Big Industry Before Independence: 1860-1950

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The world over, in the eighteenth and nineteenth centuries, private sector units were of a laissez-faire variety i.e., the private sector was completely free of state interference. Private enterprises were units owned and managed by individual proprietors and partnerships. Even in India, private business houses in spite of many obstructions placed by the British government flourished and managed to earn huge profits. This was also the era when government investment in industry was zero. Thus, in this paper we try to analyse the rationale behind government investment in industry post independence. At the beginning of the First World War, Europeans managing agency houses enjoyed unchallenged supremacy in the private corporate sector of the Indian economy. At the end of the Second World War this supremacy had been broken and Indian entrepreneurs, advancing by rapid strides in the inter-war period, were now in a position to take over the business of the departing British.

On the whole there had been substantial progress with regard to the expansion of the industrial complex as well as the industrialisation of the corporate enterprise. At the end of the British rule, India had a larger industrial sector, with a stronger element of indigenous enterprise, than most under developed countries in the world. The First World War ushered in a new phase of British imperialism in India—a phase which was fundamentally different from the pre war period in the method of appropriation of India's commodity surplus by Britain. The Second World War, by bringing about the liquidation in India's sterling debt, decisively ended this phase of British domination over India.

In the post war period there was a clear shift in the relationship between India and Britain in all respects. Not that the importance of India to the British economy declined, but there was a change in the nature of benefits flowing from the possession of India. In the triennium before the First World War, UK's share in India's imports was 62.8% on the eve of the Second World War it stood at 30.5%.

Industrial Growth 1880-1947

The diminishing inflow of British investment enabled Indian merchants and manufacturers to seize the initiative for developing newer industries. On the other hand the repatriation of British capital acted as an adverse factor on general conditions of trade and industry which have been particularly prosperous during 1900-14 on account of an ample flow of British capital. A comparative study of tropical development between 1880 and 1913 shows that India had done better in organised industry than most other tropical countries, such as Egypt, Kenya, Uganda, Nigeria, Indonesia, Philippines and Venezuela. India's annual rate of industrial growth from 1880 to 1913 was about four to five per cent. During this twenty year period the early growth rate of manufacturing activities in the Philippines was 4.7 per cent; for India the corresponding rate of growth, as estimated by K Mukerji, was 6.4 per cent.

Table I

Index Of Manufacturing Production

Country	Year 1938
South Africa	1,067.3
USSR	857.3
Finland	300.1
India	239.7
New Zealand	227.4
Denmark	202.1
Australia	192.3
World Average	182.7
Norway	169.2
Canada	161.8
USA	143.0
UK	117.6
France	114.6
Switzerland	82.4
Spain	58.0

Source: Industrialisation and Foreign Trade, USA, 1945, Table III, League of Nations.

Thus as visible from the table, India's rate of industrial growth was well above the world average. Both in the period preceding the First World War and in the period following it, India's considerable industrial development occurred through import substitution. The very process of import substitution on a large scale was, bound, in the long run, to create a new demand for basic capital goods. A typical instance was the move for the inception of a cotton-textile machinery industry by the Birlas on the eve of the Second World War. Such a move was possible because by then the cotton-textile industry had established its dominance in the domestic market for piece goods. Having completed a substantial phase of import substitution, India seemed poised on the threshold of a new stage in industrial growth. The outbreak of the Second World War hastened the transition to the new phase of production. It implied a structural transformation of India's industrial economy, leading to production of heavy chemicals, sophisticated machinery, aircrafts, automobiles, locomotives, ships and a variety of other heavy capital goods.

Three important factors of Indian participation in business and industry were: the availability of surplus liquid assets for investment in new fields by the merchant classes (who might be expected to invest the whole of their normal working capital running existing enterprises), the forward push of opportunities for investment in new industries (which would have to offer similar if not better rates of profit than the existing enterprises and which in addition must not be barred by monopolies to new entrants) and the backward pull of traditional enterprises (which might offer improving prospects as well as safer and more efficient employment of assets). The differential of these factors on different regions and different industries determined the rate of participation of particular groups of Indians in modern business and industries. As mentioned earlier conditions in business and industry were profoundly altered after the First World War. In the twenties and thirties, new industries such as cement, paper and sugar became very profitable. The development of the following industries historically indicates certain well-marked phases of the process of industrialisation in India.

Steel

Iron and steel industry had its origin in 1907 with the establishment of the Tata Iron and Steel Company (TISCO) at Sakchi in Bihar. Later on two more companies followed suit; one in 1908 established at Hirapur in Bengal called Iron and Steel Company (IISCO) and another in 1923 at Bhadrawati called Mysore State Iron Works.

Table 2

Steel Ingot Production of TISCO

Year	Tons
1911-12	3,000
1912-13	31,000
1915-16	123,000
1920-21	170,000
1923-24	235,000
1924-25	370,000
1925-26	471,000
1927-28	600,000
1930-31	625,000
1936-37	851,000
1937-38	899,000
1939-40	1,018,000
1941-42	1,084,000
1943-44	1,092,000
1946-47	1,029,000

Source: Tata Steel Diamond Jubilee, pp 78

Shipping and Shipbuilding

The Indian shipping and shipbuilding industry was considerable at the beginning of the nineteenth century. On the eve of the Second World War, the share of Indian shipping in the coastal trade was 21 per cent.

In 1939 eight Indian concerns were operating in coastal trade. They were: the Scindia Steam Navigation Company Limited (1919), the Bengal-Burma Steam Navigation Company Limited (1928), the Indian Cooperative Navigation & Trading Company Limited (1905), the Ratnagar Steam Navigation Company Limited, the Malabar Steam Navigation Company Limited (1928), the Merchant Steam Navigation Company Limited (1921), the Eastern Steam Navigation Company Limited (1919) and the Haj Line Limited (1937). Of these, Scindia, Bengal-Burma, Indian Cooperative, Ratnagar and Haj Line were already in the Scindia group, and in 1939 a British concern, the Bombay Steam Navigation Company Limited, was taken over by Scindias. This premier Indian shipping company further acquired control of the Eastern Steam Navigation Company Limited in 1941.

The growth of the Indian shipping and shipbuilding enterprise practically meant the growth of the Scindia Steam, for even smaller Indian companies, which were outside its direct control survived only because of its help. In coastal shipping, however, although Scindia Steam was confined by agreements to 64,000 tons until 1927 and to 100,000 tons until 1939, expansion of Indian enterprise took place through smaller companies not bound by these agreements, and Scindias indirectly increased their share in coastal shipping by acquiring control over many of these companies in the process of saving them from destruction by BISN and allied foreign concerns. Scindia Steam Navigation Company Limited was a co-operative venture launched with great resources of enterprise, managerial talent and capital; it could not have survived and grown without these resources. Unlike other enterprises in India such as steