In the recent years, some of the Marxist Scholars<sup>1</sup> started describing the present stage of economic development in India as 'State Monopoly Capitalism'. A close examination of their interpretations would, however, show that except for the usage of the term, "state monopoly capitalism", they have very little in common. Since there is no unanimity among the Marxist scholars themselves as to what the term should mean, we would be compelled to state the problematic within which the concept has become a logical necessity. Here it may be mentioned that the Comintern theoreticians saw "state monopoly capitalism" as a stage when capitalist state becomes subordinated to the monopolist factions of the bourgeoisie.<sup>2</sup> Mao-Tse-tung used it in a very literal sense to denote state control and state ownership of industrial ventures in semi-feudal and semi-colonial China where the ruling comprador bourgeoisie basically confined itself to trade and usury. In the post-war world, by 'State Monopoly Capitalism', Herbert Marcuse referred to the state in the advanced capitalist countries which have become powerful enough to control all aspects of bourgeois society.<sup>3</sup> Let it be made clear at the beginning that since India is neither a semi-colony nor even an advanced capitalist state, our use of the term 'State monopoly capitalism' radically differs from the above-mentioned interpretations.

Our theoretical understanding starts from Lenin<sup>4</sup> who saw 'state monopoly capitalism' as a reactionary form of capitalist system that emerged in the era of imperialism. To Lenin, it was

basically a condition where finance capital had already emerged and a nexus had started developing between the state monopoly and the private monopolies. Though in this era of monopoly capitalism, capitalist state tries to accommodate interests of other factions of the bourgeoisie, in times of crises the state sides with the monopolies. Such a special relationship is necessitated by the fact that the survival of capitalism cannot depend on the pure sector any more. As contradictions within the capitalism intensifies, the system itself goes for higher and higher forms of concentration. When monopolies become the rock bottom foundation for capitalism, in the interests of the capitalist system as a whole the state will be compelled to show special favour to protect and promote the interests of the monopolies. Such a necessity leads to coalescence of state monopoly and private monopolies. Sum total of all these phenomena signify the stage of state monopoly capitalism (Now onwards only SMC).

Such a view of SMC is not a new addition to Marxism. All Marxist-Leninists have a fair understanding of such developments taking place in the Western capitalist societies. But what we would be arguing in this chapter is that this SMC is not peculiar to advanced capitalist countries alone. Contradicting the general assumptions, an attempt is made in this chapter to prove that notwithstanding its status as an underdeveloped country, SMC is developing even in countries like India where the bourgeoisie had come to power after independence. It argues that capitalist development in India had already reached

the stage of monopoly capitalism: that the merging and coalescence of industrial and bank monopolies had given birth to finance capital and that a strong nexus had already developed between the state and monopolies, thus consolidating the SMC in India.

#### DEVELOPMENT OF INDIAN INDUSTRY AND BANKING DURING COLONIAL ERA

To facilitate its imperialist exploitation, the British government introduced many fundamental changes in Indian economy. Though the colonisers had no intention to industrialise and develop India, in their own interests, they had to build up railways, establish a few industries here and there and initiate commercialisation of certain agricultural products. Inability of the Britishers to look after all activities pertaining to trade and other business compelled them to create a comprador native class which would act as their agents. Some of the Indians utilised the business opportunities thrown open to them and began their careers as traders. For a long time, they remained as appendages to the British interests. However, it would be wrong to conclude that they were totally ignorant of their Indian identity. It can be understood from the fact that along side the British trade associations, many Indian trade associations were formed in the 19th century itself. Bengal Bonded Warehouse (1838), Delhi Hindustani Merchant Association (1893), The Grain Merchants Association, Bombay (1900) and Bombay Sugar Merchants Association were some of the early

Indian Trade associations. Indian businessmen did not confine themselves to mere trade and commerce. In the last quarter of 19th century, Indians gradually started entering the industrial field. To promote their interests they even organised themselves into associations such as Bombay Mill Owners Association (1875) and Ahmedabad Mill Owners Association (1891). Economic Nationalism that shook the country during the Swadeshi movement gave impetus to many nationalist-minded Indians to start their own industries. Unlike the previous associations formed on sectoral bases, beginning of 20th century saw the birth of many Indian business associations. Significant among them were Indian Merchants Chamber and Bureau, Bombay (1907); Southern Indian Chamber of Commerce, Madras (1909); Gwalior Indian Chamber of Commerce (1906); and Indian Chambers of Commerce, Lahore (1902).

In the absence of any encouragement from the state, Indian industrialists had to face many difficulties in the initial years. The British government which used to entertain belief in laissez faire economy, paid little attention to the demands of the Indian businessmen to protect the native industry. However, after the World War I, the Britishers were forced to revise their economic policy. Their fear of foreign domination of Indian market compelled them to give certain concessions to native industrialists. The tariff protection imposed thereafter, could play an important role in promoting the process of industrialisation in India.<sup>5</sup> Despite several set backs especially during the period of the great depression

Indian entrepreneurs made considerable progress. Many factories were started by the Indians in different parts of the country. The progress can be seen from the fact that whereas number of the British group companies increased from 787 in 1921 to 798 in 1937, the number of Indian group companies during the same period increased from 172 to 366. To quote the figures, Indian cotton textile companies increased from 64 to 80; sugar factories from 1 to 20; iron, steel and engineering units from 2 to 7; electrical generation companies from 6 to 22 and Investment and finance companies from 15 to 51.<sup>6</sup>

Parellel to the development of Indian industry, there was simultaneous growth of Indian banking and insurance industry. The growing need for industrial finance and indifferent attitude of the British government necessitated the birth of Indian banks. Encouraged by the nationalist spirit created during the Swadeshi movement, many Indians started their own banks. In some of the British banks, Indians joined as share holders and gradually increased their influence within the banks. By 1913, number of Indian joint stock banks rose to 44. Notable among the oldest Indian banks are Punjab National Bank (1894) Bank of India (1896); Canara Bank (1906); Indian Bank (1907) Bank of Baroda (1908); & Central Bank of India (1911). Despite several crises, even the inter-war period also showed considerable progress in the development of Indian banking. Some of the important banks established during this period were Tata Industrial Bank; the Alliance Bank of Simla and the

Travancore National and Quilan Bank. At the end of 1939, total number of all banks -- Indian and Foreign -- stood around 680.<sup>7</sup>

BEGINNINGS OF MONOPOLY TENDENCIES:

At this level, it should be noted that the nature of capitalist development in India radically differed from that of the advanced capitalist countries. Since capitalism started developing in India at a stage when capitalism as a world system had already reached the stage of imperialism, the laissez-faire model of development became obsolete in India. So within a short period, indigenous capitalism had to exhibit monopolist tendencies. The necessity of Indian businessmen to compete with the British and other foreign firms forced them to form cartels and trusts. Periodic failure of the banks and industrial crises made them understand the necessity of pooling their resources. Indirectly the British government also encouraged the development of monopolies for their own administrative convenience. Managing Agency system also considerably contributed to the concentration of capital.<sup>8</sup> Many of the leading companies took advantage of their superior strength and coerced the smaller ones to submission or eliminate them from competition. In some cases, by possessing the minimum holding shares, certain industrial houses controlled many companies. For example, Tatas were controlling TISCO, IESI, Tata Hydropower Central India

Spg., Calcutta Electrical Supply Andhra Valley Electric and others. Some of the early business organisations which could be called trusts or cartels are Indian Jute Mills Association, Sugar Syndicate, Cement Marketing Company of India and Associated Cement companies (ACC). As a result of such process of development some of the leading Indian businessmen emerged as monopolists. Notable among them were Tata, Birlas, Shriram, Sarda, Mafatlal, Walchand and Mangaldas. Number of companies they had their paidup capital and total assets are shown in Table I.

As a result of mergers and amalgamations, monopolies emerged even in banking and insurance sector. A large number of amalgamations took place after the banking crisis of 1913. In 1921, three Presidency banks were amalgamated to form Imperial Bank of India. In 1923, Tata Industrial Bank merged with Central Bank of India. To protect their interests, insurance companies also formed their own associations. Notable among them were Indian Insurance Companies Association, Calcutta and Indian Life Insurance Office Association, Bombay. After the passing of insurance Act of 1938, merging process gained momentum in the field of insurance.<sup>9</sup>

All these monopolist tendencies were further encouraged by the opportunities thrown open by the Second World War. War preparations of the Britishers, cessation of foreign competition and dependence of British government on native

TABLE - I

COMPANIES OF DIFFERENT INDIAN GROUPS (1939)

Group	Number of Companies	Paid up Capital (In thousands) of Rs.	Total Assets (in thousands of Rs.)
1. Tata	19	249,100	624,200
2. ACC	3	70,600	86,800
3. Birla	60	43,000	48,500
4. Dalmia	15	24,000	55,100
5. Shri Ram	4	28,800	21,600
6. Scindia	10	18,500	36,600
7. Mafatlal	12	15,400	24,500
8. Walchand	11	12,700	24,100
9. Mangaldas	13	10,100	18,000

Source: Claude Markovitz, Indian Business and Nationalist  
Politics 1931-39 Orient Longman, 1985 P.192-193

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industrialists led to horizontal as well as vertical expansion of Indian industry. For effective interaction with government Indian capitalists formed organisations such as Indian Paper Makers Association (1939), Indian Engineering Association (1939) Rolling Mills Association (1941) and Federation of Woollen Manufacturers (1942). During this period, the big business floated a number of companies to meet various civil and military needs of the government. Inflation, speculation and black marketing led to further concentration in industry.<sup>10</sup> With super profits that they could secure, certain leading Indian capitalists competed to take possession of many foreign companies by offering fabulous prices. Similar developments took place in the financial sector also. Responding to the recommendations of the Central Banking Enquiry Committee, an All Bankers Association was formed to face competition from foreign exchange banks. In the middle of 1940's many industrialists took possession of insurance companies so that they could easily divert funds for their industrial expansion. The big industrialists like Birlas floated their own banks and investment companies. Thus before the dawn of independence itself there began the era of fusion of banking and industrial capitalism in India.

#### FOUNDATIONS OF MIXED ECONOMY : BIRTH OF STATE CAPITALISM

The course of capitalist development after independence needs an analysis of the class character of the nationalist movement in India. India's freedom struggle was initiated by

the nationalist intelligentsia which was basically liberal in its outlook. As a result even if the capitalists did not take the lead, the nationalist movement from the beginning remained predominantly bourgeois democratic in its content. Such bourgeois ideological hegemony<sup>m</sup> was quite conducive to the development of Indian national bourgeoisie. Though the Indian capitalist class did not actively participate in any significant way in the nationalist movement in the first quarter of the 20th century, the moment it consolidated its position it began to play an active role in the freedom struggle and by mid-thirties it became the most influential class in the anti-imperialist front. After the second world war, Indian bourgeoisie played a key role in the transfer of power. Since the capitalist class was a well organised homogenous class, at the time of independence, it alone had the ability to attain state power. Though its relative supremacy gave an opportunity for the bourgeoisie to attain political power, its position vis-a-vis other classes was not very comfortable at that point of time. At the time of independence the rural society was still dominated by semi-feudal relations of production. Foreign capital still had greater hold on Indian industry. Despite the progress that it could make during the II world war, Indian industry as such was yet to gain ascendancy over the traditional sectors. In 1948, the share of Indian industry in the national income was 17% while that of agriculture was 40 percent. Even here, the share of the organised industry was only one-fifth of the

total. In 1951, only 13% of the working population was in industry whereas 73% of them remained in agriculture. Average income of the capitalists was not far above the average income of other powerful groups. The basic infrastructure necessary for development of capitalism was very much lacking. The private sector was too weak to undertake any large-scale industrialisation on its own, particularly in the key sector. The capitalists did not have enough finance, technology and entrepreneurial experience for establishing large scale industries which needed long gestation periods.

Indian bourgeoisie and their political representatives were not unaware of their weaknesses. Hence even before independence they sought to give general guidelines for planned economic development to be implemented in independent India. Both National Planning Committee and the Bombay Plan understood the necessity of active participation of the state in promoting economic development of the nation. State ownership and state management of the key sectors were accepted by both of them. To them, state intervention was welcome so long it did not aim at any radical changes in the relations of production and property ownership. Such a state sector or state regulation was seen only as an instrument for promoting capitalist development in India.

Accordingly when independence was achieved, the government initiated the policy of mixed economy. The Industrial Policy

Resolution of 1948 classified the industries into three categories:

1) the first group included strategic industries; for example, arms and ammunition, atomic energy, railways etc., 2) Second group included industries like coal, iron and steel, air and wireless apparatus etc., where the existing private concerns would be allowed to operate but the establishment of new undertakings would be the responsibility of the state and 3) remaining industries where the private entrepreneurs would be allowed to operate subjected to the governmental regulations and control.

In the wake of Second Five Year Plan which intended to industrialise the country by establishing heavy industries in the state sector, a modified industrial policy resolution was adopted in 1956. According to it, there would be three categories of industries:- 1) Industries the further development of which would be the exclusive concern of the state; eg : Defence, telephones; telegraphs wireless, heavy plant and machinery, generation and distribution of electricity et ., 2) Industries which would be progressively state owned but in which the private enterprises would continue to operate eg., Machine tools, fertilisers, synthetic rubber, road transport, sea transport, ferrous alloys and tools and 3) other remaining industries are left to the initiative of the private sector.

From second plan onwards, gradually allocations for the public sector increased. Number of industries in Defence (HAL, BEL, BEML), Public Utilities (P&T, Telephones, Electricity

and Railways), priority sectors (HMT, BHEL, National Coal Development Corporation, Steel Authority of India), Shipping (Hindustan Shipyard, Vizag Steel Navigation Corporation Ltd), Trade (State Trading Corporation, Central Warehousing Corporation) and hotel industry (Ashoka) came under the direct control of the public sector. Development of these public sector undertakings made the state an industrial monopoly.

Establishment of such state monopoly was never conceived to run counter to the interests of the private capitalists. In fact with independence, industrial monopoly which already had its roots in the colonial period could secure better conditions for growth and development, the government enacted many acts such as Industries (Development & Regulation) Act, 1951, Essential Commodities Act (1955), Companies Act (1956) and Monopolies and Restrictive Trade Practices Act (1970) in order to control and regulate the activities of the private capital. But the government simultaneously initiated many policies which encouraged the development of private monopoly capital. Tariff walls are built around the country to assure protective market to Indian Industry. Necessary infrastructure is created by establishing the basic industries and by widening transport and market facilities throughout the country. The result can be understood from the fact that whereas the capitalists grew numerically at the

rate of 1.5% per year between 1903-04 and 1946-47; between 1948-49 and 1966-67, the figure rose to 7.3% per year.

Total number of the middle and bigger capitalist owners in 1967 was around 1.76 millions.<sup>11</sup> Within the private sector, monopolies could take advantage of government's licencing and taxation policies and developed at a rapid pace. In 1967-68, 75 leading industrial groups controlled nearly 53.8% of the total assets of the private sector. The governmental sources show that in 1972, 853 companies registered under MRTP Act had net assets of Rs. 4847 crores and together they accounted for 80% of the aggregate value of the total companies in the private sector.<sup>12</sup>

#### CHANGES IN THE BANKING STRUCTURE BEFORE NATIONALISATION

Generally whenever the question of monopoly was discussed, Indian Marxist scholars only took account of industrial monopoly. Concentration of capital that simultaneously took place in the banking and insurance sectors was generally ignored. Even those who talk of state capitalism in India, paid little attention to state control and state ownership of banking and insurance institutions. But our understanding of the present stage of development of economy remains incomplete, if we fail to analyse the significance of the changes that took place in the banking structure after the dawn of independence.

Amalgamations In the early years of independence itself, the Indian government understood the necessity of amalgamating small and weak banking institutions and insurance companies

so as to make them economically viable. Hence the RBI encouraged voluntary amalgamations from the very beginning. The process gained momentum with the establishment of the State Bank of India (SBI) in 1955. A year after, Life Insurance Corporation (LIC) came into existence with the merger of 154 Indian Insurers, 16 non-Indian insurers and 75 provident societies. In 1957, Oriental Bank Ltd (Kottayam) amalgamated with Kottayam Bank Ltd; and Corporation Bank Ltd (Bijapur) merged with the Union Bank of Bijapur and Sholapur Ltd (Bijapur). In 1958 South Indian National Bank amalgamated with the Bank of New India (Trivandrum); Hind Bank with the Bank of Baroda and Reliance Bank of India with the Bank of Madurai.<sup>13</sup> In 1960 the SBI took over the business of certain state associated banks like Bank of Baghelkhand and Mayurbhanj State Bank. In that year itself the Eastern branches of Lloyds Bank were merged with the National and Grindley Bank.

Failure of two scheduled banks in 1960 further speeded up the process of amalgamations. Banking Companies Act was amended to confer more powers to the RBI to reconstruct and if necessary, to impose compulsory amalgamations of weaker units. Care was taken to see that weak institutions were merged with financially sound and well organised units. As a result of such banking policy more than 200 banks were amalgamated between 1960 and 1967. On the whole, between



1953 and 1967, 86 banks went into voluntary liquidation, 56 banks were compulsorily liquidated and 103 banks ceased to function.<sup>14</sup>

Concentration Capital: As a result of amalgamations, mergers transfer of assets and liquidations, a few strong commercial banks could develop at the cost of other weaker units. Total number of banks got reduced from 423 in 1956 to 109 in 1969. Branches of non-scheduled banks declined from 1,100 in 1956 to 200 in 1969. During this period, branches of the scheduled banks were almost doubled.<sup>15</sup> Aggregate deposits of scheduled banks before nationalisation stood at Rs.3,400 crores, while those of non-scheduled banks were around Rs.2<sup>1</sup>/<sub>2</sub> crores. Even within the scheduled banks, some of the big banks had a clear edge over others. It is said that five major banks together accounted for 60% of deposits and 60% of advances inspite of the fact that they accounted for only 14% of the total paid up capital.<sup>16</sup>

Branch Expansion: In addition to the increase of bank deposits, the independence period saw considerable expansion of banking facilities in India. Failures of the private banks to expand their branches in the unbanked areas compelled the independent Indian state to nationalise the Imperial Bank. The State Bank of India (SBI) that appeared in its place, duly followed the recommendations of the Rural Credit Survey Committee. Between 1955 and 1967, the SBI and its subsidiaries established nearly 1500 banks. Number of branches of the private commercial



banks also increased from 4,151 in 1957 to 6,133 in 1965. At the end of December, 1968 i.e., just before nationalisation, fourteen big banks together had 3,697 branches in different parts of the country. However, before nationalisation, branch expansion was very uneven. Most of the branches were opened in metropolitan cities or urban centres and many of the rural and semi-urban areas were not properly covered by the commercial banks.

#### NEXUS BETWEEN INDUSTRY AND BANKS

With the growth of bank capital, the nexus between banks and industry got further strengthened. As it was already pointed out some of the leading industrialists started their own banks with intention to use the bank resources for their industrial expansion. On the other side accumulation of huge capital led some of the eminent bankers to secure huge shares of the corporate industrial bodies either directly or through clients. The nexus was further strengthened by the interlocking of directorships. Just as some of the industrialists were represented in decision making bodies of the banking institutions including the RBI, many directors of the banks also acted as the directors of many industries. Raj. K. Nigam's study in the early 60's brought out many facts on this aspect. He showed that 188 directors of 20 top banks held 1,940 directorships in 1,309 companies and controlled more than 50% of the paid up capital of the entire private corporate sector. The study

TABLE - II

DISTRIBUTION PATTERN OF DIRECTORSHIPS HELD IN OTHER COMPANIES  
BY BANK DIRECTORS

Name of the Bank	Number of Directors	Number of Directors in other Companies
1. Bank of India	4	174
2. Central Bank of India	10	108
3. Bank of Baroda	12	198
4. United Commercial Bank	13	144
5. Punjab National Bank	9	65
6. United Bank of India	13	150
7. Andhra Bank	12	35
8. Union Bank of India	10	110
9. Oriental Bank of Commerce	12	95
10. Bank of Maharashtra	9	79
11. Indian Overseas Bank	7	67
12. Indian Bank	11	44
13. Devakaram Nanjee Bkg. Co.,	9	44
14. Bank of Bihar	7	35
15. Canara Banking Syndicate	11	31
16. Canara Bank	9	28
17. Hindustan Commercial Bank	5	20
18. Canara Banking Corporation	8	11
19. Bank of Madhura	4	10
20. Bank of Rajasthan	6	4
Total:	188	1,452

Source: Raj.K. Nigam Interlocking of Directorship between  
Banking and other Companies 1962-68"

disclosed that one of the directors of the Bank of India was the director of 151 companies. Another director of the Bank of Baroda worked as the director of 172 companies. Directors of 5 top banks numbering 55 held as many as 689 directorships in various private limited companies.<sup>17</sup>

Alongside such direct interlocking of banks and industries there developed invisible nexus between the monopoly houses and the public financial institutions. Reports of many committees in the sixties - Estimate Committee, Industrial Licencing Policy Inquiry Committee, Monopoly Inquiry Commission - proved that considerable share of credit from IDBI, IFCI, ICICI, and other banks were availed by a few big industrial houses.<sup>17a</sup> The very criteria that these banks adopted in credit allocations favoured the growth of industrial monopolies.

#### SIGNIFICANCE OF NATIONALISATION OF BANKS:

The nexus that developed between the banks and industrial monopoly houses would not have created much resentment among the public if India had not witnessed the worst economic crises of the mid-sixties. Industrial stagnation, failure of agriculture, growing unemployment problem - all these had considerably influenced the social and political situation in the mid sixties. The rural rich was dissatisfied with the bias the state elite was exhibiting in allocation of funds for the industry. Dissatisfaction of the rural rich made them assert their strength in 1967 elections. This factor was very crucial in the defeat of Congress Party in some of the Northern states. Within the

industrial sector also, small traders<sup>and</sup> small industrialists were dissatisfied with favouritism shown to monopoly houses. They were very much insisting on state protection from the big business. Inflation, poverty and unemployment adversely affected the lives of common people. People's dissatisfaction with the government's policy forced them to come to streets and voice their resentment. Among them, workers, peasants and youth were increasingly becoming radical in their outlook and actions. Naxalite upsurge that began in the late 60's brought to light the dissatisfaction of the agricultural labourers, small peasants and tribals with the existing pattern of land ownership. As such, there was overall crisis within the system. The ruling classes had to overcome these multi-dimensional contradictions in order to legitimise their power. To handle this critical situation, the state was forced to restructure the economy, of course, without radically affecting the existing property relationships. Meeting such a necessity itself needed many changes in the economy. One such significant change resorted to by the state was nationalisation of banks.

In fact, the Banking policy of Indian government had already assigned many powers to the RBI to control and regulate the activities of commercial banks. As such it was not at all difficult to move a step further to change the legal ownership of the banks. Even if the state was to give compensation, financial burden on the state exchequer was not so big. It can be understood from the fact that total paid-

up capital of 14 big banks was only Rs.28.5 crores - about 1% of the total deposits of the banks (ie., Rs.2750 crores) in 1968.<sup>18</sup> Thus objectively by the end of 60's the stage was already set for the nationalisation of banks.

Though economic situation was already ripe for nationalisation, the actual timing of nationalisation was decided by the political events. It was the period when Mrs. Indira Gandhi was desperately trying to assert her supermacy within the Congress Party. In order to fight the syndicate group within the Congress, it was necessary for her to win over the people to her side. She very clearly played her role in Bangalore session of All India Congress Committee by introducing the demand for nationalisation of banks. Her arguments that nationalisation would enable the state to divert its funds for the benefit of the poor and weaker sections in the society and bring about democratic socialism in the country could attract the imagination of the people. She projected the necessity of effective implementation of planning, reduction of regional disparities and the promise of adequate credit for agriculture as other objectives of nationalisation. By and large, people who were looking for a change endorsed her views. Though the rightist parties like Swatantra and Janasangh opposed, Mrs. Gandhi could secure the support of the CPI and Praja Socialist Party. Taking advantage of the progressive image that she could gain because of her insistence on nationalisation of banks she took away finance portfolio from Morarji Desai and initiated the necessary steps for the nationalisation of the top 14 scheduled commercial banks.

### DEVELOPMENT OF BANKING STRUCTURE AFTER NATIONALISATION

Though nationalisation of banks could not change the capitalist content of the banks as such, it did introduce many significant changes in the banking structure. Professional touch was given to management and representatives of the workers, artisans, peasants and depositors were included among the directors of the banks. Public Sector banks became one of the biggest employers. Employment in banks increased from 2.3 millions to 12 millions in 1983-84. The SBI itself employs over 2,50,000 employees.

Branch Expansion: Enough attention was paid to expand the branches of commercial banks. As a result, the total number of branches of these banks increased from 13,620 in 1971 to 53,287 in June, 1986. Most of the banks were opened in rural and semi-urban areas (Table II) The SBI with its seven subsidiaries have more than 10,900 branches. Branches of the SBI and its subsidiaries alone constitute about 30% of the Public Sector Banks.<sup>19</sup>

Deposit and Credit Policies : Credit policy of the commercial banks was modified to divert more funds to the priority sectors. Keeping in view the anti-poverty programmes of the government, credit for agriculture increased from 4.8% in 1966 to 16.3% in 1985. During the same period the credit flow for the industry fell from 64% in 1966 to 47.5% in 1985. Aggregate deposit of the scheduled commercial banks increased from

TABLE - III

GROUP-WISE DISTRIBUTION OF COMMERCIAL BANKS

Group	1969 JUNE	Percentage to total	1986 JUNE	Percentage to total
1. Rural	1832	22.4	29,703	56
2. Semiurban	3322	40.1	10,585	20
3. Urban	1441	17.5	7,209	1
4. Metropolis	1611	20.0	5,790	0
Total:	8260	100	53,287	100

Source: Report on Trend and Progress of Banking in India  
RBI Bulletin

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Rs.5,906 crores in 1971 to Rs.1,00,964 crores in 1986.<sup>20</sup> Their bank credit during this period rose from Rs.4,684 crores to Rs.60,551 crores. Total deposits of the SBI alone increased from Rs.226 crores in 1955 to 29,729 crores in 1987. During that period, its advances raised from Rs.106 crores to Rs.20,677 crores.<sup>21</sup>

PROGRESS OF INSURANCE SECTOR: Along side banking sector, insurance institutions of Central Government also showed significant development. Total business of LIC increased from Rs.1,475 crores in 1957 to Rs.60,795.17 crores in 1987. During the period total number of policies rose from 56.86 lakhs to Rs.290.80 lakhs and their investible funds showed a sharp increase from Rs.381.90 crores to Rs.12,812.32 crores. Total income from investments in 1986-87 was Rs.1334.17 crores. Similarly aggregate unit capital of the Unit Trust of India (UTI) rose to Rs.3,708 crores by the end of June, 1987. Total investible funds of the trust increased from Rs.24.7 crores in 1965 to Rs.3118 crores in 1987.<sup>23</sup>

DIVERSIFICATIONS OF THE FUNCTIONS OF THE BANKS:

With the expansion of banking facilities and with the accumulation of bank capital, there arose the necessity of diversifying the functions of the banks. Accordingly, division of work took place within the Indian banking and many specialised banks were established to cater to the needs of the industry and trade.<sup>24</sup> Whereas the SBI and other



scheduled banks were basically involved in mobilisation of savings, development banks like Industrial Finance Corporation of India (IFCI), Industrial Credit and Investment Corporation of India (ICICI), State Finance Corporation, Industrial Development Bank of India (IDBI), Export Credit Guarantee Corporation (ECGC) and Export-Import Bank (EXIM BANK) started dealing with industrial financing and export promotion activities.

Industrial Finance Corporation of India was established as early as in 1948 itself to provide medium and long term loans to industry. Some of the major functions of the banks include: 1) guaranteeing loans raised by the industrial concerns; 2) subscribing shares and debentures of industrial concerns; 3) underwriting the issue of stocks, shares bonds or debentures by industrial concerns and 4) extending guarantees in respect of deferred payments. In addition to IFCI, State Financial Corporations were started in every state to meet the needs of small and medium sectors of industry. Apart from them, the ICICI was set up in 1955 with the help of the World Bank in order to encourage and assist industrial investment in the private sector. The ICICI lends long term and medium term loans in rupee and foreign currencies to private industrial concerns which normally involve foreign collaborations.

Industrial crisis of the mid-sixties however necessitated a bigger organisation to undertake industrial financing, and export promotion. Responding to these necessities, Industrial Development Bank of India was setup in July 1964 as a subsidiary of the RBI. The IDBI coordinates the activities of other financial institutions including the commercial banks; supplements their resources; plans and promotes industries of key significance and develops and enforces a system of priorities in promoting further industrial growth.

Apart from these institutions specialised in industrial finance, some other financial institutions such as ECGC and EXIM Bank came into being to finance export related activities. The ECGC issues insurance policies to Indian exporters and furnishes guarantees to banks providing pre-shipment and post-shipment credit facilities. The EXIM bank was established in 1982 to ensure integrated and coordinated approach to the problems. EXIM Bank promotes export of capital and technology from India. It extends credit facilities to different kinds of exporters to enable them to compete in international markets.

In addition to these banks the Life Insurance Corporation of India (LIC) and Unit Trust of India (UTI) also play key roles in developmental activities. They mobilise savings by floating different schemes and invest in private sector undertakings by purchasing shares and debentures.

### SUPREMACY OF FINANCIAL INSTITUTIONS

In the era of monopoly capitalism it becomes extremely difficult for any individual industrialist to float or expand any major industrial ventures without the assistance of financial institutions. Inadequacy of their own resources and periodic crises in capital market compel even the monopoly houses to depend on banks. In India nearly 1/5th of the industrial financial needs are now met by the Public sector banks. More than commercial banks, specialised financial institutions like IDBI, IFCI, UTI, ICICI emerged as potential financiers to Indian industrial sector. Loans disbursed by all financial institutions combined in 1986-87 totalled Rs.4,517.9 crores and their indirect and direct subscription to shares and debentures amounted to Rs.754 crores. (See Table IV)

Aggregate financial assistance sanctioned by the IDBI rose from Rs.3,673 crores in 1985-86 to Rs.4,481 crores in 1986-87. The cumulative assistance sanctioned and disbursed by the IDBI since its inception to the end of March 1987 aggregated Rs.11,680 crores and Rs.16,454 crores respectively.<sup>25</sup>

As on March 1989, IFCI has sanctioned Rs.6,546.79 crores to finance 3,159 projects. In the cumulative picture, textiles, cement, fertilisers, iron and steel and ferrous alloys, synthetic and man-made fibre and sugar emerged as the largest beneficiaries of the IFCI's assistance having claimed together 48% of the total assistance. In 1988-89

TABLE - IV  
ASSISTANCE DISBURSED BY TERM LENDING INSTITUTIONS  
1986-87

Institution	Loan disbursed (In Crores of Rupees )	Undervriting & direct subscription to Shares	TOTAL (In Crores of Rupees )
IDBI	3,054.0	29.4	3083.4
IFCI	448.4	10.9	459.3
ICICI	671.0	24.5	695.5
IRBI	94.6	-	94.6
LIC (Excluding Short Term Loans)	109.8	280.0	389.8
UTI	110.7	306.9	417.6
GIC and its Subsidiaries	29.4	102.2	131.6
Total:	4,517.9	753.9	5271.8

Source: Report of Trend and Progress of Banking in India  
1986-87

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private sector which has always been a prime-beneficiary of the financial assistance from IFCI right from its inception claimed Rs.1053.40 crores (79% of the total) for assisting 501 projects. Assistance to the joint sector in that same year was Rs.135.41 crores.<sup>26</sup>

The LIC and UTI emerged as the biggest buyers of shares and debentures in industry. In 1971 itself LIC was ranked among the top 10 equity holders in 40% of the 332 industrial companies surveyed.<sup>27</sup> LIC has invested in 328 large group companies registered under section of 26 of MRTP Act, 1969. In 1987, the total investment which amounted to Rs.739.75 crores accounts for 60% of its total investments in the private sector.<sup>28</sup> Out of the total investible funds of Rs.4,494 crores in 1987, the UTI invested Rs.623 crores (13.9%) in equity shares, Rs.10 crores (0.2%) in preference shares, Rs.1761 crores (39.3%) in debentures and balance of Rs.2086 crores (46.6%) on advance deposits against investment commitments, unsecured short term deposits etc., and other investments with banks and governments.<sup>29</sup>

In the initial years, the financial institutions were satisfied with the returns that they used to get in the form of interest and profits. But as their investments increased they began to take increasing interests in the management of the concerned industries. Inability of the financial institutions to dispose off all their shares in times of crises is used as a plea to demand an effective role for them in the decision making process of the concerned companies.

In the recent years wherever necessary the banks are imposing rigorous rules, supervising the accounts and bringing pressure upon the industrialists to comply with their goals. With the introduction of convertibility clauses, the powers of the financial institutions are further enhanced. Following Dutt Committee's recommendation that the financial institutions can appropriate a share in the benefits accruing from the projects financed, the government gave options to the banks to convert their loans into equity. As on June 1987, the clause was stipulated in 930 cases involving loan amount of Rs.2075 crores. Loan amount subjected to actual conversion was Rs.399 crores.<sup>30</sup>

Financial institutions which can send their own representatives have accumulated considerable powers to influence the board. To alleviate the fears of the capitalists who considered this clause as a backdoor step towards nationalisation, normally, the directors of the financial institutions remain as sleeping members of the board. However, the recent incidents showed that they have the ability to play havoc with the private corporate sector. Takeover bids in 1982-83 in fact established the supremacy of financial institutions over the industrial monopolies. It may be remembered that in Swaraj Paul case, the LIC attempted to remove the Directors of Escorts. To bring about changes in the organisations of the companies financed by them, sometimes they sell their shares to certain parties close to them.

In fact it is alleged that in the cases of Indian Cements, Kamini Engineering and Premier Automobiles, financial institutions favoured persons who are close to the ruling party at Centre. Since the financial institutions now control as much as 51% of the equity in the corporate sector,<sup>31</sup> they can dictate terms to the companies and decide the fate of the industrialists. That banks are not all that altruist in their practice could be understood from the fact that since the introduction of convertibility clause, rate of interest was raised from 8% to the present level of 14 percent.<sup>32</sup> As such the industrial finance from the developmental banks are becoming costlier - both economically and organisationally - even to the private monopoly houses.

### CONCLUSION

Sofar, we have reflected on different aspects which are very crucial for understanding present stage of development of capitalism in India. In a sumup, it may be again stated that this stage is 'State Monopoly Capitalism' (SMC) because it has all the features common to such system. About 40 years of planned development in India gave birth to a powerful State monopoly - both in industry and banking-- and this public sector in addition to creating necessary conditions for the growth of private capitalists, established a strong nexus with private monopolies, thus strengthening the SMC in India. This hypothesis can be further strengthened by the following facts:

One can see phenomenal growth of public sector enterprises during the plan period. From only 5 enterprises as 1st April, 1951, their number increased to 228 in March 1987. Now they employ more than 23 lakhs of people, including casual workers. At the end of 1986-87, capital employed in operating central public sector alone stood at Rs.51,931 crores. In that year the total turnover was Rs.61 thousands crores and its profits around Rs.1,770 crores.<sup>33</sup> About 55% of the total investment in central public sector undertakings is in basic industries like steel, coal, minerals petroleum and power. Public sector today accounts for 100% in petroleum, lignite, copper, lead, telephones and teleprinters. About 89% in coal production, 77% of steel production, 38% of aluminium and about 87% of zinc comes from the public sector enterprises.<sup>34</sup> Public sector undertakings like Hindustan Petroleum, Bharat Petroleum, Indian Oil, Coal India Ltd., Steel Authority of India Ltd., Oil and Natural Gas Ltd., and BHEL found place in "Fortune International 500" list of the largest non-US industrial corporations for 1987.<sup>35</sup>

Just as in the field of industry, Indian State made efforts to bring concentration in the field of banking also. At the time of independence itself, the RBI realised the necessity of amalgamating small and weak banking institutions in the country. After the banking crisis of 1960, wherever necessary



the RBI started resorting to compulsory mergers and compulsory liquidations. As a result of the banking policy, a few big scheduled banks could develop into monopolies by squeezing many non-scheduled and also small scheduled banks. Nationalisation of banks further activated this process. Infact number of non-scheduled banks drastically came down from 335 in 1960 to mere 4 in 1987.<sup>36</sup> Though number of banks came down, concentration reached its highest peak after nationalisation. In 1988 total global deposits of all scheduled banks stood at Rs.1,26,761 crores and their credit at Rs.76,563 crores.<sup>37</sup> They employ more than 8 lakhs of workers. As the need for diversification of functions of the banks arose, many specialised financial institutions came into existence to finance industry and trade.

Despite many changes in structure and functions of the banks, nationalisation has not altered the commercial nature of Indian banking. No compromise was made on the question of earning maximum profits. Actually nationalisation was only intended to make them more professional. Hence, though the banks were nationalised, in many of them old directors were retained and wherever necessary experts in the banking business were taken in. Representatives of the private monopolies continue to sit in the Board of Directors as the representatives of the Indian Industry. Their pressure groups like FICCI and ASSOCHAM exert considerable influence on bank policy. Credit policy of the banks infact created a strong nexus between the banks and industrial monopolies. Joint sector initiated by the government after 1970 resulted in coalescence of

state monopoly and the private monopolies. Since some of the public sector undertakings are accumulating considerable profits in the recent years, many of the private monopolies have started investing in the Utl units and governmental securities.<sup>38</sup> Thus, interests of the state and monopolies began to converge to strengthen the state monopoly capitalist base in India.

When the SMC becomes the rock bottom foundation of Indian : . economy, Indian state cannot but play a conscious role to promote the growth of private monopolies. Though the state succumbed to the pressures from the public and enacted acts such as FERA and MRTP Act, other than taking a few steps to regulate the activities of individual monopoly houses, it never took up any measures to weaken the monopolies. By creating necessary conditions in one sense, the state itself became instrumental in promoting the growth of private monopolies. As Monopoly Enquiry Commission put it, " the planned economy which government decided to accept for the country as the quickest way to achieve industrialisation on the right lines has proved to be a potential factor for further concentration".<sup>39</sup> Development of public sector, nature of industrial licencing policy system and credit policy of the Indian banks - all these actually promoted concentration in the private sector. Even those who are very closely associated with the enactment of MRTP Act now accept that the Commission could not do anything to curb the monopolies. In the recent years, the

industrial policies are being gradually liberalised to enable the monopoly houses to enter even those sectors which were higher to kept under the exclusive domain of the public sector. Arguments such as the necessity of restricting foreign multinationals, development of backward areas, export promotion or technological development were floated to liberalise the economy. Rajiv Gandhi's "New Economic Policy" took the liberalisation process to logical culmination. In 1985, 25 broad categories of industries were delicensed and 22 out of 27 MRTP industries were exempted from Section 21 and 22 of the MRTP Act.<sup>40</sup> Corporate taxes were considerably reduced and licencing policy was further simplified. All these steps further promoted concentration of capital. How quickly some of the private monopoly houses could reach the present stage could be understood from the figures cited in the Table V. Infact between 1957 and 1987, the paidup capital of non-governmental companies increased from Rs.1,005 crores to Rs.9,383.2 crores in 1987. During the same period number of non-governmental companies increased from 29,283 to 1,37,133.<sup>41</sup> All these facts and figures are sufficient to prove that the Indian state played a key role in establishing and in strengthening the state monopoly capitalism (SMC) in India.

TABLE - V

GROWTH OF THE ASSETS OF SOME OF THE BIG BUSINESS HOUSES

Name of the House	Assets (In Crores of Rupees)		
	1965	1981	1986-87
TATAS	468.06	1840	4938.88
BIRLAS	304.03	1692	4771.38
Mafatlal	45.91	535	1050.50
J.K. Singhania	59.20	520	1426.67
ICI	36.89	338	453.52
Sarabhai	43.16	331	-
Banguri	77.91	281	670.49
Kirloskar	19.12	278	474.78
T.V. Iyengar	21.87	227	622.77
Mahindra & Mahindra	20.12	225	465.87
Bajaj	21.14	215	777.79
Shriram	54.68	272	590.88

Source: Monopolies Enquiry Commission 1965 : Manorama  
Year Book - 1988-89

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## Chapter IV

### MILITARISATION OF INDIAN ECONOMY

#### INTRODUCTION :

The Sino-Indian War of 1962 brought a dramatic change in India's Defence Policy. Before the war, most of the members of the Parliament used to be extremely critical of every proposal aimed at increasing the defence budget. It was felt that any increase in defence expenditure would only curtail the scarce resources needed for developmental activities. But the military set back in 1962 and indecisive war with Pakistan in 1965 forced the nation to change its priorities. The state of insecurity made all sections of people acquire liberal attitude towards defence spending. Thereafter the government took advantage of the favourable atmosphere and started diverting huge amounts to strengthen the military preparedness of the nation.

The consequent progress that the country achieved in the field of defence is indeed worth noting. At the time of independence, India inherited an army of 300,000; an airforce of two fighter squadrons and one transport squadron and a navy comprising four sloops, two frigates and some harbour defence craft.<sup>1</sup> But <sup>now</sup> Indian military with approximately 1.3 million men is recognised as one of the world's largest regular force. It has third largest standing

army, fifth largest airforce and eighth largest navy. Its military supremacy in South Asia is unchallengeable.

India's defence capabilities were well exhibited in Indo-Pak war of 1971. The war established India as a regional power in South Asia. With the birth of Bangladesh, Pakistan's position in the sub-continent was marginalised. No amount of foreign assistance can make Pakistan a match for India in its military preparedness.<sup>2</sup> Indo-Soviet Friendship Treaty will act as a safeguard in protecting India from Chinese threat. Fortunately, present Chinese leadership exhibited keen interest in normalising its relationship with India. Both the parties, namely India and China realised that peaceful negotiations alone can be a solution to the vexing border problem. Other small powers in South Asia are forced to accept India's dominant position. Even the Super Powers recognised India's pre-eminent position in South Asia. All these factors have contributed to peace in the sub-continent. Barring Indian involvement in Srilankan and Maldives affairs, India did not fight any major war after 1971.

India now at the threshold of 21st Century is very different from the India of mid-sixties. Indian military can confidently meet any threat to the security and integrity of the Nation. As such, we have reached a stage where we cannot ignore the necessity of rethinking about our national priorities. The nation has spent enough

money all these twenty five years to strengthen Indian defence. Can't it afford to divert its attention from defence to developmental activities at least now? Should spending such huge amounts on military still continue to be a priority which can ignore the necessities of attending to the socio-economic problems of the masses? What would come in the way of reducing the allocations for the defence - perceptions of threat to National integrity and security or any vested interests promoting the process of militarisation?

While answering these questions, at least partially, the chapter throws light on the economic necessities forcing India to get militarised. The manifestations of such militarisation and its impact on Indian economy are briefly analysed to get deeper insights into the nature of State Power in India.

#### BACKGROUND:

India opted for the capitalist path of development at a time when world capitalist system already reached the stage of imperialism. Though India achieved independence in a half-baked and truncated manner, the ruling national bourgeois class entertained high ambitions of economic development in India. The impressive economic achievements during the first decade of independence gave further confidence to the capitalist class. Consequently, with intention to make India an industrial power to be reckoned with, the policy makers gave primary importance to industrialisation in the second Five year plan. While the first Five Year

Plan on the whole invested Rs.2,378 crores, the second Five Year plan invested Rs.4,800 crores in the public sector alone and Rs.2,400 crores in the private sector. The country witnessed striking development in industrial output in terms of rate as well as pattern of growth. The then rate of growth of industrial output stood around 7% per annum. It was during this period that the government established three steel plants in the public sector - at Bhilai, Durgapur and Rourkela, and expanded more units in the private sector. Industrial index of iron showed an increase from 122 to 238 - almost two-fold within a span of five years. Production of other essential materials like aluminium, cement, chemicals, fuels and power also increased substantially. The same trend continued even in the early years of third plan when the rate of growth of corporate sector continued to be around 8 % per annum.

There could be uninterrupted industrial growth if India had sufficient markets -- both internal and external markets - to dispose of all the goods that it produced. Despite considerable economic growth, the Five year plans failed to increase the purchasing power of the people by redistributing the national wealth in favour of the masses. What is worse, deficit financing, inflation and taxation led to reduction in the real incomes of the people. Unfortunately India could not get into the much expected Afro-Asian markets on a large scale. The actual

situation was well stated in the joint study of V.K. Ramaswamy and D.G. Pfoutz, sponsored in the mid-sixties by the USAID and Government of India. The study observed, "the demand for the final products at the present time is however substantially less than the full capacity output in technical sense— In the industries, we studied, it is demand, not the capacity that set limit to the output." <sup>3</sup> The situation naturally threw the economy in to the vortex of deep recession resulting in a fall of rate of growth of industrial output to 3.5% per annum in 1965-70 and to around 2.75% per annum in the period 1970-74. <sup>4</sup> There was under-utilisation of installed capacities in all the major industries. <sup>5</sup> The recession led to considerable decline in output and sales as well as increase in stocks.

This situation had a deep impact on the industrial sector as a whole. In West Bengal alone during six-month period from March 1967 there were about 47 cases of closures, 19 cases of go-slow and 9 cases of lay-offs resulting in the unemployment of about 50 thousand persons. Similarly, in Maharashtra, the recession hit seven major industrial towns leading to retrenchment of about 9 thousand workers. The Federation of Indian Chambers of Commerce (FICCI) in its report stated that, "Recession has affected various groups of Industry, some more and some less. None is completely outside the shadow." FICCI's report also admitted that "the present recessionary conditions besides causing difficulties in various industries have affected the outlook

for growth and further investment in productive activity... Unless the investment outlook improves by suitable adjustments of fiscal and monetary policies and the assurance of a reasonable return to investors, the conditions will not improve."<sup>6</sup> In such a situation it is natural that panic-stricken industrial houses approach the government to find a way out of the crisis.

It was at about this time that India witnessed two major wars which brought to forefront the necessity of achieving self-sufficiency in the defence preparedness of the country. Defence orientation was given to subsequent annual plans and substantial investments were made to increase the strength of the armed forces and to enlarge the sphere of defence production by setting up many ordnance factories and defence public sector undertakings. Further, awareness of the inability of the public sector to meet all the needs of defence, forced the government to depend on the private sector. For the capitalists who were looking for a way out of the recession the governmental policy to indigenise defence production gave the much needed respite from the economic crisis. Understanding the positive effect of militarisation on the economy, the capitalists began to articulate effectively for broadening their base in defence production.

#### CAMPAIGN FOR PRIVATE PARTICIPATION IN DEFENCE PRODUCTION:

The Industrial Policy Resolutions of 1948 and 1956

completely forbade private sector participation in strategic and defence industries. Upto the sixties, there was no visible criticism from the capitalists of these provisions of the Industrial Policy Resolutions. However, the recession that followed the third Five Year Plan compelled the private sector to get a foothold in defence production. Being aware of their own class interests capitalists started a systematic campaign against industrial policy resolutions. Using the argument of "defence preparedness of the motherland", the industrialists began to urge the government to leave production of the clothes, electronic and communication equipment, caps, trucks etc. necessary for the defence purpose to the private sector.<sup>7</sup> They also demanded that the government should help the civil sector with finance, capital, maintenance grants and subsidies to enable them to participate in defence production. Strongly criticising the hesitation on the part of the government, they started pleading to the government that "it must look upon businessmen and industrialists in this matter of defence production as partners, collaborators, comrades etc."<sup>8</sup>

Upto 1965 the entrepreneurial class in the main resorted to campaigning through their press. However, after the Indo-Pak war of 1965, their class organisations like FICCI and Indian Merchants Chambers began to put pressure on the government through their speeches and resolutions to widen the private sector base by involving this sector

in engineering, chemical and electronic units in defence production.

Welcoming the defence orientation to the annual plans, they elaborated what such orientation should mean. In one of its editorials, the The Times of India owned by one leading group of industrialists wrote, "the concept of a 'defence orientation' of the economy must be broadly interpreted to mean general economic and industrial support to the country's defence preparedness. This would include agriculture, exports, alloys and special steels, heavy chemicals, oils, electronics and mechanical engineering and transport industry to mention only some of the obvious categories. Apart from the ordnance items and military hardware, defence orientation as such means plan as a whole".<sup>9</sup>

The then president of FICCI, Mr. Raman Bhai B. Amin maintained close communication with the Defence Minister<sup>10</sup> and the concerned governmental officials. Mr. J.C. Bansal, General Secretary of FICCI also pleaded for strengthening of the then existing ties between the government and the industry. He demanded the setting up of a liaison committee consisting of the representatives of the government and industry to take timely action to overcome the problems of defence production and purchases".<sup>11</sup> Assuring that the private sector would cooperate wholeheartedly the President of Indian Merchants Chamber, P.A. Narielwala asked the Government to "give a clear indication to private industry,



what it was expected to do in sustaining the defence production".<sup>12</sup>

#### LIAISON BETWEEN DEFENCE MINISTRY AND THE PRIVATE SECTOR

It is with this background that the Indian State, responding partly to its own defence needs and partly to the needs of the economy, began to widen gradually the scope of private sector participation in defence production. The first attempt in this regard was made immediately after Sino-Indian war when the Secretary of the Ministry of Economic and Defence co-ordination met the representatives of the industry to discuss the manufacturing of defence requirements by the private sector.<sup>13</sup> Though both parties came to certain broad agreements, very little progress was made in the next two years. However, after 1965 war, the government actively responded to the demands of the industrial houses. A high-level meeting was attended by senior officials of the Departments of Defence Production, Industry, Supply and Technical Development Directorate in October 1965 to tune up the administrative machinery to cope with the requirements of defence production.<sup>14</sup> In November, 1965, the Defence Ministry placed orders with the main steel producers of India including TISCO, IISCO and Hindustan Steel and other units to meet the entire "direct requirements of special and alloy steel and about 50% to 60% of the indirect requirements of these items by the Defence Ministry".<sup>15</sup> Defence Ministers like Y.B. Chavan and Jagjivan Ram started giving open invitation to the industrialists to participate in Defence production.<sup>16</sup>

This liaison was strengthened with the establishment of the Department of Defence Supplies. The Department is intended to promote indigenisation, development and production of (i) items hitherto imported for which new capacities required to be created in the civil sector; (ii) new items developed by DRDO for which commercial production has to be established in the civil sector and (iii) components, subassemblies and assemblies required to supplement the production in defence production units.<sup>17</sup> The Department is to tap the potentialities of Indian engineering chemical, textile, jute and other industries which can develop and produce indigenously the increasing volume and variety of stores necessary for defence purpose.

The Department has a central committee to deal with policy matters and various technical committees for identifying items for indigenisation and actual placement of development and production orders. All these technical committees work under the supervision and direction of Central Technical Committee (CTC) under the chairmanship of Additional Secretary (Defence Supplies). The Development Commissioner for Small scale industries is a co-opted member of the CTC. After thorough discussions in 1982 a consensus was arrived at on a two-tier institutional framework for regular interaction with industry. Apart from arranging periodical conferences it was decided to set up functional groups relating to various disciplines to sort out various problems and issues involved in the defence efforts.<sup>18</sup> The Department

seeks to offer the whole package of promotional assistance such as design and drawings, identification and procurement of plant machinery, raw materials, release of foreign exchange, provision for import of scarce raw materials and capital goods.<sup>19</sup> Exhibitions and sample rooms are arranged in four major cities namely Delhi, Calcutta, Bombay and Madras for exhibiting to the entrepreneurs about various products that the military needs. By all these means, the Department of Defence Supplies brought about collaboration between government and the defence oriented or orienting industrial and commercial houses in the private sector.

Since its inception in 1965 the Department of Defence Supplies placed orders for about 65 thousand items. By December 1980 the government placed orders for over 47,800 items. From 1980 onwards every year orders have been placed for about 3,500 to 5000 items. The value of orders placed also increased over the years along with the number of items. Whereas the value of orders placed in 1977-78 stood at Rs.62 crores, by 1985-86 it increased to Rs.175-96 crores. The Defence Ministry claims that more than half of its requirements are procured from the small scale industry.<sup>20</sup> (See Table 1).

Along with the Department of Defence Supplies which is now a part of the Department of Defence production and Supplies there is Army Purchase Organisation under the Ministry of Food and Civil Supplies engaged in the purchase of food articles necessary for the armed forces. In 1986 this Organisation was transferred to the Ministry of Defence.

TABLE - 1  
Value of Orders Placed

Year	Number of items	Value of orders (In Crores of Rs.)
1965 to Dec'80	47,800	563.00
1980-81	3,739	73.89
1981-82	3,301	84.08
1982-83	4,072	78.46
1983-84	4,986	141.15
1984-85	3,401	149.53
Upto Dec'86	N.A.*	175.96

\* N.A : Not Available

Source: Annual Reports, Ministry of Defence for various Years

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At present while rice, wheat and sugar are procured through the Department of Food, other commodities such as Vanaspathi, pulses, dry fruits etc are procured by this organisation through the tenders. The value of the purchases during the period April 1986 to February 1987 amounted to 231.23 crores.<sup>21</sup> Thus the necessity of feeding almost 6 millions people associated with the Defence services creates a constant demand for agricultural products worth crores of rupees.

In addition to creating demand for the goods in the private sector, the policy of indigenisation of defence stores encouraged establishment of 21 ancillary units around the ordnance factories at Jabalpur alone. Orders placed on these ancillories increased from Rs.2.14 lakhs in the year 1973-74 to 289.72 lakhs in 1983-84 registering an average annual growth rate of 28.7 percent.<sup>22</sup> In addition there are more than 60 industries already attached to the Defence Public Sector Undertakings. The government itself proclaims that many more can live and grow with the ordnance factories and defence public sector undertakings which together constitute the core of defence production in India

In view of their significant impact on the national economy it is desirable to understand the origin, development and various other manifestations of the ordnance factories and public sector undertakings.

DEFENCE PRODUCTION : ORDNANCE FACTORIES

At the time of independence, there were only 14 ordnance factories in India. Most of them were set up during the second world war to support the war efforts of the British India. After independence the government of India took steps to set up suitable machinery for the manufacture of defence stores and equipment within the country. The government appointed a committee under the chairmanship of Sardar Baldev Singh, the first Defence Minister, to recommend ways and means of achieving self sufficiency in defence production. Based on the suggestions of the committee the government established an autonomous board to deal with the defence production.<sup>23</sup> Since then the organisation underwent a number of modifications. At present there is a special ordnance factory board to look after the functioning of the ordnance factories.

In the initial years, the ordnance factories used to meet partially the needs of defence. Almost upto the sixties the value added by these ordnance factories remained less than Rs.50 crores. Whereas the value of production of these factories in 1947 was Rs.15 crores, it increased to mere Rs. 42 crores in 1960-61. However, the in wake of two major wars, the policy makers from the mid-sixties started giving considerable attention to start many ordnance factories and also expand the existing capacities. By 1971-62 the number of ordnance factories increased to 30. At present there are about 40 factories with an employment potentiality of about

1,87,000 workers. The value of production also increased rapidly from Rs.65 crores in 1965-66 to 1,356 crores in 1985-86. The annual turnover grew by 130 times in less than 50 years.<sup>24</sup> (See Table II)

The ordnance factories produce sophisticated sighting devices, armoured vehicles, antitank guns, field guns, transport and armoured vehicles, self propelled guns, mortars, small arms, bombs, grenades, parachutes, telecommunication cables and many others. Prestigious Vijayanta tanks are, in fact, designed and produced by the ordnance factories. In the recent years, they also produce high strength aluminium alloy, arrow rocket tubes etc., New ordnance factories have reached a stage where they can meet all the requirements of small arms and ammunition, maintain guns, jet aircrafts, electronic goods and so forth, necessary for all the three services. These factories maintain close links with the Universities, IITs, National laboratories, public and private sector organisation for exchange of ideas and knowledge.<sup>25</sup> Every factory has its own Research and Development centre for improving the standard of production.

#### DEFENCE PRODUCTION: PUBLIC SECTOR UNDERTAKINGS

More than half of the defence public sector undertakings were established in the sixties and early seventies. If the ordnance factories constitute the heart, the defence public sector undertakings with its branches spready through out India became the backbone of the defence production in India.

TABLE - 2

Investment, Production and Manpower in Ordnance  
factories

Year	Value of Production (In Crores of Rs.)	Capital Investment (In Crores of Rs.)	Manpower (thousands)
1980-81	671	398	Not Available
1981-82	787	422	184
1982-83	869	460	186
1983-84	1,017	485	187
1984-85	1,165	536	188
1985-86	1,356	573	187
1986-87	Not available	680	187

Source: Annual Reports, Ministry of Defence, Govt. of India

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Though these industries also produce for civilian needs, in the main they are meant to meet the wider industrial requirements and advanced technological needs of Indian defence.

Hindustan Aeronautics Limited (HAL) designs, manufactures and overhauls various types of aircrafts and helicopters. It manufactures Kiran, Jaguar, Chetak, Cheetah, Mig 21 etc. Bharat Electronics Limited (BEL) produces electronic equipment and components for defence purposes. Bharat Earth Movers Ltd (BEML) manufactures rail coaches, trailers, crawlers and tractors, Mazagon Dock Ltd (MDL), Goa Shipyard Ltd (GSL), and Garden Reach Shipbuilders & Engineers (GRS&E) are involved in the production of frigates, patrol craft, dredgers and varieties of vessels necessary for both civilian and defence needs. Bharat Dynamics Ltd (BDL) looks after the production and development of missile weapon system and anti-tank missile rockets for the army and the navy. Mishra Dhatu Nigam Ltd., (MIDHANI) produces special metals, and super alloys necessary for strategic industries. Praga Tools Ltd (PTL) which was protected upto 1986 as a defence Public sector undertaking manufacturing cutters, tool grinders, surface grinders, surface grinders, milling and drilling machines. (See Table III)

The Central government's investment in the defence public sector undertakings which employ about one lakh workers (See Table III) show a considerable increase over the years. During the war years (between 1965-66 and 1972-73) the investment rose from Rs.58 crores to Rs.115 cr res. Even -

TABLE - III

Employment in Defence Public Sector Undertakings

Name of the Undertaking		Number of Workers
HAL	...	43,521
BEL	...	18,613
BEML	...	14,780
MDL	...	13,907
GRS&E	...	10,549
GSL	...	2,176
BDL	...	11,885
MIDHANI	...	1,528

Source: Annual Reports, Ministry of Defence, Govt. of India

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TABLE - IV

Share Capital in Defence Public Sector

(Excluding PTL and Andhra Scientific Company not shown in the defence public sector)

Year	Paidup Capital (In Crores of Rs.)	Govt. Loans (In Crores of Rs.)
1977-78	117.32	118.25
1978-79	132.51	123.55
1979-80	160.86	50.32
1980-81	171.01	256.39
1981-82	187.27	331.43
1982-83	221.00	377.05
1983-84	269.24	414.69
1984-85	391.58	393.04
1985-86	432.29	416.63

Source: Annual Reports, Ministry of Defence, Govt. of India

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after the wars, allocations for defence public sector undertakings continued to increase. Total capital investments in eight undertakings excluding PTL, which was of the order of Rs.774.67 crores in 1984-85 increased to Rs.848.92 crores at the end of March 1986-87. The estimates for 1986-87 was Rs.956.46 crores where equity was Rs.465.79 crores and loans amounted to Rs.490.67 crores (See Table IV)

The total production of these undertakings has increased substantially. Whereas the total production of these eight undertakings was about Rs.400 crores in 1976-77, by 1986-87 it increased to Rs.1895.39 crores; similarly sales turnover increased from Rs.348.53 crores in 1976 increased to Rs.1887.41 crores in 1986-87. (See Table V)

In recent days the defence public sector undertakings have started exporting its products to foreign countries. Between 1976-80, BEL exported electronic equipment worth Rs. 50 crores to advanced western countries and the Middle East. BHEL exports its products to Bulgaria, Britain, Bhutan, Indonesia, Bangladesh and Srilanka. MDL supplied ships to its foreign clients in Asia, Europe and Africa.

#### DEFENCE PRODUCTION : DEFENCE RESEARCH

Research in Defence production becomes essential to improve the standard of the defence products and to diversify the pattern of production to suit the ever changing needs of defence. In India the Department of Defence Research and Development (DDR&D) looks after the scientific and technological

TABLE - V

Total Production and Sales Turnover in Defence Public Sector

Year	Production (In Crores of Rs.)	Sales Turn over (In Crores of Rs.)
1976-77	400.13	348.53
1977-78	425.90	368.20
1978-79	429.27	374.74
1979-80	502.09	434.87
1980-81	485.32	472.74
1981-82	828.39	746.41
1982-83	1,144.13	930.32
1983-84	1,418.85	1,189.66
1984-85	1,651.00	1,333.54
1985-86	1,870.41	1,807.04
1986-87	1,895.39	1,887.41

Source: Annual Reports, Ministry of Defence, Government  
of India

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aspects of defence research. The department operates with a nucleus of multi-disciplinary team of scientists, engineers and administrators. All the defence laboratories work under the control of Defence Research and Development Organisation (DRDO). In 1968, DRDO had 13000 officers with three dozen laboratories and institutes of one kind or another.<sup>26</sup> By 1986 the number of laboratories reached 42 and those of employees working in it to about 25 thousands.<sup>27</sup>

The activities of the DRDO increased from the latter half of the sixties. In the beginning DRDO chose a few areas for special attention. They were missiles, electronics, aeronautics radar technology, underwater naval weaponry, low level night photographic equipment, solid and liquid propellants etc., So far, DRDO handled thousands of projects.

Along with laboratories under DRDO, Indian Space Research Organisation (ISRO) and Department Atomic Energy (DAE) are also involved in defence research. Pokharan explosion of 1974 and the firing of wholly indigenous missiles recently from Sriharikota and Baliapal clearly indicate that the country nuclear and space research is not completely meant for peaceful purposes as the politicians generally claim. The Defence Ministry always maintain contacts with ISRO and DAE.<sup>28</sup> In fact during the Janata rule Dr. Ramanna was made DRDO's Chief Scientific Advisor to the Ministry and again under the Janata Dal Ministry he has been given

the charge of defence. It was during Janata period that the government disclosed to the consultative committee of parliament about its plans for the development of missiles for the three services.<sup>29</sup>

Further, the experience of 1965 and 1971 wars show that in times of necessity Defence Ministry may utilise the services of many other laboratories and institutions placed under civil sector for defence purpose. According to an estimate, approximately 11% of Government's R&D expenditure is devoted to research in weapon system.<sup>30</sup>

#### DEFENCE EXPORTS:

Though India may criticise the Western powers resorting to arms trade on a wider scale for the sake of earning profits, the very nature of defence build up in India which involves a number of industries in the private sector along with many ordnance factories, defence public sector undertakings and defence research organisations cannot escape the necessity of finding external markets for its surplus goods. As early as in 1956 the Indian government laid down detailed procedure for the export of defence stores. However, it should be said that upto the sixties the limited exports that it undertook was necessitated by political compulsions rather than the desire to earn profits. Only in 1967 the government for the first time, hinted at its desire to export arms and ammunition on commercial basis. In 1972 the Defence Ministry informed the Loksabha that it would enter the export market in a big way.<sup>31</sup> A special cell was set up in 1973 in the

Department of Defence Production to boost the exports. The defence authorities expressed their desire to export 20% of defence production every year. Agents are employed on commission basis to find foreign markets for defence products. For certain reasons the government intends to export only to friendly nations, that too on government to government basis. The government exports defence stores after obtaining end-user certificates where the purchasing parties are expected to give guarantee that the stores purchased will not be sold, transferred or diverted to any other party without the permission of the seller. For the sake of certain parties which refrain to come to an agreement on government to government basis, Indian Government makes use of the services of private agents licenced by the Defence Minister.<sup>32</sup>

The governmental sources say that three years prior to 1971-72, the defence stores worth Rs.3 crores were exported annually. In 1972 the defence stores export shot up to Rs.10 crores.<sup>33</sup> The total sales in 1982-83 and 83-84 were reported to be of \$ 21 millions and 37 millions respectively.<sup>34</sup> Though India is making sincere efforts to project itself as a capable arms supplier in the Third World Countries, it did not fully succeed in its efforts. However, lower costs of Indian products and its 'no political strings' policy could attract certain parties in Afro-Asian market. So far, Indian government exported defence stores to Kenya,

Egypt, Malaysia, Nigeria, Lebanon, Saudi Arabia, Iran, Iraq Singapore, Tanzania, Ghana, Indonesia and to European countries like Spain, Czechoslovakia, Italy and Yugoslavia.<sup>35</sup>

#### ANATOMY OF DEFENCE BUDGET

The overall implications of militarisation of Indian economy needs an indepth analysis of the expenditure incurred on defence. In this regard we may begin with an examination of defence estimates as given in the annual budgets though it is generally presumed that they do not give complete picture of the actual defence expenditure.

In the annual budgets military expenditure is shown separately under revenue and capital accounts. Expenditure on revenue accounts includes salaries, allowances, pensions and also the money spent on stores and defence research. Capital outlay shown outside the revenue expenditure covers money spent on ordnance factories, construction of buildings and roads etc.,

A glance at defence estimates shows that gross revenue expenditure and capital outlay on defence upto the sixties were very insignificant. However, after Sino-Indian War of 1962 and Indo-Pak War of 1965 there was quantum jump in the defence expenditure. The gross revenue expenditure which was about Rs.270.69 crores in 1961-61 increased to Rs.792.76 crores in 1965-66 and then Rs.1127.63 crores in 1970-81. Similarly the Capital outlay which was just Rs.36.38 crores in 1960-61 increased to Rs.122.59 crores in 1965-66 and then to Rs.947.83 crores in 1970-71.



After 1971 war the defence expenditure on both accounts steadily increased. In fact, after 1980 the gross expenditure on defence shows a steep hike.

Review of military budgets since 1950 throws light on certain important facts. The gross expenditure on revenue side was about Rs.181-82 crores in 1950-51. The same rose upto 13,438-77 crores in 1987-88 -- an increase of about 74 times in a span of 38 years. Similarly during this period capital expenditure which was Rs.418 lakhs in 1950-51 increased to Rs.3977.97 crores (budget estimates) in 1987-88 - an increase of about 994 times (See Table VI)

The above figures however are not dependable. Since much of the increase is due to inflation, it becomes necessary to study the change at constant prices. According to one study capital expenditure at constant prices increased by 2.57 times from Rs.84.82 crores in 1962-63 to Rs.217.8 crores in 1984-85. Within revenue expenditure, expenditure on stores at constant prices increased by more than 3 times from 226.5 crores in 1962-63 to Rs.701-5 crores in 1984-85. During the same period expenditure on pay and allowances rose by 2.32 times, from Rs.258.1 crores to Rs.599.3 crores. Similarly R&D expenditure increased by nearly eight times from Rs.7.2 crores in 1962-63 to Rs.55.6 crores in 1984-85. If one examines the same at current prices expenditure on capital outlay, stores,

TABLE - VI

GROSS EXPENDITURE ON DEFENCE

(In Crores of Rupees )

Year	Revenue Expenditure	Capital Outlay
1950-51	181.82	4.18
1955-56	187.97	17.59
1960-61	270.69	33.38
1965-66	792.76	122.58
1970-71	1,127.53	147.83
1975-76	2,386.16	221.15
1980-81	3,717.76	326.39
1985-86	7,279.01	967.36
1986-87 (Revised Estimates )	10,193.95	1,227.09
1987-88 (Budget Estimates)	13,438.77*	3,997.97

\*(including provision for Rs.926.71 crores made for  
Civil Estimates)

Source: Public Accounts Estimates as shown in Various  
Budget Estimates & Revised Estimates

Pay and allowances and R&D during this period increased by 22 times, 27 times, 16 times and 90 times respectively.

On the whole in these budgets pay and allowances account for 31% , stores account for 32% and ordnance factories constitute 14% of the total military expenditure .<sup>37</sup>

The governmental authorities usually argue that the defence expenditure in India constitutes only 4% of the GNP. If our aim is to know what part of people's money is involved in defence expenditure -- the method of looking at it in relation to the GNP is highly inadequate. For, it only shows the share of the defence in the national economy and not the actual expenditure to be borne by the masses.

The better method seems to be calculating what fraction of the annual budget is spent for the defence purpose. In this respect governmental sources argue that in the recent years only 16 to 18 percent of the budget is devoted to defence in the total budget. This allocation of about one fifth of the budget may be accepted as reasonable, if the entire expenditure that is incurred towards defence buildup -- directly or indirectly is included in it. But the anatomy of the defence budget estimates shows that many things that should have actually been shown under the defence estimates are included as part of the civil expenditure. For example, allocations for the defence public sector undertakings which were shown as part of the defence expenditure upto 1970 are now shown as part of the civil expenditure under

the head 'Capital outlay on Industrial and Economic Development'. It is evident that the government is deliberately misleading the people by hiding the actual expenditure incurred on defence production in these public sector undertakings. Similarly, huge investments made on nuclear and space research programmes for defence purpose are not shown in defence budgets. Pensions of all categories of employees and salaries of employees belonging to Defence Audit previously included as part of defence estimates are now shown outside the defence budget. In addition, the border roads constructed in Bhutan and other interior places for military purpose are shown in civil estimates. Practices such as these only help in hiding the actual percentage of the budget spent on defence. If all such omissions are added about  $\frac{1}{4}$ th of the budget is directly or indirectly going towards the defence build up.

#### CONCLUSION

Development of military- Industrial complex as in the advanced capitalist countries is recognised by many scholars.<sup>38</sup> It is now understood that for the west huge investment in defence has also become an economic necessity. However, it is contended that this feature is specific to the Western countries alone. Contrary to the general opinion, an attempt was made in this chapter to prove that the same economic reasoning which determine the policy of militarisation in the Western capitalist nations also influence some of the

underdeveloped capitalist countries like India.

The policy makers in India always try to justify every increase in allocations to the defence on the grounds of threats to national security. The arguments such as "threat to national integrity", "impending danger from China" "growing strength of Pakistan" and "CIA's hand" are sufficient for the government to get any amount sanctioned by the parliament. It is often argued that any one who questions the sanctity and rationality of military budget is anti-national.<sup>39</sup> No one - not even the communists (CPI or CPI(M) in the parliament - ever forcefully demanded any cut in the military budgets. Even the academicians and of course strategic analysts reiterate the arguments of the policy makers by exaggerating the role of external factors in influencing India's defence policy.

It is true that one should not underestimate the external factors. Perceptions of threats to national security mutual suspicions in the subcontinent, the role of Super Powers and India's own desire to become a big power in South Asia contributed in their own way to the soaring military budget. But it is generally forgotten that along with external factors there are many internal compulsions forcing India to get militarised. The chapter has attempted to highlight the economic necessities that contributed to the process of militarisation in India.

Militarisation of Indian economy which was the outcome

of an objective necessity to overcome recession in the mid-sixties still continues to play the role of a stabiliser giving stimulation to the sagging capitalist economy by creating artificial demand in the market. With about 40 ordnance factories, 8 public sector undertakings and a number of research laboratories, Indian Indigenous defence production sector is the largest among the Third World non-communist States in value, volume, diversity of manufacture and R&D facilities. Seen in terms of the position it occupies in Indian economy, the defence production sector takes second or third position in the industrial sector with regard to its sphere and contribution to national economy. In addition, contrary to the Industrial Policy Resolutions of 1948 and 1956 a number of private sector undertakings -- big as well as small, are involved in defence production either as direct producers or as suppliers. The fate of hundreds of factories and lakhs of workers are closely interwoven with the defence production section.

Having realised the indispensability of defence production sector the government started streamlining the administrative machinery to consolidate the ties between the defence ministry and private sector. Their mutual interdependence is further strengthened by the mediating role of the politicians. Now the policy makers no longer feel that the expenditure on defence is a waste. Citing the positive effects of such

militarisation on industrialisation and technological development, they have started arguing that the defence itself is playing a developmental role.<sup>40</sup>

However the apparent positive role that it plays should not make us ignore the multiple contradictions of this process of militarisation of economy. The worst effect of the growing military expenditure is drastic curtailment of budget allocations for the developmental and social welfare activities. According to a recent study of the budget estimates of 1987-88 defence accounts for 5 times more than the combined expenditure in coal, power and non-conventional energy. It was eleven times higher than that of education, 23 times higher than family welfare, 59 times higher than water resources, 73 times higher than scientific and industrial research, 39 times higher than urban development and 85 times higher than science and technology.<sup>41</sup>

Further, one should not fail to take note of the inflationary potential of this growing military expenditure. Investment made on defence industries through deficit financing has a large inflationary potential as the entire expenditure will create extra income without any corresponding production of goods that are productive.<sup>42</sup> Though certain sections are benefited by this, inflationary spiral in the long run leads to further reduction in the real incomes of the people.

Again, huge investments on defence production at one point leads to surplus production of stores. Due to lack of demand they get piled up in the godowns. There is evidence to show that certain ordnance factories incurred heavy losses because of lack of demand for their products.<sup>44</sup> Even in such conditions closure of industries cannot be a solution since such measure will affect many other factories dependent on them. Production in defence factories can be continued either by diversifying its production or by finding external markets. In the recent years, the government is trying both the alternatives. Most of the times the excess capacity of defence factories are utilised in producing the goods for civilian needs. However this alternative brings defence sector in competition with the private sector. Hence the government is compelled to find foreign markets for the surplus goods.

Despite serious efforts the government could not succeed so far in achieving what it calls , 'self generating military expenditure'. As a result, the government is forced -- even in times of peace-- to fabricate imaginary threats to national security from China and Pakistan so that it can freely impose heavy tax burden on the masses for the maintenance of this huge edifice.



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## V CHAPTER

### POLITICAL ECONOMY OF INDIA'S NON-ALIGNMENT

#### INTRODUCTION:

Since foreign policy of every nation is largely a reflection of its internal politics, study of domestic dimension becomes essential to comprehend the external dynamics of any nation. Indian traditional Marxists are not unaware of this basic truth. It should be admitted that in order to understand the nature of Indian state, they made sincere attempts to analyse and interpret the dynamics of India's foreign policy. But even after experiencing four decades of India's nonaligned policy, they could not arrive at a consensus about the real character of India's external relations. For them, the dynamics of India's foreign policy always remained hard nut to crack. In one sense, their differences in perceptions of India's status in the world was an important factor responsible for the breakup of the united communist party. Despite thirty years of their existence as separate communist parties, they could not bring any meaningful change in their perceptions. As in the 50's and 60's, the traditional communists still retain two opposite view-points with regard to India's place in the world imperialist system. Whereas the parties like Communist Party of India (CPI), All India Communist Party (AICP) and to a considerable extent even the Communist Party of India (Marxist) believe that India follows an independent and progressive foreign policy, different factions of the Naxalites sticking on to the resolution of the Madurai Congress of 1953,

argue that India still continues to be a semi-colony or a neo-colony and that its non-alignment is basically a mechanism to serve the interests of the imperialists and now even the social imperialists.

How could those who call themselves communists arrive at two opposite conclusions about one single reality? What are the factors they examined to brand India's foreign policy as progressive or reactionary? Study of the criteria which the traditional Marxists adopted shows that those who hail India's external policy as progressive policy base their arguments on India's opposition to war, racism and colonialism; its friendship with the socialist block; its open support to the liberation struggle in <sup>the</sup> Third World; its fight for New International Economic Order (NIEO) and its leading role in the Nonaligned Movement (NAM).<sup>1</sup> On the other hand, the sections which consider India to be 'a running dog of imperialism' cite India's continuing relationship with the imperialist countries, its opposition to nationalisation of all foreign assets, liberalisation of India's economic policy, increasing burden of external debts and growing dependence on foreign capital and technology.<sup>2</sup>

Both the groups while making efforts to prove their versions, glorify the factors which fit in their theory and ignore or belittle other factors which seem to contradict their conclusions. The reality is that while it is true that India opposes imperialism, it is also equally true that at times

India compromises and collaborates with imperialism. India strengthens its friendship with the socialist countries but it never breaks relations with the Western powers. Similarly, though India expresses solidarity with the interests and aspirations of the Third World, it does not hesitate to take advantage of the weakness of other developing nations whenever its own interests so demand. Traditional Indian Marxist positions have not been quite persuasive in their analysis of the dialectical relationship between these seemingly antagonistic paradoxes. Being one sided in their approach, none of the above versions could correctly comprehend the contradictory facets of India's foreign policy. Hence arises the need for devising an alternative approach to the study of India's role in the World affairs. The present chapter is precisely an attempt in that direction.

#### STRUCTURAL FORCES FAVOURING THE POLICY OF NON-ALIGNMENT

India's nonaligned policy is generally attributed to India's culture, traditions, historical background and value orientations of Indian leaders and philosophers.<sup>3</sup> The fact that more than 100 developing countries follow the policy of non-alignment shows the inadequacy of this type of interpretation. Unless there exist certain common interests, so many countries cannot group together merely at the instance of Nehru and or some other charismatic personality. Hence to know the nature of India's foreign policy one has to search for the objective roots of India's non-alignment policy as such.

The origins of the nonaligned movement has its roots in the birth of a new contradiction in the world arena. During his period, Lenin identified four major contradictions viz., contradictions among the imperialist countries, contradictions between imperialism and colonies, contradictions between imperialism and socialism and within the imperialist countries between labour and capital.<sup>4</sup> Lenin considered that these four major contradictions determine actual course of historic development in this era of imperialism and proletarian revolutions. But after the second world war, in addition to four major contradictions mentioned by Lenin, the post-war world brought into being another major contradiction viz., the contradiction between imperialism and the newly emergent nation states<sup>5</sup> - which now constitute the majority in the today's non-aligned world. As a result the basic path of nonaligned movement is, in the main, determined by the newly emergent nation states despite the fact that the NAM includes a few states which do not belong to this category. Hence in order to understand the dynamics of the non-aligned movement, it is necessary to comprehend the basic characteristics of these emergent nation states.

1. Almost all the countries are the erstwhile colonies or semi-colonies of one or the other imperialist powers. They were the direct or indirect victims of colonial exploitation and racial discrimination. Hence, in the main, all of them exhibit anti-imperialist and anti-racist character.



2. Except a few socialist countries such as Cuba, Vietnam and Yugoslavia, most of the nonaligned states opted for capitalist path of development. The dominant classes which attained state power in most of these countries are opposed to any radical transformation of their own societies. Though they may make friendship with the socialist block to oppose the imperialists, they consider communists and radicals as their enemies within their own countries.

3. All developing countries show greater eagerness to develop their economies within the structural constraints imposed by the national and international conditions. Since such herculean task is not possible in the conditions of uncertainties created by wars, they express their option for peace and disarmament.

4. Those countries are economically poor and technologically backward. Hence they depend on the advanced nations for aid and technology. Since such dependency perpetuates neo-imperialist exploitation, the developing countries struggle to come out of imperialist clutches to retain their political independence.

In other words, protection of political independence and promotion of their economic interests without any radical internal reforms constitute the sum and substance of the aspirations that these countries voice as nonaligned states. The necessity of reconciliation of political interests with



their economic necessities is the cornerstone of the foreign policies of the developing nations. In the international sphere, if there are only imperialist countries alongside these newly emergent nation states, then it becomes difficult to maintain political independence. Excessive dependence on imperialist powers for aid and technology would severely curtail the political sovereignty of the nations. Because of their economic weakness, the underdeveloped countries virtually become the neo-colonies of the metropolis. But the emergence of powerful anti-imperialist socialist block gave birth to new opportunities for the Third World. It is true that these developing nations owing to their own class character cannot opt for socialist path. But the contradictions between the capitalist block and the socialist block in the world arena give opportunities for the Third World to play one block against the other and to get maximum financial and technological help from both the blocks without the necessity of giving up their political independence.

However, it needs to be remembered that mere existence of certain opportunities does not lead to the conclusion that the same can be utilised equally by all developing nations. Though all the UDCs may try to take advantage of new correlation of forces in the international arena how far the available opportunities are effectively utilised by each state depends on

the character of the state, present stage of their economies, geographical and strategic significance of that area, political maturity of its leadership and diplomatic manoeuvres of the governing elites in the respective countries.

It is within the broad general framework that we propose to study the essence and dynamics of foreign policy of India, a non-aligned state.

#### SPECIFICITY OF INDIA AS A NONALIGNED COUNTRY

India shares many of the features common to other developing nations. Its colonial past, contradictions with the imperialist countries, opposition to internal transformation and the desire to protect its political independence and promote its economic development are enough to make India a non-aligned state. India suffers from many of the handicaps from which other Third World countries suffer. Naturally imperialism tries to take advantage of India's weak status to perpetuate its imperialist economic exploitation. Lack of sufficient capital and technology required for initiating industrialisation in India forces the government to seek assistance from the advanced capitalist nations. As a result, foreign multinationals find scope to get into the Indian market. In return for the capital invested and technology transferred multinationals demand their price in the form of royalties, technical fee and dividends. Considerable amount of foreign exchange is spent for such foreign remittances.

Between 1956 and 1981, foreign remittances to other countries increased four<sup>8</sup>fold. Much of the so-called foreign aid being in the form of loans, India is expected to return ~~back~~ the money with interest. Interest cost on new official credit after remaining around 2.2 to 2.1% until 1980, rose to 6.2% in 1982 and came down to 4.8% in 1986.<sup>6</sup> In the middle of 1981 the sum total of all remittances stood around Rs.1718 crores.

In addition to foreign remittance problem, India suffers from severe trade deficit. Trade deficit which was Rs.431.97 crores in 1973-74 increased to Rs.5,997.6 crores in 1983-84. The overall balance of payments results in high budgetary deficit. India's budget deficit reached Rs.11,750 crores in 1989-90. To tide over these crises India is compelled to borrow more and more from the foreign sources. As a result the aggregate external debt outstanding as on 31st March, 1989 reached Rs.68,831 crores.<sup>7</sup> Since there are discrepancies in the figures given by governmental agencies, it becomes very difficult to arrive at accurate figures. Prof. Vyas of the Institute of Developmental Studies estimated that the total external debt crossed one lakh crores in the 80's. Along with the external debt, debt services also increased from Rs.275 crores in 1966-67 to Rs.2084.7 crores in 1987-88.<sup>8</sup> A minimum of 800 crores will have to be borrowed from external sources to service the debt and to finance the imports. Thus, like many other Afro-Asian and Latin American countries, India is also a victim of neo-imperialism. Hence it is natural that India associates itself with other non-aligned countries.

It has to be noted that from the beginning India has been playing a key role in the nonaligned movement. India never remained a passive member of the group. India has played a leading role and succeeded in projecting itself as a leader of the NAM. What makes it possible for India to rise to the status of a leader among the nonaligned world is the existence of certain characteristics which are specific to India alone. The peculiar course of India's liberation movement, value orientations of the political leaders who participated in the anti-imperialist struggle, inheritance of powerful bureaucratic machinery capable of handling the complex situations and possession of vast territory with rich natural resources and huge scientific manpower-all these factors together differentiate India from many other Third World countries.

In addition, a more significant feature has been the development of homogenous national bourgeoisie conscious of its own interests and weaknesses. Indigenous capitalism was fairly developed in India even before it attained political independence. Taking advantage of the British weakness, Indian industrial capitalism developed at a very rapid stage during the inter-war period. War preparations of the Britishers during the World War II gave impetus to further development of Indian banks and Indian industry (See III Chapter) Cartels developed both in banking and industry and many individual traders and business men made their fortunes in many African and South East Asian countries.<sup>9</sup> Once the economic weakness which inhibited them from joining the national movement in its early years was gradually

overcome the Indian capitalist class began to participate in the nationalist movement actively and slowly extended its hegemony over the Indian Nationalist Congress which was till then an umbrella organisation of all patriotic forces.<sup>10</sup> As such, at the time of independence, India had practical advantage of having a powerful homogenous national bourgeois class whose industrial and technological developments were almost unparalleled in the histories of the Third World countries.

However, the practical advantage to Indian capitalism came from its political leadership. Having subscribed to the bourgeois humanist values, Indian nationalist intelligentsia which came mainly from the professional groups, became an asset to the development of Indian capitalism in the post-independence period. India had the advantage of having foresighted leaders like Nehru who could effectively foresee the problems and prospects of the potentialities of the nation to play the tactics of non-alignment so as to promote its own national interests. The national bourgeoisie wholeheartedly supported Nehru since his ideology, his desire to industrialise the nation, his policy of peace, his intention to maintain good relationship with both capitalist as well as the socialist countries and his innate belief in the liberating role of India in the Third World were in conformity with the political and economic interests of the national bourgeoisie which became

the ruling class in India after the dawn of independence.

DYNAMICS OF INDIA'S NONALIGNMENT:

From the time of Nehru, almost all steps that Indian government took in the name of nonalignment directly or indirectly served the interests of the Indian capitalist class. To know how this role was performed during and after Nehru's regime, a brief analysis of India's relationship with the advanced capitalist countries, socialist states and the Third World becomes necessary:

India and the Advanced Capitalist Countries

Nature of India's relationship with the advanced capitalist countries is determined by the dual character of Indian national bourgeoisie. Experience of colonial exploitation and political subordination naturally make India suspicious of the imperialist moves. India's intention to maintain political independence and its fear of imperialist subjugation have driven India to take anti-imperialist and anti-fascist stand in all international forums. Yet, notwithstanding this opposition, India tries to maintain good relations with all imperialist countries. Such a stand is necessitated by the fact that India itself is a capitalist state integrated in the world capitalist system. Being a weak capitalist nation it knows that it cannot industrialise the country without foreign trade, foreign capital and technology. Indian political leadership is intelligent enough to realise that it is not diplomatically advantageous to depend wholly on one or the

other countries. Hence India has been taking help from all available sources. It is evident from the fact that out of 9076 collaboration proposals approved between 1957 and 1987 India had 1949 collaborations with the UK; 1790 with the USA; 1618 with West Germany; 790 with Japan; 527 with Switzerland; 453 with France and 352 with Italy.<sup>11</sup> Total external assistance utilised upto March 1987 stands around 29,529 crores.<sup>12</sup> The assistance came from different capitalist countries and also from international organisations like the World Bank and the International Monetary Fund (IMF).

However, India is not unaware of the negative impact of associating with foreign imperialism. Though India has to pay considerable price for seeking their assistance, the ruling classes in India do not allow themselves to be cowed down passively to all kinds of imperialist pressures. In addition to joining hands with other developing countries in their fight to democratise the existing international economic order dominated by the imperialist powers, Indian Government has initiated domestic economic policy line which aims to regulate and at the same time take maximum advantage of India's collaboration with the Western imperialists. Though the Indian government did not nationalise all the foreign assets, it indeed succeeded in restricting the operation of foreign firms in many ways. Government rules stipulated that normally the foreign equity should not be more than 40% and that the majority of the directors should be of Indian origin. As on 30th June, 1987, 368 out of a total



of 398 complied with the FERA directives to dilute foreign equity to a specified level.<sup>13</sup> Nationalisation of oil Companies and coal and other mines considerably reduced the power of multinationals in the Key sectors. Their operation is now mainly confined to the consumer industries such as Tea, tobacco, cigarettes, jute, leather, electrical products, chemical and pharmaceuticals. Even here, by establishing public sector undertakings or by encouraging native businessmen, foreign absolute monopoly over the consumer industry is considerably weakened.<sup>14</sup> As a result foreign controlled company shares in sales and assets of the organised sector declined to 23% in 1980-81.<sup>15</sup>

In spite of the fact that foreign collaborations increased over the years and that India still continues to depend on foreign capital, one should not come to the hasty conclusion that India is perpetuating dependency relations. Facts show that total foreign exchange outflow, if seen as a part of the total value of production in such collaborations appear to be very negligible.<sup>16</sup> Here it should be pointed out that foreign collaborations are not always imposed from above. It is essentially their ability to make profits, which make all businessmen - both big and medium - to vie with one another to collaborate with foreigners. A FICCI's survey of 36 Indo-US joint ventures showed that in the five years 1978-79 to 1982-83, gross fixed assets of the companies increased at a compound annual rate of 19.7 percent.<sup>17</sup>



The RBI's study and ICICI survey also proved that the foreign collaborations are profitable to both the parties.

In the beginning, foreign capital was sought to overcome foreign exchange crises and to fill exchange gaps entailed by developmental projects. But in the recent years, foreign capital is allowed mainly because of its ability to introduce the latest technology in Indian industry. The fact becomes clear when one sees that the technical collaborations involves participation of foreign capital. For example, out of 540 British collaborations approved between 1980 and 1984, 334 are only technical collaborations.<sup>18</sup> Similarly out of 251 Indo-Japanese collaborations approved during the same period, 222 are technical collaborations.<sup>19</sup> The same trend is visible even in the cases of French and American collaborations. To be able to compete in the world market, India has to have latest technology. Since India lags behind the West in scientific and technological progress and since it cannot keep pace with the modern technological development, dependence on foreign technology becomes essential for many more years. But this foreign technology is used only to create a stable industrial base which is very essential for indigenous capitalist class. Normally technical collaborations led to transfer of technology and they in turn have favourable impact on production and exports. Apart from exceptions cases which involve political intervention, in normal cases

collaborations are not allowed in areas where necessary technology is available at home itself. All proposals for technical collaborations are to be approved by the Centre for scientific and Industrial Research (CSIR). Such technical collaborations last for five to eight years. Within the stipulated time, the Indian parties are expected to absorb the new technology. There are studies which show that technological absorption in many of the manufacturing industries is quite satisfactory<sup>20</sup> notwithstanding the fact that there are cases when technological collaborations continued for about 20 years. Here it should also be mentioned that in addition to making efforts to absorb foreign technology, Indian government is spending a considerable part of budget for promoting indigenous research and innovations in the Universities, Indian Institutes of Technology (IITs), laboratories and many other research institutes.<sup>21</sup>

Similarly, in the field of trade also, Indian state did all that it could do to promote its business interests by minimising the imperialist exploitation to the extent the objective conditions permit in the given conditions. Though foreign collaborations face export restrictions, over the period they have become less restrictive in practice.<sup>22</sup> India is now no more a country exporting merely the primary products such as cotton textiles, tea, tobacco, and jute. India could effectively diversify its products. Engineering goods form considerable part of India's total exports. Britain is now

no more India's principal trade partner. By effectively utilising the forums such as Commonwealth, India could locate new partners within the capitalist block. In order to avoid one-sided dependence on capitalist countries, India developed trade relations with the socialist countries, and other developing nations. With the help of UNCTAD and other UN forums it could get some concessions from the West. In spite of all such defensive mechanisms, India is fully aware of the fact that in this unequal international economic system, the advanced capitalist countries continue to have an edge over the Third world. Being aware of its unequal status- India joins other developing countries in their fight for New International Economic order.

India and the Socialist countries:

Though at the time of independence itself, Nehru expressed India's desire to maintain good relations with the socialist block, the relationship between India and the Soviet Union was not cordial in the initial years. If Stalin's misconception of the nature of Indian State is one factor, India's own problem with the Communist radicalism within the country was another factor. Notwithstanding the Socialist rhetoric of Nehru, India's reactionary and anticommunist attitude was revealed in the suppression of Telengana and Tebagma uprisings and in recruitment of Gorkha troops by the British on India's soil for the suppression of the Indo-Chinese liberation struggles. However, India's disappointment with the cool

attitude of the USA in assisting India's planned economic development forced India to look for the Russian assistance. The positive role that India played in Korean and Indo-Chinese crises, changed perceptions of the new leadership in Moscow and their belief in progressiveness of Nehru's policies gave anti-imperialist and propeace colour to India's Foreign Policy. India took advantage of this progressive image to promote its relationship with Russia and China. With Russian economic aid & political support, Nehru laid the foundation for the State Capitalism in India.

Soon India realised the practical significance of Russian friendship. Hence it utilised all its energies to impress upon Russia of India's progressive character. India's diplomatic abilities are displayed clearly during the Sino-Indian border dispute of 1962, when it could make Russia a neutral observer; not a supporter of its brother - China. Indirectly India contributed to the intensification of Sino-Russian differences which ultimately led to the split in international communist movement. Russians antagonism with China was very neatly utilised by India's leaders even in 1971 war with Pakistan. Threat of tilting towards the USA was used time and again to get more and more aid from the Soviet Union. Absence of political strings in Russia's economic dealings and their readiness to trade with India in rupee assures India of the much needed economic and political security.

Along with the USSR, India developed relations with other CMEA countries. The readiness of the CMEA countries including even Russia to work with both private and public sectors is very much to the liking of the India's capitalist class. Between 1957 and 1983 India's government entered 348 agreements with the CMEA countries. Technological assistance was provided to many projects like BHEL, BHMP, Instrumentation Ltd., etc. India secured assistance from Bulgaria on food technology, from Hungary in Telecommunications, from Poland in oil, from the GDR and Czechoslovakia in a variety of engineering technologies and from the USSR in many fields such as steel, oil, non-ferrous metals and advanced Scientific fields like Computers, Space, Nuclear technology and electronics.<sup>23</sup> The Soviets helped India in setting up 58 undertakings including giants like Bhilai, Bokaro Steel Plants, the heavy engineering plants in Ranchi and mining and allied machinery factory at Durgapur. Though a section of the Indian Capitalists complain that the Soviet Technology is not on par with the Western technology, all of them endorse I.K. Gujral's view that Soviet technology is "suitable for us price-wise, credit-wise and quantity-wise"<sup>24</sup>. The capitalist class itself feels that the Soviet Union is a very diligent transferor of technology holding back nothing and parting with whatever it knows.

In addition to their help in industrialisation programmes, India is getting benefited by the balanced trade it has with

the CMEA countries. Since 1953, India's trade with the CMEA countries rose from a mere Rs. .8 crores to over Rs. 4,000 crores in 1980s. Trade with the CMEA accounts for 21% of India's total volume of trade. The CMEA countries were the first customers of India's manufactured goods. Within the CMEA, Russia is India's biggest trade partner. From a mere Rs.1.3 crores in 1953 India's trade with Russia increased to Rs.2,945 crores in 1986-87. By 1992, the trade volume is expected to be around Rs.10,000 crores.<sup>25</sup> Russia sees its economic relationship with India as a mechanism for making political gains. Gaining profits is not its main aim. Being aware of USSR's interests, India fully takes advantage of its relations with Russia and other CMEA countries. Its comfortable relations with the CMEA countries is used as a lever against the West for more and more concessions. India made use of its relations with the East to woo the imperialist nations which were previously reluctant to become partners in India's industrialisation programmes.

The political price that India had to pay for the Soviet assistance was minimal. It took the form of India's direct or indirect support to Russia's role in Hungary, Czechoslovakia, Kampuchea and Afghanistan. More than that India did not sacrifice its basic political interests. It is revealed from the fact that India rejected Russian stand on the Non Proliferation Treaty and the Asian<sup>1</sup>.

**Security System:** India's pragmatic attitude towards the socialist block is better revealed when India which at one time pointed China as its arch enemy could suddenly change its attitude when it began to smell opportunities for promoting business in the post-Mao's China.<sup>26</sup> With intention to take advantage of modernisation programmes initiated by the Deng's China, India took initiative to normalise its relationship with China opposing the then Russian leadership and its powerful lobby inside India. All these incidents show that India is more keen on promoting its own interests and that it will not accept any kind of political imposition for the economic and military help it sought from the socialist block.

#### India and the Third World:

Dialectics of India's relationship with the Third World is governed by two apparently contradictory features viz., 1) Common characteristics that India shares with the rest of the Third World and 2) the specific position that it obtained owing to its economic and technological superiority in the developing world. That India, like many other developing countries, experienced the horrors of political subjugation, economic exploitation and racial discrimination force India to join hands with the underdeveloped countries in their fight against imperialism, racism, war and economic inequalities in the international economic order. India played a leading role



in the NAM, Commonwealth and the UN agencies in articulating the demand of the Underdeveloped countries for a New International Economic order (NIEO).

However, what is said so far is only one side of the picture. On the other side, one can find India, dictated by its own economic and political interests, playing a hegemonic role. India's state capitalism that got consolidated during Nehru's regime gradually reached the stage of monopoly capitalism. Merger and coalescence of industrial and bank monopolies that took place in the wake of bank nationalisation gave birth to finance capital. The internal market being limited, Indian finance capital is now searching for markets in the Third World. It was actually the economic crisis of the mid-sixties which compelled the Indian capitalists and the government to create legal and institutional mechanisms to promote India's joint ventures abroad. Along with commercial banks, specialised banks such as IDBI, EOGC and EXIM Bank are directly involved in financing the operations of the Indian private and public sectors operating in different parts of the World. Now about 150 joint ventures are working in 32 countries. In the private sector the majority of the Joint Ventures belong to the big industrial houses. In 1981 Birla's 18 joint ventures accounted for 15% of India's overseas investments. Thapars who have 9 joint ventures



account for 13% of the total investments. Others viz., Tatas, JK Group and Modi's respectively have 11%, 4.5% and 4% shares in India-held foreign equity.<sup>27</sup> These joint ventures are located in different parts of the world. In 1982, there were about 64 collaborations in South East Asia, 23 in Africa, 15 in West Africa 11 in South Asia and about 23 in the developed countries.<sup>28</sup>

In addition to private sector, many indian public sector undertakings are operating in many Afro-Asian Countries. About 45 countries of the World are BHEL's customers. Hindustan Machine Tools (HMT) exports products, projects and services to over 70 countries. EPL now has 14 projects of value Rs.563 crores in various foreign countries. General Insurance industry operates through branches and agencies in 18 countries, and in another 13 countries through subsidiaries and associates.<sup>29</sup> RITES executed projects in 27 countries. IRCON worked in Iraq, Saudi Arabia, Jordan, Nepal, Iran and many other countries. At present it has projects in 9 countries.<sup>30</sup>

Indian took advantage of the gulf boom in the 70's to secure many turnkey projects, especially in the field of constructions. Abid Hussain Committee expected that the value of construction contracts would be around Rs.20,000 crores by 1990-91.<sup>31</sup> So far India secured more than Rs.3000 crores world foreign exchange from construction projects. In addition to project exports and turnkey projects, India

is exporting consultancy services to many countries in the Third World. Apart from the public sector units already mentioned, NIDC, EIL, MECON & WOPCOS are also working as consultancy firms. In the private sector, Tatas, Birlas and Kirloskars have their own consultancy agencies abroad. In addition to promoting exports, these firms earn consultancy fee directly. It was estimated that by 1990 India will have the capacity to earn Rs.200 crores from consultancy services alone.<sup>32</sup>

Apart from earning dividends for equity shares, the Indian joint ventures are expected to promote additional exports from India. In 1982, total value of earnings received and repatriated amounted to Rs.20.5 crores. Value of additional goods or services that the joint ventures could export in the year 1982 was Rs.113.68 crores. In 1986-87, they earned 11.57 crores as dividends; Rs.34.75 crores as other repatriations and Rs.161.63 crores in the form of additional exports.<sup>33</sup> These figures given by Ministry of Commerce refer only to private joint ventures. Detailed figures of the income earned by the Public sector joint ventures are not readily available. Study of different official documents show that the RITES earned foreign exchange worth Rs.15.55 crores in 1986-87. Its profits increased from Rs.4.54 crores in 1983-84 to Rs.5.55 crores in 1987-88. IRCON whose turnover remained Rs.198 Crores in 1984-85 has projects worth 12 crores at its

hands. EIL's income from the overseas operations in 1980-81 was around US \$ 40 lakhs. Value of consultancy services released abroad by NIDC during the year 1979-80 was Rs.8 millions. Between 1980-81 and 1986-87, foreign exchange earnings of MECON amounted to Rs.166.9 crores.<sup>34</sup> These stray facts give an impression that the sum total of the foreign earnings of the public sector joint ventures would be much more than the private sector joint ventures.

From these figures it is evident that India's joint ventures in some respects behave like the Western Multi-nationals; and that their aim is to make maximum profits out of their business operations. However, India is so mature that it uses sophisticated methods to make its business operations acceptable to the host countries. Through its economic aid and technical training projects India attempts to create favourable image for itself in the Third World.<sup>35</sup> Total aid authorised upto end of March 1987 amounts to Rs.1,675 crores, of which 61% constitute grants and the remaining are loans. The major beneficiaries of India's aid are Bhutan (Rs.656 crores) Nepal (Rs.321 crores), Bangladesh (Rs.282 crores) and Vietnam (Rs. 4 crores); other beneficiaries of the aid are Mozambique, Mauritius and Sri Lanka.<sup>36</sup> India provides technical training to thousands of Foreign nationals through ITEC, ESCAP and Colombo Plan. All these steps could help to an extent in creating an impression in favour of India.

India's leading role in the NAM, its apparant contradictions with imperialism and adaptability of India's technology to the Third World conditions -- all these also make India's joint ventures acceptable to the host countries. Understanding the sentiments of the people of the Third World, Indian government insists that Indian businessmen should not meddle with internal politics of these countries. Government rules stipulate that except in conditions where host governments permit, Indian equity should be limited to less than 50%. In addition to such favourable image, the growing competence of Indian firms also help in getting into the Third World market. Some of the Indian firms are so competitive that at times, they could bag prestigious contracts competing even the Western multinations. Recognising the growing strength of Indian capitalists the old imperialistic powers themselves are showing interest in collaborating with India in exploring the Third World Markets.<sup>37</sup>

### CONCLUSION

Having examined dialictically the different facets of India's nonaligned policy, one is forced to reject the crude interpretations of the traditional Marxists in India. Dependence on foreign capital and technology, the bourgeoning debt crises and libiralisation of internal economic policies are not the indicators of the comprador character of the Indian ruling classes. Every country that

gets exploited by imperialism cannot be branded as semicolony or neocolony. Long back Lenin pointed out that imperialism has the capacity to exploit even those countries which have political independence.<sup>38</sup> In the post-war era imperialism could arm itself with sophisticated tools to continue its economic exploitation without the necessity of making other countries its colonies. If anyone argues that India is not independent just because it is still exploited by the imperialists, then it should be concluded that all the countries in the Third World are semicolonies. Such a conclusion would negate the historic significance of anti-colonial struggles in the post-war world. Even a country like China which at one time believed that all the countries in the Third World resemble pre-revolutionary China<sup>39</sup> was forced to accept after the 10th Congress of the Communist Party of China that the developing nations are politically independent. Hence China began to support nonaligned movement.

If one admits the possibility of political independence of the Third World countries, it should also be accepted that there are also possibilities of national bourgeoisie coming to power at least in some of the developing nations. In India, it may be stated that the bourgeoisie led the

nationalist movement. Indian communists could never pose any serious threat to the bourgeois hegemony either before or after independence. After the Second World War, Britain became so weak that it lost its ability to continue its political rule in India. In the wake of the birth of a powerful socialist block, it is impossible even for a country like the USA to turn India into a puppet. At best what the imperialists could do was to protect and if possible promote their economic interests in India. As such there is no strong reason that could compell the Indian bourgeoisie to become comprador as in the case of pre-revolutionary China. As far the question of economic dependence is concerned, it is seen that dependence on foreign capital and technology was compelled by its own weaker status in the world imperialist system. Since countries like India became independent at a time when the world capitalism had already reached the stage of imperialism and had become moribund and reactionary, it is not possible for the new entrants in the world capitalist system to escape totally from the economic discrimination of the West. Their dependence on imperialism shows the weakness of the newly liberated nations; not necessarily the comprador character of the ruling classes. Indian bourgeoisie can be called comprador only when one can prove that Indian ruling bourgeoisie continuously worked as the agents of imperialism and that it did not

utilize all the available opportunities to develop indigenous capitalism to the extent the given national and international context permit. Development of public sector in the key industries, building up of tariff wall around the country to protect indigenous industry, development of indigenous banks to divert internal savings for financing the private and public sectors and regulation of the foreign enterprises within the legal framework -- all these efforts show that Indian ruling classes do not entertain any desire to open all the gates of the country for the imperialists to come and plunder. It is true that compromises such as devaluation of Indian currency or liberalisation of industrial and trade policies are often made to tide the internal economic crises. Attempts to attribute the causes of such phenomena only to the compulsions from the West often amounts to undermining the intensity of the crises involved in capitalist path of development, especially in the Third World. It is wrong to expect the bourgeoisie of the newly liberated nations to behave like the Western bourgeoisie i.e., historically the bourgeoisie who achieved state power in the late phase of capitalism cannot be as progressive as its counterparts in the West used to be. Now it is natural that when the entire capitalist world is in the process of intense general crisis its intensity is felt more in the weak capitalist nations. In such conditions, countries like India are forced to yield to certain pressures from the imperialist powers. Yet the fact that India voted against



the West many a times in the UNO and other forums and that along with other developing countries it is fighting for democratisation of the existing international economic order reveal that India is exercising its own judgement in deciding what is good for its development. If Indian bourgeoisie is comprador it could not have initiated such policies.

However to acknowledge the Indian bourgeoisie as national does not necessarily endorse the other view that Indian foreign policy hence, is progressive. Antiimperialism, disarmament, fight for peace and New International Economic Order are not the goals of nonalignment. There are only means or conditions necessary for promoting the political and economic interests of the Third World countries in the given historical epoch. The fact that what guides India's foreign policy is not only the idealism of its leaders but also pure pragmatic interests of the ruling classes, becomes apparant when one looks at the other side of India's Third World policy. India tried to use its progressive image and predominant position in the Third World to enhance its bargaining power with the socialist and imperialist blocks. But if at any time its own interests so demanded, India never hesitated to give up the self-proclaimed ideals of non-alignment. A man like Nehru, who argued for the right of every nation to determine its own policies could <sup>ghutan ka</sup> unhesitatingly impose protectorate status on Sikkim; later



absorbed ~~Sikkim~~<sup>Bhutan</sup> into India and took upon itself the self-imposed responsibility of looking after defence and foreign relations of

Some of the Indian peace lovers in the government who appeal time and again for the world disarmament, continuously arm the nation with the most sophisticated weapons. A country that dreams of world without nuclear arms and criticises China's and Pakistan's nuclear experiments rejects the recommendations of its neighbouring countries for declaring South Asia as a Nuclear arms free zone. India boasts of its panch sheel and chants the principles of non-interference and peaceful co-existence but she considers it its natural right to interfere in the internal affairs of Sri Lanka and Nepal. In the recent years, India began to act in such a way that a section of the bourgeoisie press itself began to criticise the big-brotherly attitude of India in the South Asia.<sup>40</sup>

A deeper study reveals that India is not merely a hegemonic power interested in dominating the politics of South Asia. Actually from the mid-sixties onwards India's economic development started showing the tendencies of imperialism. Bank nationalisation by facilitating the merger and coalescence of industrial and bank monopolies, gave birth to finance capital. Within Indian banking, development banks such as IDBI, ECGC and EXIM banks emerged as reservoirs of India's finance capital. These banks

play key role in promoting the overseas projects in many ways.<sup>41</sup> Perhaps no industrial venture, no consultancy agency or construction company can succeed in its overseas projects without depending on these state owned financial institutions. In the recent years these banks have become decisive actors in promoting the exports of commodities, capital goods and project services. As such it is not mere presence of Indian joint ventures abroad but their dependence on government and Indian financial resources which actually prove the imperialist character of state and economy in India. Though the traditional leftists take note of export of capital from India, they always belittle its significance on the ground that the dividends and royalties that these joint ventures bring to the country is still insignificant. Even if one accepts that the phenomenon is very recent and not yet the dominant feature of the Indian economy, it is clear that India itself has begun to show the imperialist tendencies notwithstanding the fact that it still continues to be exploited by the old imperialists.

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## VI CHAPTER

### QUESTION OF SEMI-FEUDALISM IN RURAL INDIA.

#### INTRODUCTION

Even after four decades of independence there are some communist parties and Marxist scholars who argue that India continues to be a semi-feudal state. A critical survey of their literature<sup>1</sup> shows that such an analysis is mainly based on their interpretation of the question of mode of production in India. Features such as predominance of agriculture, backward relations of production, existence of tenancy, role of the money lenders and local merchants and slow growth rates are usually cited to prove that India is a semi-feudal state. They also point out pre<sup>d</sup>ominance of castes<sup>e</sup> and religion in India to strengthen their arguments. Before critically evaluating their analysis of the dialectical relationship between the base and superstructure, certain fundamental theoretical issues concerning Marxist theory of state needs to be clarified. Even if for a moment, one accepts that all the above cited features are visible in the base and superstructure, one may still question whether those features are enough to characterise any state as semi-feudal. Does Marxism fail to see the difference between the state and society? Can the Marxists reduce the study of nature of any state to the study of mode of production or to the ideological superstructure? Such questions need to be answered before making any attempt to reflect on semi-feudal or capitalist character of Indian State.

Though the state is seen as an inseparable part of the Social formation, Marxism says that the state is a separate structure, relatively autonomous of other structures. It is true that the state gets influenced by different structures and social forces. Yet it has its own trajectory and independent timescale. Its nature cannot be reduced mechanically to economy or to ideology. After February Revolution, analysing the nature of the Russian State; Lenin clearly writes that the class character of the state depends on the dominant classes that attained political power.<sup>2</sup> In other words Lenin did not consider full-fledged development of capitalism or ideology corresponding to Capitalism as necessary criterion for characterising Russia after February revolution as Capitalist State. He knows that capitalist development in the era of imperialism basically remains uneven and sporadic.<sup>3</sup> This unevenness expresses itself even in the development of particular structures in the capitalist social formation. Hence, in determining the nature of state, Lenin gave primacy to the class character of the ruling classes. Russian experience shows that the state can be a bourgeois state even if precapitalist modes of production and ideologies corresponding to them are not completely eradicated from the society.

At particular stage of historical development, many modes of production and many competing ideological forces may coexist for quite some time. In course of their interaction, changes in particular structures, when mediated by conscious human will, can influence changes in other structures as well. However such changes will not



take place in a mechanical way. Since each structure has its trajectory and independent time-scale, the momentum of changes varies from one structure to another.<sup>4</sup> To speak in more concrete terms, economic and cultural changes need not immediately follow the changes in political power. When new exploiting class or classes attain political power, the old state machinery will be modified and perfected to stand up to the new tasks. The new state, thus formed, explores the objective possibilities for creating proper conditions for the development of economy and culture conducive to the interests of the ruling classes. To achieve its goals the state formulates the necessary economic, political and cultural policies. In this sense, appearance of a new state becomes essential condition for the total elimination of old modes of production and ideologies corresponding to them. To put in concrete forms, emergence of a proletarian state is a precondition for the development of perfect socialist economy and socialist ideology. Similarly the highest stage of development of capitalism is possible only when the capitalists succeed in capturing political power. It means total transformation of society in particular direction needs prior existence of the concerned state. Many a times, inability to understand the dialectical relationship between the state and society made many Indian Marxists assert that since capitalism did not fully develop to a stage where it can replace all pre-capitalist structures, Indian state cannot be a capitalist state. They generally forget that even if capitalist class could come to power, it may take quite sometime to make capitalist economy or the bourgeois ideology the dominant force of the given

society. Sometimes it is also quite possible that despite all its efforts, the objective conditions may not allow implementation of certain policies of the state. Only to the extent the state can overcome the challenges posed by other conflicting class interests, it succeeds in implementing the changes it aims to bring. One should understand the fact that failures in public policy may be due to the very nature of the state or due to objective limitations of the given historic epoch.

Failure to locate real factors influencing the dynamics of the state lead to vulgar reductionists interpretations of state.

With this theoretical understanding, an attempt is made in this chapter to reflect on following aspects related to the question of semi-feudalism in Indian state: 1) understanding the nature of social formation before a new state came into being after 1947; 2) identification of the classes which actually attained political power; 3) assessment<sup>of</sup> their interests and potentialities under the given objective conditions; 4) evaluation of the nature of economic changes that it sought to initiate in rural area; 5) examining whether the state could create political conditions conducive to economic development of the classes it represents and 6) comprehension of the overall impact that governmental policies could create on the mode of thinking of the masses.

While making a dialectical study of all these aspects we would analyse the role of different social forces and assess the options and limitations that various

structures open up or become obstacles to the policy changes initiated by the Indian state.

WAS THERE FEUDALISM IN PRE-COLONIAL INDIA ?

One can come across many references to Indian society in different works of Marx and Engels. In their writings, they portrayed pre-colonial India as "stagnant", "unresisting" "vegetative" and "never changing" entity.<sup>5</sup> To them, India had no history since Indian society did not split into antagonistic classes. India never witnessed feudalism<sup>5a</sup> due to certain peculiarities specific to desert lands of these areas. The state which took up the responsibility of providing irrigation facilities to the peasants actually acted as the collective landlord. The entire village communities were paying taxes directly to the state. Individually, peasant was not responsible to any particular feudal lord. Villages constituted the basic units of ancient Indian society. In words of Marx "These small and extremely ancient Indian communities, some of which continued to this day, are based on possession in common of the land. The constitution of these communities varies in different parts of India. In those of the simplest form, the land is tilled in common and produce divided among the members".<sup>6</sup> Such village societies characterised by simple division of labour and unity between agriculture and handicrafts, remained economically self-sufficient in all respects. Marx and Engels thought that the oriental despotism rested on the foundations of such isolated village communities.

Though Marx's view of Indian society was influenced by the Western sources, for long, his understanding of India was considered to be consistent with Indian reality. However, when Indian Marxist historians themselves began to explore the history of India, they started finding many evidences contradicting Marx and Engel's basic assumptions such as collective ownership of land and absence of intermediaries between the state and village communities. D.D. Kosambi who was the first Indian Marxist historian to make an independent study of ancient Indian history concluded that despite certain peculiarities, in India also there was some kind of feudalism which continued almost upto British intervention. Political decentralisation, low level of development of productive forces, production for self-consumption and "possession by a lord of judicial and quasi-judicial functions in relation to the dependent population" are some of the features common to India and Medieval Europe. The notable characteristics which, according to Kosambi, distinguish India from European feudalism were the existence of caste system, increase of slavery, absence of guilds and the lack of an organized church" 7.

After D.D. Kosambi, Prof. R.S. Sharma threw some more light on structures and practices which resemble European feudalism. Though the practice of working in owner's land-a practice

typical of European feudalism was almost absent in India, R.S. Sharma argued that the Indian peasants were also subjected to some kind of forced labour. To him feudalism in India was "characterised by a class of landlords and by a class of subject peasantry, the two living in a predominantly agrarian economy marked by decline of trade and urbanism and by drastic reduction in metal currency. The superior state got its taxes collected and authority recognised by creating a number of inferior blocs or even states which generated the necessary social and ideological climate for this purpose"<sup>8</sup>. Such feudalism in R.S. Sharma's view, came to an end with Ghorian and Turkish attacks.

D.D. Kosambi, R.S. Sharma and Romilla Thapar concentrated more on ancient Indian society. But Prof. Irfan Habib took up the challenging task of exploring the medieval Indian economy. Infact his book, Agrarian systems of Mughal India, opened up new vistas for academic discourse. Though he was against characterising medieval Indian social formation as 'ASIATIC' or 'FEUDAL', Habib made it clear that in medieval India collective subjection of the villages was accompanied by individual subjection in varied forms existing principally through the framework of caste. Surplus product of the villages was not reaching the state directly as Marx would conceive. Infact there emerged a class of zamindars who acted

as administrative instruments for the realisation of the claims of the state. A part of the surplus product extracted from the villages was appropriated by these Zamindars. However, Habib objects to naming them as feudal lords, for, he thinks that the Zamindars were only state officials and that their actual powers, tenure and place of work were decided by the higher authority i.e., the state itself. Such position however does not forbid him from demolishing the myth of equalitarian social structure. Habib argued that population was far more stratified than what Marx appeared to have allowed for. Caste system consolidated social differentiation by creating an enormous rural proletariat in the shape of the untouchables. Opposing Marx and Engels Habib asserted that Indian history was also "one of exploitation and class contradictions generating cyclical movements which Marx had postulated for social evolution in general"<sup>9</sup>.

Accepting in the main, Irfan Habib's thesis, Dr. Harbans Mukhia introduced the concept of 'peasant economy'. He opposes characterising medieval economy as feudal on the plea that the so-called serfdom or forced labour were only legal restrictions imposed by the state to extract taxes from the peasants and that there was complete absence of extra-economic coercion at the level of production. To him medieval economy was characterised by high fertility of land, low subsistence needs of the peasants and peasant's freedom of control over the process of production.<sup>10</sup>

In such economic system, the relations of exploitation were firmly based on appropriation of revenue and hence the conflict between the peasants and the state arose on the question of revenue so appropriated. Mukhia also argued that the peasantry was not an undifferentiated mass. Hence, despite his usage of the term, 'peasant economy' he opposes Burton Stein's description of Indian state as "peasant state".<sup>11</sup> According to him the state used to distribute the revenue collected from the peasants to different states of the ruling classes in accordance with the position it occupies in the hierarchy. As such there were classes and class conflicts even in pre-colonial India and medieval Indian society far from being static or stagnant. It would have undergone a transformation whether or not colonialism had intervened".<sup>12</sup>

This is precisely the summary of the on-going debate on the mode of production, nature of classes and the character of the state in precolonial India. The studies that have come to light so far are not all-comprehensive. Still there are many aspects which need to be explored. For example, most of the historians cited above concentrated on the history of North India. Though Burton Stein and Karashima attempted to study South India, still there remains much to explore in Southern and North Eastern parts of India. In view of large size of the sub-continent, it would be premature to come to any precise



conclusions about the agrarian relations in India before British colonisation. However, with the limited information we have now, one may come to certain generalisations viz., 1) The village societies remained economically self-sufficient entities. 2) There was class differentiation within the villages and the peasants were under individual as well as collective subjection; 3) There appeared a class of Zamindars or intermediaries between the state and the peasants and they used to enjoy a share of the surplus from the villages 4) The peasants were subjected to certain restrictions - legal as well as economic, and 5) Production was carried on for self-consumption and only product excess of their needs used to enter the markets as commodities.

#### AGRARIAN RELATIONS DURING THE COLONIAL ERA :

In one sense, the emergence of British Rule on the Indian soil was a turning point in the transformation of the agrarian system. By destroying the self-sufficient village system, the British rule, as Marx would point out, initiated a social revolution unheard of in Asia. Though it is not correct to say that private property was completely absent in pre-colonial India, it should be admitted that it was the British which gave legal sanctity to the private property. In one sense the Britishers were not interested in bringing revolutionary changes in the rural areas. They only modified the already existing landed system to suit their own imperialist exploitation. For that, they introduced Zamindari



system - permanent as well as temporary - in certain areas and Ryotwari system in the rest of British India. Whereas 19% of the area under direct British rule was under the permanent Zamindari settlement, about 30% of the area was under temporary zamindari system. In the remaining 51% of the British India, ryotwari system was introduced.<sup>13</sup>

In Bengal, Bihar and certain parts of Orissa and North Madras, the British Raj introduced Zamindari system. Zamindars under Raj were not merely administrative representatives of the British governments in charge of collection of revenue. According to the personal law of proprietors, they had right to inherit, transfer or even partition the estates under their control. Subjected to certain conditions they had right to fix the revenue, secure revenue and enjoy profits of new cultivation.<sup>14</sup> Since the Zamindars were expected to pay fixed sums to the British government, the zamindars used to exploit their peasants without any regard for their living conditions of the masses. Infact there were many kinds of tenancy relations in zamindari areas. Generally the tenants were expected to pay fixed rents. But in some places, as in Bengal and other Eastern parts, share-cropping was becoming a dominant form of tenure.<sup>15</sup> Zamindars and Jotedars together exploited the peasants and tenants by squeezing considerable part of their share.

Thomas Munro first introduced the Ryotwari System in Madras Presidency. Later it gradually spread to different areas.

In the areas under Ryotwari system, the peasants were directly responsible to the state. The state which collected taxes was expected to look after the needs of the peasants. However, in practice, the British Raj did very little to improve the lot of the peasantry. But for their own interests they encouraged commercialisation of agriculture. As a result, a class of peasants producing goods such as tea, tobacco and cotton for export market could emerge in different parts of the country. Almost upto the 1940's the government paid very little attention to the food crops. Except establishing Departments of Agriculture and various other research institutes at different levels and periodically making many recommendations for improving the fate of agriculture in India, the government did very little in practice to improve the fate of the rural masses.<sup>16</sup>

Due to lack of institutional support, indebtedness of small peasants increased. Money lenders, local merchants and big landlords began to dominate the village communities. As a result of commodification, a class of land owners with extensive interests in trading and transport activities emerged. They normally took up self-cultivation<sup>17</sup> by employing the wage labourers. . Even where tenancy existed, nature of tenancy was undergoing a significant change with the trend showing a marked shift towards share

cropping.<sup>18</sup>

The study of agrarian relations in colonial India would be incomplete without making a few observations on the state of agrarian relations in the Princely states, then surviving under British protection. The social relations in the Princely States which enjoyed considerable autonomy in internal matters, remained basically feudal in content. In many of these states there were big jagirdars who used to control fifty to hundred villages. System of 'Veth' and 'Begar' (forced labour) prevailed in almost all princely states. In some of the Rajputana States, there were many slave communities whose members could be bought and sold like any other commodities. In addition to personal labour to the immediate lords, the serfs were supposed to supply their bullock carts, fodder and milk--all free of cost. The peasants were subjected to severe exploitation. Almost 50% of the produce was recovered by the feudal lords or the State as rent. In addition to land tax, the peasants were expected to pay a number of other taxes. In view of such intense exploitation the peasants were not in a position to produce any thing for profit.<sup>18a</sup>

This brief survey shows that the agrarian relations during the colonial era did not show any marked uniformity. Whereas different kinds of tenancy existed in Zamindari areas, in the

places under ryotwari system, self-cultivation with wage labourers started and share cropping was becoming the dominant form of tenancy. Social relations in the princely states however, remained predominantly feudal. The post-colonial Indian state had to deal with such diversified forms of agrarian relations in order to bring the desired changes in economy.

#### POST-COLONIAL STATE AND TRANSFORMATION OF RURAL ECONOMY:

The moment India's national bourgeoisie attained political power, the old semi-feudal and semi-colonial Indian state underwent a gradual transformation to give birth to a new nation state. The new state has nothing in common with autocratic princely states that survived upto 1947 under British paramountcy. So also post-colonial Indian state is very different from war lord-bureaucratic state of Pre-revolutionary China. Infact abolition of Zamindari System, integration of princely states, introduction of liberal constitution and administrative reforms initiated in different branches of the state apparatus-all these measures virtually put an end to feudal political power in India. But the India's bourgeoisie was conscious of the fact that its political power continued to be feeble if the newly formed state failed to extend their power base in the village areas. To meet that goal it was necessary for the state to introduce certain changes in rural economy.

At the time of independence, the national bourgeoisie were forced to respond to the demands of the agricultural workers and tenants for radical transformation of the unequal rural economic structure. Telangana (in AP) and Tebhagha (in Bengal) revolts were clear indicators of popular protests against feudal system. The bourgeoisie understood that if they totally ignore the necessity of initiating reforms<sup>m</sup>, they themselves would be thrown out of power. However the bourgeoisie knew that it could not implement radical reforms in view of the truce they made then with the landed aristocrats. Since some of the leading political personalities in the nationalist movement had rural elite background, even the Indian National Congress never preached any open confrontation with landed vested interests. As such, there was lack of political will among the policy makers to resort to any radical steps such as confiscation of land from all land lords, and distribution of the same to the tenants and agricultural labourers. Thus on the eve of independence, Indian state was confronted with two contradictory pulls - one for total transformation of the rural economy and the other for almost total compromise with landed interests. In such a situation there was the necessity of devising an agricultural policy which would initiate such reforms which would satisfy partial social necessities and at the same time protect the interests of the land lords. Over and above these competing interests, the state had the responsibility of augmenting agricultural productivity so

that it would become self-reliant in food production. Keeping these objectives in mind the government initiated many reforms in rural economy.

Along with integration of princely states which dispossessed the feudal lords of their hold over land, enactment of Zamindari abolition and Tenancy reforms Acts immediately after independence strengthened the foundations necessary for the development of capitalism in Indian agriculture. On the one hand, it could make lakhs of well-to-do tenants the actual owners of the land, on the other by dispossessing the absentee land owners of their monopoly over land but at the same time by adequately compensating them in return for the land taken over by the Government, alternative was created for them to switch over to capitalist farming. Lakhs of small tenants thrown out by the land owners to evade tenancy acts joined the rural proletariat. Thus the very first phase of land reforms created conditions for the development of the capitalist land owners and rural proletariat, the two classes essential for capitalist agriculture.

Though development of capitalism in Indian agriculture is economically in the interests of the bourgeoisie, polarisation that such process of development initiated is politically dangerous to the system. So increasing proletarianisation of tenants and small peasants needs to be checked at some level.

Hence Indian state introduced land ceiling policy with a promise to distribute the excess land to the rural poor. Necessary laws were introduced in almost all states to fix limits to the possession of land. However, except in states like West Bengal, Kerala and Karnataka, the government failed to implement the landceiling acts vigorously. Either by taking advantage of the loop-holes in the laws or by collaborating with the bureaucracy, many big land owners could escape land ceilings. Even then, there was some progress in rationalisation of land holdings, in the sense that, despite the so-called benami transfers, the era of landed aristocrats who used to own hundreds and sometimes even thousands of acres of land almost came to an end. Some landless labourers and tenants-at-will indeed got benefited <sup>by</sup> the land redistribution policy. According to recent estimates nearly 2 million acres of land were distributed among the landless. Though there is a considerable gap between the land declared as surplus and the land actually taken over by the government.<sup>19</sup> this act of redistribution of land could partially check proletarianisation.

#### GREEN REVOLUTION:

Beyond this level, Indian state cannot go far in the direction of structural changes. Infact, no bourgeoisie of this era of imperialism can implement the agrarian reforms such as land to



the tillers or equitable distribution of land. Yet state cannot ignore the necessity of positively responding to the food problem. In view of its inability to bring any structural changes beyond a certain level, Indian state started depending on technological transformation in agriculture. Over the years the Government of India invested substantially in irrigation projects. Allocation for various irrigation projects increased from Rs. 456 crores in the I plan to Rs.10,258 crores in the Sixth Plan. Similarly enough attention is given to provide electricity to rural areas. In 1947, only 1500 villages had electricity supply. But by 1983, more than 3 lakh villages i.e., about 58% of villages in India are electrified.<sup>20</sup> In the states like Punjab, Haryana, Tamilnadu and Kerala almost all villages are electrified. Percentage of utilisation of electricity in agriculture increased to 18.5% in 1982-93.<sup>21</sup> Likewise the government invested substantially to establish fertiliser factories within the country. At present 66% of fertilisers demand is met by the domestic production. In addition many research institutes and laboratories are setup in different parts of the country to carry on research for development of agriculture production.

In one sense, all these changes gained momentum in the mid-sixties. As a response to the grim food crisis that adversely



affected Indian economy, in November 1965 the Food Ministry of the Government of India came out with the strategy of Green Revolution. By the end of 1965, the new strategy was put into practice in 114 villages specially chosen for experimenting intensive Agriculture Areas Programme (IAAP). The new strategy which called for combination and concentration of inputs like HYV seeds, fertilisers and machinery for cultivation. In course of time, the strategy gradually spread to many other irrigated areas. Area under HYV use increased from 1.89 million hectares in 1960-61 to 26.52 million hectares in 1982-83.<sup>22</sup> Fertilizer consumption increased at an average rate of 17.1 percent. Consumption of chemical fertilisers increased from 0.69 lakh tonnes in 1950-51 to 55.16 lakh tonnes in 1980-81.<sup>23</sup> Between 1951-52 and 1981-82 per hectare consumption increased from 0-5 kg to 33.5 kgs. During the same period number of tractors in use increased from 9000 to 73 lakhs that of oil engines from 2000 to 29 lakhs and electric pumps from 26000 to 40 lakhs.<sup>24</sup> This strategy of Green Revolution was successful in making the nation self-reliant in food production. It can be seen from the fact that food grain production increased from 53.4 million tonnes in 1950-51 to 172 million tonnes in 1988-89. Infact after 1977-78, imports of food grains virtually come to an end.

#### CHANGES IN OWNERSHIP OF LAND:

The impact of Zamindari abolition, tenancy reforms, land ceilings and Green Revolution could be understood to an extent by examining the changes that they brought in land holdings.

From the above figures (Table-1) it can be understood that the number of holdings under marginal and small farmers actually increased from 71.23% in 1953-54 to 89.24% in 1980-81, though the area operated by them increased only by 10 percent. Conversely, number of medium holdings declined considerably but the area operated by them shows a small increase. Number of size holdings above 10 hectares shows a sharp decline from 4.22 percent to 0.02 percent. But they still retain hold over 22.8% of the operated area.

During the plan period, in the country as a whole, number of rural proletariat increased marginally. The agriculture workers account for about 30% percent of rural working force. In areas where Green Revolution strategy was implemented there was considerable proletarianisation. The Government itself is not keen on extending mechanisation beyond particular level since the ruling classes are very well aware of political consequences of such proletarianisation. Hence through their land distribution policy and anti-poverty programmes, the governments seek to check the discontentment of the rural poor by allocating a few acres of land. Notwithstanding the government efforts, subsistence marginal farmers accounting for 69.7% of the operational holdings but occupying only 12.16% of the operated area remain as the semi-proletarian strata-the reserve army of the proletariat.

TABLE 1

OPERATIONAL HOLDINGS AND AREA OPERATED BY MAJOR CLASSES

(Percentage - wise)					
SIZE HOLDINGS HECTARES		OPERATED HOLDINGS		AREA OPERATED	
		1953-54	1980-81	1953-54	1980-81
Marginal	0-1	56.15	69.69	5.58	12.16
Small	1-2	15.08	19.55	10.02	14.11
Semi	2-4	14.19	8.84	18.56	21.23
Medium	4-10	10.36	1.90	29.22	29.69
Above 10		4.22	0.02	36.62	22.81
TOTAL:		100	100	100	100
Source: NSS Reports & Agriculture Census					

CHANGING FORMS OF TENANCY:

Those Marxist scholars who concluded India as semi-feudal state based their arguments mainly on their analysis of tenancy in Indian agriculture. Economists<sup>25</sup> like Amit Bhaduri, Pradhan Prasad, Nirmal Chandra and Ranjit Sau who characterised mode of production in India as semi-feudal, showed the following features which they considered to be essential characteristics of semi-feudalism: existence of tenancy, dominance of usury capital, indebtedness of tenants and small peasants to the land lords or money lenders, lack of access to organized markets and merciless exploitation of the poor peasants and tenants-at-will. Citing those characteristics, a section of Indian communists also argue that mode of production in India is akin to the one that existed in china before revolution. Since Indian Marxists borrowed the concept of semi-feudalism from Mao-tse-Tung, one may first examine what he meant by semi-feudalism. When Mao referred Chinese society as feudal, he had in mind that China where much of the land was monopolised by the landlords, nobility and emperor and peasants who had little or no land were forced to work as serfs. For Mao, semi-feudalism is not a separate mode of production but essentially feudal relations of production in its transitory stage to capitalism. By semi-feudalism he meant that society where the foundations of self-

sufficient natural economy of feudal times have been destroyed but the exploitation of the peasantry by the land lord class which is the basis of the system of feudal exploitation not only remains intact but, linked as it is with the exploitation of comprador and usurer capital.<sup>26</sup> Keeping aside the question of comprador and usurer capital for a moment, can any one claim that feudal lord-serf relations constitute the dominant feature of mode of production in the post-colonial India? Serfdom is almost absent in India. The so-called bonded labourers, who are normally cited to justify the existence of feudal relations in India do not constitute even 1% of the rural labour force. Absentee land lordism is now gradually being replaced by self-cultivation through hired labour.

Again, it is not the existence of tenancy as such, but it is nature of tenancy which is fundamental in determining the relations as feudal or capitalist. In India the area under tenant cultivation has come down from 31.7% in 1950-51 to 9.25% in 1971-72. Even if one may accept that there exists benami cultivation or unregistered tenancy, its decline over the years is unquestionable. Even where tenancy exists, share-cropping is emerging as predominant form of tenancy. Bardhan's survey showed that the nature of tenancy in 334 villages he surveyed in Northern and Eastern India remained predominantly share-cropping on 50:50 share basis<sup>27</sup>. wherever

share cropping came into practice, the land owners are showing increasing interest in the improvement of agriculture. Unlike the absentee landlords, the present day landowners are coming forward to bear a part of financial burden for the purchase of seeds, fertilisers and machinery. Landlord claims his share not only as the owner of land but also as the lender of capital. Both landlord and tenants together make decisions about production and marketing in many of the cases. A considerable part of the produce from these tenanted land is now reaching markets. This is in contradiction with feudal tenancy where production is carried on for self-consumption and not for market. Moreover, the practice of tying the tiller to the land is very negligible. Rudra and Bardhan correctly pointed out that the so-called attachment or semi-attachment conditions reflect more the employers concern for a dependable supply of labour at the right time, rather than extra-economic coercion associated with feudal relations.<sup>28</sup> Bardhan also pointed out that landlord is not only source of credit to the peasants. Major source of income to the landlord comes from cultivation and not by money lending. Share of non-institutional sector (includes landlords, money lenders and borrowers relatives) declined from 95% in 1952 to 60% in 1981-82. Between 1961-1971, share of agricultural money lenders among non-institutional lenders declined from 47% to 23%. In 1971 professional money lenders accounted for

14% and landlords for 8.6% of the total credit.<sup>29</sup> Over the years with the emergence of banks as institutional sources of finance, the role of money lenders declined. Medium and large farmers do not borrow much from the money lenders. It is only marginal and small farmers who depend more on both money lenders and institutional sources.<sup>30</sup> However there is no point in denying the fact that rural indebtedness is on the increase. But indebtedness as such is not a sufficient indicator of semi-feudalism. Infact indebtedness can exist even in capitalist countries. The peasants are indebted not only to money lenders and landlords but also to co-operatives and commercial banks. Recent agitations in different parts of the country to waive off the bank loans show the intensity of this new contradiction between the peasants and the banks.

Finally one may be allowed to point out another new trend emerging in agrarian relations. By the term tenancy, we were referring to the practice of big land owners giving their land-wholly or partly - to the small tenants or tenants-at-will. But in the early 70's itself P.C. Joshi observed reverse tenancy in Punjab and Haryana where small land owners started renting their land - not to poor tenants or landless labourers but to commercial farmers who need a large land holdings to use their machinery profitably.<sup>31</sup>

Recent studies on Punjab endorsed the observation beyond doubt. Though there is considerable decline in pure tenant holdings, holdings of the owner-cum-tenants, rose by 97.5% the largest increase

being in the case of medium land holdings followed by large ones.<sup>32</sup> Such a tenancy cannot be the indicators of feudalism or semi-feudalism in Indian agriculture.

Now one may look at other aspects of agricultural policy of the Government of India.

#### BANKS AND RURAL CREDIT:

We have already observed that institutions like banks and co-operatives emerged as important sources of rural credit supply. One may substantiate the claim with necessary figures. From the very beginning the post-colonial state in India was keen on extending bank facilities to the rural areas. It was with that purpose that the State Bank Of India came into being replacing the old Imperial Bank. When the Government observed that the commercial banks failed to extend its branches to rural areas, the state nationalised 14 scheduled commercial banks with a promise to meet the credit requirements of the rural areas. Since then, bank network in the rural areas increased enormously. Number of the rural branches of the commercial banks increased from 1832 in 1969 to 30,585 branches in December, 1987 (See Table II). Now rural branches account for 56.2% of the total branches and 14.5% of the total bank personnel. Total number of borrowed accounts increased from a few thousands in 1968 to 210 lakhs in 1984. Aggregate deposits of the rural branches of the commercial banks increased from Rs. 14.20 crores in June 1969 to Rs. 676 crores at the end of 1983.<sup>33</sup> Almost 15% of the bank credit flows to meet rural



**Table-2**  
**Branch Expansion By Public Sector Banks**

<i>Banks</i>	<i>Period</i>	<i>Rural</i>	<i>Semi-Urban</i>	<i>Urban</i>	<i>Metro-politan</i>	<i>Total</i>
1. State Banks of India	June, 1969	462 (29.4)	796 (50.7)	163 (10.4)	150 (9.5)	1571 (100)
	March, 1986	3584 (48.2)	2053 (27.6)	1116 (15.1)	676 (9.7)	7429 (100)
2. SBI's Subsidiaries	June, 1969	358 (40.0)	373 (42.0)	86 (9.6)	75 (8.4)	892 (100)
	March, 1986	1306 (38.8)	1119 (33.3)	580 (17.2)	358 (10.7)	3363 (100)
3. Fourteen Nationalised Banks	June, 1969	703 (16.9)	1465 (35.1)	928 (22.3)	1072 (25.7)	4168 (100)
	March, 1986	10157 (47.0)	4436 (20.5)	3966 (18.3)	3064 (14.2)	21623 (100)
4. Six Nationalised Banks	June, 1969	—	—	—	—	—
	March, 1986	1461 (41.7)	734 (20.7)	815 (22.9)	523 (14.7)	3553 (100)
5. Regional Rural Banks	June, 1969	—	—	—	—	—
	March, 1986	11671 (92.3)	853 (6.7)	121 (1.0)	1 (—)	12646 (100)
6. Other Scheduled Commercial Banks	June, 1969	337 (20.0)	708 (41.9)	279 (16.5)	364 (21.6)	1688 (100)
	March, 1986	1434 (32.1)	1399 (31.3)	991 (22.2)	647 (14.4)	4471 (100)
<b>Total</b>	June, 1969	1860 (22.3)	3344 (40.2)	1456 (17.5)	1661 (20.0)	8321 (100)
	March, 1986	29631 (55.8)	10594 (20.0)	7589 (14.3)	5769 (9.9)	53085 (100)

Source: RBI's Report on Currency and Finance, 1986-87.

credit requirements. Banks credit to agriculture actually increased from Rs.54 crores in 1969 to Rs.11,127 crores in December, 1987.<sup>34</sup> Despite considerable increase in commercial banks network, co-operatives still remain the dominant source of institutional credit.<sup>35</sup> As on 30th June 1986, total number of primary agricultural co-operatives including farmers service societies and large-scale multipurpose societies stood at 92,430. Above them, there were 352 District Central Co-Operative banks and 29 State Co-Operative banks. In the recent years many Regional Rural Branches (RRBS) were started in many unbanked areas. As on 30th June, 1987, 196 RRBS with their 13,067 branches are operating in 362 districts. So far the RRBS mobilised Rs.1,919 crores as deposits and lent Rs.1,933 crores for various purposes to small and marginal farmers.<sup>36</sup>

Now almost 55% of advances from co-operative banks and 42% advances from commercial banks go to agriculture sector. When one remembers that in 1951-52 total credit from government and co-operatives to agriculture amounts for only 6.4% and that of commercial banks to 0.9%, what the banks have achieved now is indeed remarkable (See the Table II).

Establishment of National Bank for Agriculture and Rural Development (NABARD) in 1982 was another remarkable development in the field of rural credit. NABARD as an apex body pays attention to all the matters concerning policies, planning and operations in the field of rural credit. It provides financial assistance to co-operative banks, commercial banks and RRBS through refinancing

facilities. It is also entrusted with the responsibility of strengthening the credit delivery system and providing necessary training for the bank personnel. It coordinates the activities of the co-operative and commercial streams of credit.

PRICE DETERMINATION AND AGRICULTURAL MARKETING:

One of the important task undertaken by the Indian State immediately after independence was creation of a single central national market. Along with territorial integration, Indian state made all efforts to create market oriented economy where the production would be carried on for profit, not merely for self-consumption. Transport facilities are widened to link the rural areas with urban centres. According to recent estimates, about 65% of villages with population over 1500, 46% of villages with population between 1000-1500 and 21.7% of villages with population less than 1000 people were connected by all weather roads.<sup>37</sup> Likewise market facilities are extended to see that the agriculture products can easily reach the markets. According to Indradeep Sinha during the last 30 years virtually the entire rural economy has been drawn into the vortex of money-commodity relationships and almost 100% of commercial crops and 40% to 60% of food crops are being brought into the market and sold as commodities.<sup>38</sup> At present there are about 24000 village markets and over 414 larger markets situated at Tahsil headquarters or in large villages. In addition there are 2320 principal regulated markets and 3118 regulated submarkets in India.<sup>39</sup> As a result of development of such well knit market mechanism now almost all important agricultural products - whether they be jute of Bengal,

tobacco in Andhra, Coconut of Kerala and sugarcane in Maharashtra become part of all-India market. Their production, prices and profits are not determined by the local conditions alone. Fate of the Indian peasants, especially those who are involved in production of cash crops has become increasingly dependent on vagaries of national and even international markets into which they themselves are well integrated.

Post-colonial states in India is increasingly interfering in this market mechanisms with a promise to regulate anarchy in the free market.<sup>40</sup> State now intervenes in agricultural marketing through regulation of markets, establishment of Warehouses, procurement of food grains, state trading in food as well as cash crops and strengthening of public distribution systems. Government organisations like Food Corporation of India, State Trading Corporation, District co-operative marketing societies and different warehousing Corporations have now come to decide the fate of millions of Indian peasants. In addition, Agricultural Price Commission (APC) set up to determine relative price structures of the basic agricultural products plays a key role in fixing the prices of all major agricultural products.<sup>41</sup> Such a comprehensive intervention of state in all activities related to rural economy is only a post-colonial phenomenon. At no time in history, Indian state had taken so many responsibilities <sup>as now</sup> to strengthen particular kind of development of rural economy conducive to the overall interests of the ruling classes in India.

RICH PEASANTS AS DOMINANT RURAL CLASS

Structural and technological changes initiated by the Indian state succeeded in creating necessary conditions for the development of a homogenous class of rich peasantry conscious of its class interests. In addition to pure capitalist farmers, this class includes landlords who have subsequently taken up capitalist farming and also rich tenants who acquired considerable land after the Zamindari abolition and tenancy reforms and took up intensive capitalist farming by using hired labour along with family labour. In a country where fertility of land differs from place to place, size of holdings alone cannot be a sufficient criterion for categorising rural classes. Hence no attempt is made in our analysis to create any artificial distinction between rich peasants and landlords, merely on the basis of number of acres one owns. What makes us include groups having different origins in one class of rich peasants is the existence of certain characteristics common to all. They are:- 1) In the main, all of them involve in self-cultivation through hired labour; 2) Their primary source of income is extraction of surplus value, not family labour or rent; 3) Even where a part of the land is given for tenancy, the owners show increasing interest in production process, bears a part of the expenditure and extract surplus on share basis; 4) All of them use modern technology to the extent their own needs demand and 5) They produce mainly for markets; not for self-consumption alone.\*2.

Taking advantage of the infrastructural facilities provided by the State and Central Governments, the rich peasants appropriated considerable assets and outweighed the old absentee landlord class depending wholly on rent for its self-reproduction. Over the years the rich peasantry which is increasingly becoming conscious of its interests, started organising itself into powerful pressure groups. For long, they indirectly influenced the decision making at different administrative levels. But after the mid-sixties they openly came out in an organised form at national level to bring pressure upon the State and Central Governments to accede to their demands. Mention may be made here of Narayanaswamy's Tamil Nadu Agriculturists Association (TNAA). Shetkari Sanghata of Sharad Joshi and Bharatiya Kisan Union led by Mahendrasingh Tikait. Having attained dominant positions within the villages, the rich peasants developed capabilities to use such organisations to attract substantial members of the small and middle peasants. Class composition of those organisations made some writers believe that these organisations belonged to middle peasants or bullock capitalists.<sup>13</sup> It may be true that sometimes even the middle peasants and to an extent even small peasants might have got benefits from those movements. But when one looks at their indifference to the problems of tenants and agricultural labourers takes note of their opposition to radical land reforms and examines their basic demands such as higher prices for agriculture commodities, unrestricted inter-state trading and reduction of tariffs on agricultural <sup>inputs</sup>, one can assess the class nature of these organisations. Though the leaders at times argue that if their incomes increase they would give sufficient wages, at no point of time.

real wages of the agricultural labourers kept pace with the incomes of the rich peasants. Higher prices for agricultural commodities benefit those sections which can produce considerable marketable surplus. In India 18% of the cultivating households own 61.2% of the total operated area and generates over 1/2 of the gross output and accounts for 2/3 rds of the marketable surplus.<sup>44</sup> Only those people who can produce considerable marketable surplus can think of inter-state trading. Marginal and small farmers who contribute very little to marketable surplus and infact even purchase food grains attimes, will not really get benefited by demands suchas higher prices or inter-state trading. Though certain demands like liberal credit facilities, tariff concessions and subsidies on irrigation, fertilizers and electricity are partly useful to the small and middle farmers also, it is actually the rich peasants who take maximum advantage of such public policies. It is actually the failure of the Indian leftist parties to mobilise agriculture labourers, tenants and small farmers and to attract even the middle peasants to their side <sup>that</sup> which gave opportunity for the rich peasants to take the lead. Now by creating an ideology of unified peasantry and through solgans suchas BHARAT Vs INDIA or AGRICULTURE Vs INDUSTRY, the rich peasants could mobilise even those sections whose interests are not compatible with those of rich peasants.<sup>45</sup> Having realised that they have better things to grab from the system the rich peasantry attimes declare truce with other rural classes. However, general practice in all parts of the country showed that whenever agricultural labourers and small tenants led agitations against them for wage rise or for reduction of rents.



the rich peasants do not hesitate to put down such mass protests by using all their might.

#### CHANGING RURAL POLITICAL SCENE:

All the above mentioned changes in agrarian economy could not have taken place in the absence of certain modifications in the social and political structures of rural India. Development of capitalism in agriculture necessitates existence of political institutions conducive to such development. Being aware of it, Indian planner undertook systematic steps to introduce new administrative and political institutions in place of the old ones. In the traditional village setups one or a few families, merely on account of their caste status and monopoly over land could exercise absolute powers over the entire village community. But abolition of zamindari system, integration of Princely States, implementation of land reforms and introduction of liberal democratic government formed on the basis of universal adult franchise - all these changes could strike at the political power base of the traditional rural elites. While the community development programmes laid foundation to modern administrative structures, panchayat raj system introduced competitive politics in the traditional village system. Following Balwant Mehta's report, almost all states introduced two-tier or three tier system. Though politicians invoked Gandhi's name, Panchayat system that actually came into being had very little to do with utopian Gandhian principles. In the place of simple self-sufficient isolated village system that Gandhi dreamt of, there developed decentralised village units, well integrated within the centralised administrative and political structures. Appearance of different kinds co-operatives



in the villages and exposure of the villages to national or state level political parties could introduce new practices in the rural politics. Formal consent of the people became the basis of the new political power structures. With the gradual disappearance of feudal landlords having hundreds and thousands of acres of land under their control, owner-client relationship started disappearing. Mere social status and possession of land may not always guarantee political power, if they are not accompanied by people's support.

In these conditions, group or coalition politics began to acquire new significances in rural political life. In a situation where numbers do matter, castes began to play new roles in public life. Though there exists class differentiation within each caste, economically dominant classes of every caste started using casteism as an ideology to mobilise their support base. The momentum created by these power politics politicised all castes. As a result, in place of traditional caste system based on hierarchy, there emerged a new framework where all castes are competing with one another for taking advantages of opportunities opened to them. In such competition, only those traditional upper castes which could also mobilise support of other castes by using its economic and social status could retain their supremacy in village politics. Many of the backward castes members because of their numerical strength and also because of their acquisition of considerable amount of property, could become decisive actors in village politics. But Harijans and tribal people, despite their numerical strength could

not make any headway because of lack of social and economic status. Even legal provisions to include SCs and STs in Panchayats and cooperatives could not enhance their political status. These dialectics of rural power conflict show that without mobilising required number of people, mere possession of social and economic status may not bring many to political power. Conversely mere numbers without required social and economic status will have little bearing in the new village political system.

By making castes or coalition of castes in the villages as their power base, newly emerging rural leadership could make their way into higher political bodies. Infact, since the mid-sixties rural representatives in the state Legislatures and the Parliament are on the increase.<sup>45a</sup> All the members of parliament and Legislative Assemblies who have their political base in the rural areas could successfully pressurise the governments to take up certain programmes which are beneficial to the village community in general and to their own communities in particular. No political party ignores the fact that majority of the votes are concentrated in rural areas. Hence all governments take up necessary measures to appease the emerging rural leadership. Infact all State Governments avoid imposing income tax on agricultural incomes since they do not want to antagonise the rural elites. Even the Central Government gives enough subsidies and introduce many developmental programmes to attract the masses and leaders in the villages.

From the study of all these phenomena one can understand the nature of political changes in rural areas and the extent of integration of the villages into the national level politics.

CULTURE AND VALUES : RURAL SOCIETY AT THE GROSS ROOTS:

Economic and political transformation that has taken place in rural India since independence exercised considerable influence on social and cultural aspects of Indian villages. Establishment of many administrative and quasi-administrative bodies for different developmental and service activities, improvement of educational facilities, development of market mechanisms, influence of mass media and increasing mobility which is made possible by extension of transport facilities-all these have impact on the values and attitudes of the village community. Though casteism is far from disappearing, caste system is losing its rigidity and is increasingly becoming dynamic to meet the new challenges.<sup>46</sup> Rationality of traditional hierarchy/caste system is very much questioned and the backward castes started becoming competitive. The very fact that the harijans and tribals, despite their weaker status, began to organise themselves to fight social and economic inequalities clearly indicate the fact that the hegemony of the traditional caste system is now at stake. Similarly the joint family system which was an important feature of traditional village societies is now undergoing a change towards nuclear or small joint family system.

Commercialisation of agriculture and greater exposure to the city life started injecting competitive and acquisitive values. Profit motive and calculations based cash nexus permeates economic relations of all the developed villages.<sup>47</sup> In the field of politics, panchayats and co-operatives have given birth to new rural leadership. Recent literature on rural leadership<sup>48</sup> shows that though caste status and ownership of property continue to have social relevance, other factors such as education, exposure to urban areas and ability to get necessary things done from the higher-ups became determinant factors to become a successful leader. It is also said that unlike the traditional elites, the emerging leaders are middle or young aged, active, better educated, better informed and politically conscious persons. Under their leadership the so-called "idyllic, unchanging, isolated and natural village communities" are gradually getting integrated into the modern bourgeois social system.

However, it should be made very clear that while it is necessary to take note of changes that are taking place in social sphere, one should avoid exaggerating the extent of change. Despite many changes in the forms of caste system, domination of upper castes continue in most of the Indian villages. Constitutional prescriptions could not completely eradicate the practice of untouchability. Even now marriages take place within the castes. Relations and superstitions exercise considerable influence on the minds of the rural masses. Traditional jajmani

system and system of forced labour exist in certain corners. All these show that changes in cultural and ideological spheres have not kept pace with changes in economic and political spheres in Indian Society.

CONCLUSION:

In this chapter an attempt is made to examine the characterisation of modern India as a semi-feudal state. To strengthen their version of semi-feudalism, Marxists usually cite features such as existence of tenancy, backward forces of production, dominance of money lending and continuing significance of castes and religion in Indian society. Opposing such an analysis, at the very outset we argued that the state is a structure in itself and that it should not be reduced to economy or culture. By distinguishing the state from civil society, we have argued that the structure of Indian state ~~under~~ went a gradual but a total transformation on the eve of independence to meet the needs of new ruling classes. It was precisely that new state which undertook the responsibility of transforming the rural India. A brief discussion of the debate over pre-colonial and colonial modes of production in India is presented to make comparative analysis of the changes that have taken place in agrarian relations. While evaluating the debate on the mode of production, we made it clear that in post-colonial India self-cultivation with hired labour is becoming the dominant feature of Indian agrarian relations. Land under tenancy declined over the years. 49

Bonded labour cease to be a dominant phenomenon. In the place of feudal tenancy, method of share cropping where both land owners and tenants can take personal interest in production process, emerged as the dominant form of tenancy. Productive forces could develop to the extent the system permits. Prices of the basic agricultural commodities are now not determined according to local conditions. Credit and marketing facilities were improved considerably and the dominance of money lenders is gradually declining. A homogenous class of rich peasantry conscious of its interests started emerging as the most powerful class in Rural India.

In the field of politics, it is argued that, abolition of zamindari system and integration of princely states virtually put an end to feudal political power in India. Since nearly 70% of the people reside in rural area, introduction of universal adult franchise enhanced the prestige of the villages. Similarly, panchayats and cooperatives introduced competitive politics in the country-side. In the process of change, castes acquired new role as pressure groups competing for power and status. A new set of leaders started emerging in rural India. These leaders could effectively integrate the villages at the state level and national level politics.

However in our analysis of social life of rural India we had to admit the limitations of state intervention. Though economic and political policies of the state could bring a certain amount of change in the values and attitudes of the villagers, it has to be admitted that many feudal values and practices continue to influence the lives of the rural masses to this day. Influence of such pre-capitalist ideological structures on modern political structures should be taken into consideration in understanding the social dynamics. But this should not lead to any hasty conclusions about the class character of the state. If existence of feudal social structures and practices were sufficient criterion for characterising the state as feudal, then many of the advanced capitalist nations and even socialist countries where superstitions, religious dogmas and ethnic problems still persist, should also be declared as feudal. It should be understood that changes in the ideological sphere will not keep pace with political and economic changes. It is because ideology or culture is relatively independent of politics and economy.<sup>50</sup> Culture has its own dynamics and time-scale. Even if the state creates the conditions for the elimination of the old ideological system, without initiating continuous and conscious popular struggle at cultural and ideological fronts, old values and old practices will not disappear so easily. If feudal culture still dominates Indian social life,

it is due to the absence of cultural renaissance at the grass root levels. Though Indian politicians mobilised people against political rule of the imperialists and feudal lords, they could not involve the masses to fight out the old beliefs and practices. After independence, for their own political reasons, the Indian bourgeoisie find it beneficial to perpetuate feudal ideology to the extent it helps in retaining their hold over the toiling masses. This is precisely the reason why superstitions, caste differences and religious domination still persist in independent India. These historic limitations and political expediency should be taken into consideration in the Marxist analysis of Indian state.

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## VII CHAPTER

### FISCAL CRISIS OF INDIA'S WELFARE STATE

#### INTRODUCTION

History of the origin of welfare state in the Third World is very different from that of advanced capitalist countries. In the West, inability of individual capitals to protect their own real interests and consequent emergence of class conscious proletariat compelled the state to intervene positively in the capitalist reproduction process. In the interest of the overall capitalist system, the state, has to regulate the roles of individual capitals and take up many welfare measures to neutralise the discontented working class. Such a view developed by many western scholars <sup>1</sup> however seems inadequate to explain the welfare role of the states in the developing countries where capitalism had not taken a shape on the eve of their independence. Unlike the Western States where capitalist development was left mostly to the private initiative for a long time, in many of the Third World countries like India, due to weakness of private capitalists, the state had to intervene to develop the capitalist base. Likewise from the very beginning the state had to project itself as a Welfare State interested in the welfare of all sections of the people, particularly the down-trodden. Such steps were indeed necessitated by the specific situation in which the Indian national bourgeoisie was placed on the eve of attaining state power.

When democratic revolutions succeeded in countries like America and France, the bourgeoisie emerged as the predominant class capable of becoming the ruling class of those countries. At that time,



workers had not yet emerged as a homogenous class. The feudal classes gradually lost their economic base. The bourgeoisie gradually began to consolidate its strength in all fields. Hence for quite sometime, they could proceed with robber-baron capitalist model without any necessity of direct state intervention. Things did not move this way in developing countries like India. In India the bourgeoisie attained political power at a time when capitalism as a world system had already reached the stage of imperialism. Along with the bourgeoisie there developed the working class, fairly conscious of its class interests. While the feudal elements still persisted, a large mass of impoverished peasantry was impatient for redressal of their grievances. Telengana armed struggle in Andhra Pradesh and Tebhagha struggle in West Bengal showed the extent of radicalisation of the exploited classes. In international sphere also many changes were taking place during that period. Russian revolution in 1917, defeat of fascist forces in the Second World War and emergence of China and Eastern Europe as socialist states had enhanced the prestige of socialism. Almost all anti-imperialist struggles in the colonies and semi-colonists were influenced by radical thoughts. Even in the west, after the great depression of the mid-thirties, the states had to take recourse to welfare ideologies. Having attained state power in such national and international contexts, Indian bourgeoisie could not remain indifferent to the basic problems of poverty, unemployment, exploitation and suppression. However, the very class character of these states rule out socialist path of development which aims to eliminate social and economic disparities. What is worse,

owing to historic limitations, the bourgeoisie finds it difficult to complete all social and economic tasks of liberal democratic revolution. As a result even if national bourgeoisie is well established in state power, problems specific to precapitalist socialist formations persist for a long time. These handicaps however cannot be an excuse for inaction. When the masses are expecting redressal of their grievances, the state cannot sit idle. If it cannot initiate structural changes, at least it had to take up incrementalist measures to legitimise its own authority. In other words, necessity to protect and promote the interests of the bourgeoisie in the given historical context forces Indian state to project itself as a welfare state. In this chapter we would be making an attempt to list some of the welfare programmes undertaken by the state and then analyse the success or failure of Indian state to reconcile the aspirations of the masses and economic compulsions of the system.

#### INDIA'S WELFARE STATE :

Certain aspects of social contradictions in post-colonial India found its expression in Indian constitution itself. The basic structure of the state and government that the constitution postulates is very similar to the western capitalist model. The fundamental rights that it guarantees remain basically liberal in content. Yet, in order to satisfy the radical social forces, essential rights such as abolition of child labour, provision for humane and just conditions, equal wages, and maternity relief are included under the Directive Principles of the State policy.

It is well known that the Directive Principles of the State policy being merely instructions to the state, no individual can go to the court of law for non-implementation of these rights. Thus the constitution created the best of all possible situations. It expressed its belief in distant socialism but actually preserved all the material requirements of capitalist system.<sup>2</sup>

However, the bourgeoisie is not unaware of the fact that more constitutional provisions can not appease the people for long. Moreover when the ruling class itself accepts to play the game of representative democracy, universal adult franchise assumes considerable significance. Since attaining governmental power can ignore the necessity of taking up certain welfare measures for creating the vote banks. To neutralise the influence of the radical parties, the Indian National Congress and other ruling class parties, initiated many welfare measures for the benefit of the poor. Before critically evaluating the impact of these welfare measures one may briefly discuss various welfare programmes undertaken by the state.

1. LABOUR WELFARE: For various reasons, the post-colonial state in India had to take the problems of the industrial workers very seriously. Before independence, native as well as colonial industrialists mercilessly exploited the proletariat. As a reaction, trade unions developed in all important factories to fight for the basic demands of the workers. In course of time, instead of

merely concentrating on economic demands, Indian working class began to play a very important role in anti-imperialist struggle.<sup>3</sup> Inspired by the socialist revolutions, a considerable number of them rallied behind communists and socialists. The new classes which attained political power after independence cannot underestimate the potentialities of such working class. Hence appeasement of these sections was thought to be necessary to neutralise the radical social forces. Moreover the state is aware of the fact that industrial peace is an essential condition for initiating a rigorous process of industrialisation. This peace can be purchased only by paying sufficient price for it in the form of labour welfare policies.

The Directive Principles enshrined in the constitution assured the working class of many rights such as right to work, abolition of child labour, equal pay for equal work, decent standards of living, maternity relief and labour participation in industry. To guarantee at least some of the rights, the government enacted a number of labour laws such as the Factory Act, 1948, The Mines Act 1952, The plantation Labour Act, The Indian Merchant Shipping Act and Coal and Mica Mines Welfare fund Act. As early as in 1948 itself the Central Government passed Minimum Wages Act and authorised the State Governments to pass similar laws in their respective states. The government also promulgated Employment Provident Fund Act in 1952, Maternity Benefit Act in 1961 and payments of Bonus Act in 1965. It is said that as on 1985, about 7 millions employees enjoy insurance benefits and 12 million workers subscribe to

provident fund.

Besides taking up these welfare measures, Indian state directly intervenes in the industrial relations as reconciler and arbitrator. Separate labour departments and labour courts are established to deal with industrial disputes. A comprehensive industrial jurisprudence covering even the minute details of industrial life was developed over the years.<sup>4</sup> Like corporatist state, Indian state framed the rules of the game to be followed by both the capitalists and workers. Legitimacy of such a state was further consolidated when the workers themselves started considering that the state intervention is essentially in their own interests.

#### RURAL DEVELOPMENT:

Land reforms initiated immediately after independence could benefit a considerable number of tenants who had no proprietary rights over the land. Yet, it should also be admitted that the same land reforms also led to eviction of lakhs of tenants-at-will who ultimately joined the rural proletariat. Lack of opportunities in the cities and towns increased rural unemployment and it in turn kept the agricultural wages at a very low level. Likewise market mechanisms and Green Revolution further cornered the small and marginal peasants and widened the inequalities in the rural structure.<sup>5</sup> Poverty, unemployment, alienation from land and consequent frustration among the rural poor became important

factors responsible for growing tensions in the rural structure. Naxalite movement in the late 60's and early 70's brought to light the intensity of the alienation of small peasants and agricultural workers with the existing system. The then Indira Gandhi's government clearly understood the magnitude of the problem.<sup>6</sup> Necessity of legitimising the system in general and her government in particular compelled Indira Gandhi to come out with her "Garibi Hatao" programme. Thereafter, anti-poverty programmes initiated during this period continued to be implemented in different names by subsequent governments also.

If the fate of small farmers is left to the market forces or to the local elites, sooner or later, all of them would be forced to join the rural proletariat. Being aware of the dangers of such proletarianisation, the government sponsored many programmes for the benefit of the small and marginal farmers. When Indira Gandhi's government nationalised the banks, she ordered for mobilisation of 30% of bank credit to priority sectors viz. agriculture, small-scale industries and other sectors. As on June 1985, as much as 42.7% of public sector credit was advanced to the priority sectors. Within the total advances made in priority sectors, agriculture alone accounted for more than 43 percent.<sup>7</sup> Nowadays the banks extend credit to the poor farmers with reasonable rates of interest, sometimes without any surety. Similarly the government provides fertilisers and marketing facilities at subsidised rates. In 1971, to meet different requirements of the small farmers the

government started Small Farmers Development Agency (SFDA) programme. It aimed at benefiting 50000 persons in five years in every district. At the end of the programme, it was estimated that 16.87 millions participated in these programmes and nearly 7.2 millions enrolled themselves in the co-operatives. More than Rs.220 crores were released for the programme.<sup>8</sup> In 1980 the SFDA programme merged with Integrated Rural Development Programme (IRDP).

The IRDP aims at better utilisation of local resources and creation of infrastructural facilities for social and economic development. By creating employment and income earning opportunities, the programme expects to improve the quality of life of rural population. The IRDP covers 15 millions families in all 5000 official blocs of the country. The Seventh plan allocated Rs.3473.99 crores for various programmes included under the IRDP.<sup>9</sup>

In addition to IRDP, both Central and State Governments sponsored various programmes for the benefit of rural proletariat. The Seventh Plan expected to generate total employment of 1445 million mandays under National Rural Employment Project (NREP) and another 1012 mandays under Rural Landless. Employment Guarantee Programme (RLEGP).<sup>10</sup> Plan outlay for these two programme stood at Rs.1743.79 crores and 1250.81 crores respectively. Apart from such employment generating programmes the Central Government sponsors Training of Rural Youths for Self Employment (TRYSEM) programme which aims to provide necessary skills to the rural youth so that after training they would take to self-employment. The sixth plan claims to have trained 9.4 lakhs youths out of which 4.64 lakhs have been self-employed.



Along with different social policies aimed at certain targeted groups, the central government also sponsors certain programmes for the development of underdeveloped areas. At the end of Sixth Plan there were 181 Integrated Tribal Development Projects covering substantial scheduled tribes populated areas.<sup>11</sup> To undertake relief measures in the drought affected areas, the Drought Prone Area Programme (DPAP) was introduced. Spread over 70 districts of the Country, it now covers over 500 blocks. The Seventh Plan allocated Rs.245 crores for the DPAP. Similarly there is Desert Development Programme (DDP) for checking further desertification and for raising the productivity of the local resources. The DDP covers both hot and cold desert areas of the country. The Seventh Plan allocated Rs.1743.78 crores for the programme. In addition, Government also sponsors Command Area Development Programme (CADP) and Hill Area Development Programme.<sup>12</sup>

Apart from these, the state takes up many other programmes. In the previous plan it allocated Rs.1201.22 crores for accelerated water supply and Rs.4.0 crores for sanitation and 20.3 crores for Development of women and children in rural Area (DWORA) programme. At the end of his tenure. Mr. Rajiv Gandhi had promised to introduce Nehru Rojgar Yojana with a plan outlay of Rs.500 crores a year.<sup>12a</sup>

#### EDUCATION & HEALTH

Like many other democratic welfare states, Indian state also took the responsibility of providing health and education facilities to the people. Since healthy, educated and skilled persons are essential even for running the bourgeois State machinery, the state itself



feel it necessary to provide subsidised educational and health facilities.

In the field of education, total budget allocation increased from Rs.191 crores in 1950-51 to Rs.12,346 crores in 1985-86. Public sector's share in the total educational finances increased from 42% in 1950-51 to about 66% in 1985-86. About 90% of the budget is financed by the State Governments. Between 1950-51 and 1984-85, total number of Universities increased from 27 to 150; colleges for general education from 498 to 4005; high schools from 7288 to 62894; middle schools from 13,596 to 1,29,879 and Primary schools rose to 530 thousands. Along with general education institutions offering professional courses also increased. Between 1950-51 and 1977-78 professional colleges increased from 300 to 4602 and vocational and technical educational colleges from 2339 to 2918. Whereas the number of medical colleges rose from 28 in 1950-51 to 106 in 1977-78, dental colleges increased from 18 in 1950-51 to 1059 in 1985-86. The stock of educated manpower of the matriculates and above is estimated to reach 6.43 crores in 1990. <sup>13</sup>

Similarly certain progress is made in the field of health also. Public Sector share in the total finances increased from 20% in 1950-51 to 50% in 1985-86. Per capita expenditure incurred by the state on health went up from Rs.1.50 in 1955-56 to 27.86 in 1981-82. As a result of governmental efforts, between 1951 and 1985 number of beds per lakh of population rose from 31

to 85 and number of doctors per lakh of population increased from 6.5 to 44.<sup>14</sup> while life expectancy went up from 27.4 years in 1941-51 decade to 54.71 years in 1985-86, infant mortality came down from 14.5 per thousands in 1950's to 11.0 in 1981. Diseases like plague and small pox are eradicated and mortality from cholera and related diseases also declined. The seventh plan allocated Rs. 3392 crores for health and Rs. 3256.26 crores for family welfare.<sup>15</sup> The first annual budget presented by the New National Front Government allocated Rs. 865 crores for Department of education and Rs. 956 crores for the Ministry of Health and Family Welfare.<sup>15a</sup>

#### DEPRESSED COMMUNITIES:

It was only during the freedom struggle that for the first time, the ostracised communities were drawn into the national mainstream. Leaders like Gandhi and Ambedkar made the Nation aware of the problems of dalits who constitute a quarter of Indian population. Under the influence of social reformers like Jyotirao phule, the harijan and tribal people started becoming conscious of their own interests. Hence, when independence was achieved, the new State could not ignore the problems of these communities. As a first step towards attending to these problems the Constitution itself declared untouchability and the system of bonded labour as unconstitutional. Reservation is provided for the scheduled castes and scheduled tribes in education and employment. State governments were allowed to provide similar opportunities to other backward classes. Relaxations are made in age and minimum quali-

fications for those communities. Even in the field of politics, seats are reserved in the Assemblies and Parliament. Similar provisions are made even at Panchayat levels.<sup>16</sup> Moreover for improving the lot of the SCs and STs the banks are directed provide loans at concessional rates. In all the anti-poverty programmes these sections are given special preference. In the Seventh plan the government allocated Rs. 1239.21 crores in the State plan and Rs. 281.22 crores in the Central plan for undertaking various welfare programmes for the benefit of the SCs and STs.<sup>17</sup> National Front government proposed to make a provision of Rs. 320 crores for the schemes for SCs and STs in the annual plan 1990-91.<sup>17a</sup>

#### EVALUATION OF WELFARE PROGRAMMES:

So far, we have briefly presented various welfare measures undertaken by the Indian state. The list enumerated however is not exhaustive. Indian state provides many more public utilities such as water supply, cheap transport and postal services and fair price shops. Some of the State Governments implemented programmes like loan melas, supply of subsidised cloth and food grains and distribution of rickshaws and sewing machines to the unemployed and conferment of land or house pattas to the rural and urban poor. There is no point in denying the fact that a section of the people in India is benefited by all these welfare programmes. These beneficiaries among the poor in fact constitute a strong support base for the existing regimes. Through

the wide communication net-work that the country could build-up over the years, the Governments more or less succeeded in creating an impression among the public that the state exists for the welfare of all.

Though one would admit that the Indian state partially succeeded in legitimising its own existence by undertaking such welfare measures for the social scientists what is important is to understand whether those social policies could really solve the basic problems of human life within the existing socio-economic system. To have comprehensive understanding of this aspect, one should evaluate various dimensions of the Welfare policies.

Let us first analyse the impact of labour welfare policies. It is already mentioned that Indian State passed many acts for the welfare of the workers. No doubt that the workers in organised sector more or less receive all the benefits that the state guarantees. They enjoy security of tenure; fixed hours of work, good promotional opportunities, casual and privilege leave, sick leave, maternity relief, liberal retirement benefits and bonuses. But the number of workers who enjoy such benefits does not cross even 10% of the total work force. Majority of the workers in the unorganised sector constituting 32% of the total workforce are not touched by the governmental policies. Most of the workers working in small enterprises, workshops, ancillary factories, construction work, agriculture and other petty services do not get even the minimum wages that they are legally entitled to.<sup>18</sup>

It is said that even in the Left Front ruled West Bengal, there are certain unorganised sectors where minimum wages are not implemented.<sup>19</sup> The extent of disparities can be understood from the fact that according to 1981 census, the average income of worker in the organised sector was 4.3 times that of a worker in the unorganised sector. But within the unorganised sector the income of a worker in agriculture was only one third of what a worker gets in non-agricultural sector. The fate of self-employed persons constituting 53% of the total work force is no way better than that of the unorganised sector. They earn only one third of what unorganised sector earns.<sup>20</sup>

In the unorganised sector the owners normally do not provide even the necessary working conditions as demanded by the factory laws. In most of the industries and services women are paid less than what men get. Notwithstanding the constitutional provisions to the contrary, child labour is being employed even in most hazardous jobs. According to 1983 NSS estimates there are 17.3 millions child labourers. The figure according to Concern for Working Children (CWC), Bangalore stands at 100 millions.<sup>21</sup>

Another aspect which is threatening the entire workers community is the growing unemployment problem. The government sources themselves show that there are 2.6 crores of registered unemployed persons in India. Taking advantage of massive unemployment, capitalists in the recent years are filling their units with casual and contract labourers who do not have any trade union rights. By making use of technological developments, the industrialists

are trying to reduce the number of permanent employees. In the coming years this phenomenon is going to have adverse impact on the workers of the organised sector.

Added to them are the economic crises which even the state intervention failed to check. At the end of December 1986 there were 1,47,740 sick industries involving an outstanding credit of Rs. 4874 crores.<sup>22</sup> The sickness arising mostly as a consequence of market stagnation has led to the closure of many industries. Consequent unemployment, poverty and insecurity are creating tensions in the industrial relations. In 1984, it was reported that there were 1689 strikes, 405 lockouts and 3 major gheroas.<sup>23</sup> Thus in reality fate of lakhs of unemployed persons, child labourers, workers in the unorganised sector and casual and contract employees in all sectors stand in the way of passing of any judgement about the success of labour welfare programmes in India.

The rural development programmes are no different from that of labour welfare policies. Though there are allegations that only rich people are taking advantage of various rural development policies, one need not totally deny various governmental committees reports which asserted that the anti-poverty programmes could raise the beneficiaries above the poverty line.<sup>24</sup> But it should not be forgotten that the total number of persons covered under all these programmes constitute an insignificant percentage of the rural poor. It is true that the government spends thousands of

crores of rupees for implementation of many policies that benefit the rural masses. But, when seen as a part of the total budget, allocation constitutes only a small segment. Even there, due to corruption and red tapism, what the beneficiaries actually get is only a fraction of what is really allocated for them. In fact former Prime Minister Rajiv Gandhi himself accepted that out of every Rs. 6 sanctioned only rupee one reaches the poor. The Government figures are sometimes so misleading that they unnecessarily give a glorified version of governments' concern for the poor. But if we analyse, say rural employment programme such as Nehru Rozgar Yojana for which the former government wanted to spend Rs. 500 crores a year, one can understand what the poor would ultimately get. If Rs. 500 crores are distributed among 120 proposed backward districts, the amount for each district comes to little more than Rs. 4 crores. Even if it is considered that each district has only 6 lakhs families, then allotment for each family would be below Rs. 70 a year.<sup>25</sup> It is nothing but a mockery on 50% of the rural population who are below the poverty line.

In the recent years co-operatives and commercial banks are playing a commendable role in the rural development programmes. It should however, be remembered that even now 60% of the rural credit are met by the non-institutional sources. Lakhs of agricultural workers and small peasants are still under the clutches of the local merchants, landlords and money lenders.<sup>26</sup> Finally, even if it is admitted that certain number of families did get benefited by



these policies, one should not forget that very nature of the operation of competitive economic system makes many more villagers fall below the poverty line. In the absence of radical land reforms, incrementalist social welfare measures prove to be little effective.

Even when our attention is turned towards provisions for public utilities where health and education alone constitute 70% of the total public social spending one finds similar trends. Notwithstanding the progress made in the field of education, 64% of people still remain illiterate and only 4.8 of people have access to higher education. Compulsory education for children below 14 years age remained a slogan. It is said that nearly 77% of elementary students drop out before completion of eighth class and as many as 312 lakhs children between 6 and 14 age-group never attended schools. Despite hue and cry raised against explosion of higher education, the fact is that while in 50's and 60's enrollment in higher education increased at the rate of 12.4 and 13.4 percent per annum respectively; in the seventies it increased only at the rate of 3.8% per annum.<sup>27</sup>

Though avenues of education increased after independence, the benefits did not reach the deserving ones. Still there exists rural-urban disparities and male-female differences. Whereas literary rate in urban areas is 57%, it is only 12.9% in the rural areas. Whereas female literary rate is 48% in urban areas, its corresponding figure is only 20.8% in the rural areas. Most of the well furnished schools and colleges are concentrated



only in urban areas. Though the New Educational policy proposed to set up elite institution in the name of Navodayas, NCERT survey itself shows that out of 7.75 lakhs primary schools, most of which are situated in the villages, 15% schools have no permanent buildings, 2.82 lakhs schools have no drinking facilities 1.89 lakhs schools have no black board; 1.62 lakhs schools have no mats to sit on; 1.52 lakh children have only one teacher and three thousands schools have no teachers at all. <sup>28</sup>

The main factor responsible for the pathetic condition of education is lack of adequate funds for the education sector. In fact B.G. Kher Commission and Kothari Commission recommended that 20% of state budget and 10% of the central budgets are to be allocated to education. Except a few states like Kerala West Bengal and Andhra Pradesh, most of the states in India spend less than 20% of the budget for education. As far as the central budget is concerned, its allocation declared from 7.6% in the First Five Year Plan to 1.3% in the Seventh Five Year Plan. The government itself accepts that 75% of the recurring educational expenditure has been salaries, while another 10% is spent on administration. Only the remaining 15% is to be spent for education proper. <sup>29</sup>

Instead of allocating sufficient resources for education, the NEP proposed by former Prime Minister encouraged privatisation of education. It recommended privatisation of education and found nothing wrong with donations in technical educational

institutions. In fact to get away from the problem of financing higher education, the NEP recommended linkages with industry and started Open Universities as a substitute to formal education. All these recommendations, if fully implemented, would prove to be detrimental to the very foundations of liberal education in India.

Condition of health sector is no better than that of education. Even now nearly 65% of rural population do not have any medical facilities within a distance of 2 kms. Percentage of people who have no access to medical facilities within a distance of 5 kms is as high as 40 percent. Rural-urban differences are clearly visible from the fact that rural areas have only 27% of hospitals, 14.5% of total beds and 28% of doctors.<sup>30</sup> All India figures indicate that 104 infants for every 1000 die at the time of birth and 83% of children suffer from malnutrition. Nearly 60% of people in India have no access to proper drinking facilities and 70% have no sanitation facilities. These insanitary conditions are becoming the cause of many more diseases.

As in the case of education, problems of health sector arises mainly due to inadequacy of funds. It is worth noting that the Central government which talks of health for all by 2000 AD allocates only 1 percent of the budget to health. Even now 50% of the total finances to the health comes from the private sector. Instead of gradually extending public control over health sector, the government itself is encouraging privatisation. Some of the government hospitals are partially brought under private control. Some of the state governments are openly inviting the non-resident

Indians(NRIs) to come and start big hospitals. While these attempts may improve health facilities for the rich, the poor and also the middle classes will be adversely affected by such privatisation of health sector.

Finally one may concentrate on the effect of welfare policies on the backward communities. It is true that untouchability and bonded labour are legally abolished. Because of reservation policy, some SCs, STs and other backward classes could acquire modern education and get employed in modern professions. Land re-distribution could benefit a certain number of dalits. Changes in political system also helped in driving them into the national mainstream.

However a critical evaluation would show that impact of all welfare policies on the backward communities continue to be very less. More than 76% of the SCs and 87% of STs continue to work as agricultural labourers and marginal peasants. While the literacy rate in the SCs in 1987 was 10.85% among the STs it stood at only 8.04%. As far as reservation quota in employment for the SCs and STs are concerned, only the posts of III and IV class employees are fairly filled up. The Seventh plan report says that in the Central Government's first class employees, the SCs account for 6.7% and the STs for 1.41% only.<sup>31</sup> Even here, governmental reports themselves show that the benefits are reaching mostly to the relatively better off persons living in Urban areas.<sup>32</sup> Majority of the poor SCs and STs who live in the villages very rarely can avail the reservations facilities. In fact lack of linkages to draw the

poor SCs and STs in the villages into the mainstream is leading to monopolisation of most of the benefits by the urban dwellers. Whereas infant mortality rate is much above the national average among the SC/ST literacy rates and school enrollment rates among the SC/ST in the villages are much below the urban average.<sup>33</sup> It is also accepted by the governmental reports that normally reserved seats for the SCs and STs are <sup>not</sup> filled up in the local panchayats. Even where they are elected, very rarely they assert their own interests. Even if untouchability is legally abolished, it is still practiced <sup>in</sup> most of the underdeveloped villages. Atrocities on dalits continue unabated. While governments proclaim many social policies for tribal welfare, other economic and political policies of the governments are actually depriving the tribal people of what little they have. Denial of traditional usufructuary rights of the tribals over land, encroachment of non-tribals and displacement caused by ambitious developmental projects are leading to further impoverishment of tribal people. To sum up, though governmental policies could benefit a section of the people, majority of them still live in a wretched condition.

#### FISCAL CRISES OF THE STATE:-

To an extent, state intervention can be immediate solution to certain itching problems in the capitalist society. Though it may give temporary relief, in the long run, state intervention itself becomes the cause of many other contradictions. Higher forms of contradictions the contemporary state in advanced

capitalist society has given birth to, had been the subject matter of many academic works of Marxist persuasion in the west. Rich literature<sup>34</sup> that has come out on these issues may not have much relevance to understanding of the crises of the Third World State. Yet, one can indeed make use of the broad methodological framework that these scholars could develop to explain the failure of welfare state in India.

Our analysis of welfare role of the Indian State shows that state intervention has not succeeded in satisfying, at least partially, the basic problems of the down-trodden. A country where more than one thirds of the people are below the poverty line, two-thirds of the people remain illiterate, millions of people are victims of unemployment and lakhs of children are forced to work for their survival, needs to go a long way to become a welfare state - as in the advanced capitalist countries. In the concluding part of this chapter, an attempt may be made to account for factors obstructing Indian state to become a successful welfare state.

From our previous analysis of some of the Welfare programmes, it can be understood that inadequacy of funds is one of the main factors responsible for their failures. Prof. Dandekar thinks that Rs. 98,600 millions are to be spent every year to bring all the poor people above the poverty line.<sup>35</sup> It amounts to nearly one third of the annual budgets - a sum which the present governments cannot afford to invest. On the other hand there are people who consider that if the state could successfully implement radical reforms, restrict the growth of monopolists, nationalises profitable

Sectors in industry and trade and avoids wastages and checks corruptive practices, then the state can have adequate resources to take up many welfare measures which would subsequently improve the living conditions of the down-trodden.<sup>36</sup> If at all the state can take up all these measures, the state should be encouraged to do so. But what appears to be an easy solution at the very outset is in fact beset with many structural difficulties.

One major structural constraint is the sorry state of India's economy. India itself being a weak capitalist state, it cannot afford to enjoy the luxuries of advanced capitalist countries. Having opted for a capitalist path of development at a time when capitalism as a world system had already lost its progressive character, one cannot expect India to overcome truncated and stunted capitalist development. Being an underdeveloped country, steps which are found beneficial for the West, prove to be counter-productive in Indian conditions. Hence land reforms and mechanisation of agriculture could not be taken to higher levels in India. Uninterrupted industrialisation could not be initiated due to lack of sufficient markets. While internal market was limited due to low level of purchasing power among the people, securing necessary foreign markets is also becoming difficult owing to high competition in the world arena. This market crisis which is actually leading to closure of many industries-big and small-further intensifies unemployment problem.<sup>37</sup> Such a crises ridden capitalism cannot afford to take up any extra burden to improve the lot of the people.

Even if popular pressure is built up in the state to accede to some of the popular demands, vested interests that the economic development has given birth to, would never allow their interests to be hurt. It may be true that nationalisation of profitable sectors in economy may be advantageous to the people. Even if such a step is economically viable also, politically they become impracticable. The bourgeoisie allow state capitalist enterprises only in certain crucial sectors which involve long gestation periods. The bourgeoisie itself may insist on nationalisation of sick units. But once the private capitalists secure enough wealth in profitable sectors and become confident of their strength, they attempt to enter even those areas which were previously considered to be the exclusive domain of the public sector. It was what Bombay Plan once asked for and it is precisely what is happening today. By citing failure of the public sector, the monopolists have begun making systematic campaigns for privatisation of public sector units. In such an adverse atmosphere it would be too much to expect the state to nationalise the profitable consumer sector, presently under the control of the private capitalists.

In fact, the capitalists and big landowners through their powerful lobbies succeeded in squeezing thousands of crores of rupees as subsidies. Expenditure of the Central government on subsidies increase from Rs.26 crores in 1950-51 to Rs.3200 crores in 1984-85 and the State Government subsidies during the same period increased from Rs.15 crores to Rs.1800 crores.<sup>38</sup> Total subsidies as a proportion of government expenditure increased from 2.08 in 1971 to 8.59 in 1988-89.<sup>39</sup> Subsidies in food and fertilisers alone account for more than 60% of the total subsidies. Export promotion also secures



considerable subsidies. In addition, central government gives subsidies on interest payments to new industrial units in backward areas and also to film industry. Though subsidies on food, education, cooperatives and consumers may reach poorer sections, the major beneficiaries<sup>are</sup> dominant sections only. For the sake of rich peasants, the government assures high support prices for farm goods, maintain low prices of fertilisers, irrigation, water power, diesel and so on. Similarly the government supplies underpriced materials produced in the public sector and provide substantial subsidies to export sector. In addition the governments provide subsidised credit to industrialists and big landowners through public lending institutions.<sup>40</sup> If all these subsidies given to the rich are curtailed, considerable resources could be mobilised for productive and welfare activities. But the vested interests would never allow any cut in subsidies though it is proved beyond doubt that the subsidies given to them could not lead to capital accumulation and technical development, as it was supposed.<sup>41</sup>

Interest payments and defence expenditure impose additional fiscal burden on economy. Interest payments by the government now accounts for 19% of the total expenditure of the government. Between 1981 and 1985 interest payments started increasing at the rate of 23.5% per annum. Infact total internal and external borrowings were expected to be Rs. 1,58,795, Crores. Total interest payments in 1988-89 was around 17,000 crore.<sup>42</sup> Along with interest burden growing defence expenditure is also reducing the funds



available for developmental activities. Though the government claims that only 17% of the Central budget is devoted to defence, if one adds the investments on defence public sector undertakings, defence research undertaken in Atomic and Space research centres and expenditure on pensions and wages of certain sections of the defence personnel, actual expenditure on defence crosses one-fourths of the annual budgets. That change of government will not bring about any change in defence allocation is proved from the fact that the New National front Govt. allocated Rs.15,750 crores for Defence Services.<sup>43</sup> Since militarisation has become a necessity to give an artificial stimulation to the sagging capitalist economy, no government can reduce defence budget even if there exists no threat to unity and integrity of the nation.<sup>44</sup> Naturally proportion of non-plan expenditure in the total budget increases, thus reducing the funds for welfare and developmental activities.

Inability of the state to cater to the essential needs of the society within the available resources force governments to try other means to procure the resources. An easiest option opened for them is to increase the tax burden. Indian government already experimented with all kinds of taxes it could think of -- income tax, wealth tax, expenditure tax, estate duties, stamp duties, motor vehicle taxation, customs and excise duties and so on. As a result tax revenues as percentage of the GDP increased from 6.8% in 1951 to 11.4% in 1987-88. Since four decades of planned economic development benefited capitalists and land owners it is not difficult to secure some more revenue from these sections.

However, in the recent years these classes have become powerful enough to pressurise the government not to impose direct taxes on them. The result is that the direct taxes which used to account for nearly 40% of the total tax revenues declined to mere 15% in the recent plans. Share of personal income tax declined from 21% in 1950-51 to around 5% in 1986-87<sup>45</sup> as a result almost 80% of the tax revenues are now secured from indirect taxes.

There is near unanimity among economists that despite all talks of progressivity, incidence of burden of indirect taxes is more on the poor and not on the rich.<sup>46</sup>

In spite of such heavy taxation, Indian state still finds it difficult to fill the budgetary deficits. Intensity of the crisis of budgeting can be understood from the fact that in contrast to the expected Rs. 7334 crores deficits in 1989-90, by the end of 1989 itself budgetary deficit reached Rs. 11800 crores. As a percentage of the gross domestic product the overall deficit increased from 5.18% in 1960-61 to 9.45% in 1988-89.<sup>47</sup> While the projected deficit in the 7th plan period was Rs. 14000 crores, in reality it was more than double. In such a situation, the other alternatives left to the state are to incur debts or to resort to deficit financing. Despite the adverse effects, they have on economy as a whole, Indian state is experimenting both the alternatives. In 1988-89, the total internal and external borrowings were expected to be around Rs. 1,58,795 crores. Interest payments now account for nearly 19% of the total

expenditure of the government. Between 1981 and 1988, interest payment grew at the rate of 23.5% per annum.<sup>48</sup> As the external debt started mounting, debt service charges also increased considerably. If the state has to avoid the debt trap, then the only alternative left is to depend more and more on deficit financing. Infact in the eighties, money supply increased at the rate of 16 to 17% per annum, allowing the value of Indian currency to fall further. Inflation which is in one sense the consequence of deficit financing adversely affect the labouring masses in the unorganised sector. As the prices of all essential commodities are increasing at rapid rate, even the employees in the organised sector, who are partially compensated in the form of dearness allowance, find it difficult to sustain their living standards. In such a situation, the state is compelled to resort to deficit financing against all fiscal norms in order to meet the growing demands of the capitalist system. While these measures may temporarily solve the immediate problem, ultimately they only lead to intensification of crises in future. As the crises deepen, the state find it difficult to finance many of the developmental projects. It is but natural that the state considers investment on welfare policies as unproductive. As a result, no new welfare programmes can be initiated by the state without taxing the same people whom it claims to benefit. The entire burden of all populist measures that the parties in power introduce for gaining legitimacy falls on the shoulders of the masses.

The result is obvious. The Indian masses continue to be affected by the problems of poverty, unemployment, inflation, illiteracy and exploitation. Inability of the state to resolve the basic problems then gets reflected in the political arena. Since the state itself raised the expectations of the people, now its failure to satisfy basic demands of the people poses a serious threat to the legitimacy of the state. Had there been strong leftist parties in India, mass discontentment could have been channelised to give birth to a real alternative social system. But in India political parties and factions claiming themselves to be communists or socialists have not been able to organise the majority of the oppressed and exploited strata of the society. While the peasants agricultural labourers and workers in the unorganised sectors remain almost untouched, organisational rivalries and departmentalism have weakened many unions in the organised sector. As most of the leftist mass organisations also became victims to economism, the workers are also not finding any basic difference between the leftist and rightist organisations. Infected by factionalism, economism, the workers are also not finding any basic difference between the parliamentary opportunism or political adventurism, the leftist movement in India did not succeed in attracting the imagination of the people as their only genuine alternative. As a result, the mass discontentment expresses itself in the forms of caste feuds, communal violence and separatist movements. Such vulgar forms are but natural

in a system where the people are ignorant of the real cause of their sufferings. Other than creating certain problems for the state, these movements fail to touch the very existence of the system. Hence the ruling classes themselves indirectly encourage such perverted movements which divide the unity of the toiling masses. What is worse, in the name of putting down these protests, the state arms itself with more and more powers. Already the Indian state strengthened its oppressive organs by creating and enlarging the internal security system. In addition to military and state police, Indian State makes use of the Central Reserve Police (CRP), Border Security Force (BSF), Central Industrial Security Force (CISF) and Home guards to put down any kind of internal turmoils. To legitimise its repressive powers the state promulgated black acts such as National Security Act (NSA), Maintenance of Internal Security Act (MISA), Terrorists and Disruptive Areas Act and 59th Amendment of the Indian constitution etc., To restrict even the liberal freedoms that the Indian constitution assures, Rajiv Gandhi's regime tried to introduce Defamation bill, Postal bill, Hospital and other institutions bills, Industrial Disputes Act (amendment) bill and amendment to Representations of people Act. While the State always argues that such powers are necessary to deal with terrorists and anti-nationals in actual practice they are also used against the workers, peasants, tribals, teachers and other labouring masses. In the recent years the communication net-work that the country could build is utilised not only to give wide publicity to the welfare policies they initiate

but also to justify all the repressive policies of the state in the garb of maintaining the unity and integrity of the nation. In the absence of socialist consciousness among the masses, Indian state is not finding it difficult to handle the existing<sup>7</sup>contradictions<sup>c</sup> within the limits set by the capitalist system.

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## NOTES

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GLOSSARY OF ABBREVIATIONS

- \* BEL : Bharat Electronics Limited
- \* BEML : Bharat Earth Movers Limited
- \* BHEL : Bharat Heavy Electrical Limited
- \* CMEA ; Council for Mutual Economic Assistance
- \* CPC : Communist Party of China
- \* CPI : Communist Party of India
- \* CPI (M) : Communist Party of India ( Marxist )
- \* CPI(ML) : Communist Party of India ( Marxist Leninist )
- \* CPSU : Communist Party of Soviet Union
- \* ECGC : Export Credit and Guarantee Corporation
- \* ECLA : Economic Commission for Latin America
- \* EEC : European Economic Community
- \* EIL : Engineers India Limited
- \* EPI : Engineering Project (India) Limited
- \* ESCAP : Economic and Social Commission for Asia and the Pacific
- \* EXIM Bank : Export - Import Bank
- \* FERA : Foreign Exchange Regulation Act
- \* FICCI : Federation of Indian Chambers of Commerce and Industry
- \* GSL : Goa Shipyard Limited
- \* GRS&E : Garden Reach Shipbuilders & Engineers
- \* HAL : Hindustan Aeronautics Limited
- \* HMT : Hindustan Machine Tools
- \* ICICI : Industrial Credit & Investment Corporation of India

GLOSSARY OF ABBREVIATIONS (etc.,)

* IDBI	: Industrial Development Bank of India
* IFIC	: Industrial Finance Corporation of India
* IRCON	: Indian Road Construction Corporation Limited
* ITEC	: Indian Technical & Economic Cooperation
* LIC	: Life Insurance Corporation
* MECON	: Metallurgical & Engineering Consultants Limited
* MRTPA	: Monopolies and Restrictive Trade Practices Act
* NAM	: Nonaligned Movement
* NIDC	: National Industrial Development Corporation
* NIEO	: New International Economic Order
* OAU	: Organisation of African Unity
* OPEC	: Organisation of Petroleum Exporting Countries
* RBI	: Reserve Bank of India
* RITES	: Rail India Technical and Economic Services Ltd.,.
* SBI	: State Bank of India
* UDCs	: Underdeveloped Countries
* UNCTAD	: United National Convention for Trade and Development
* WoPCOS	: Water and Power Consultancy Services

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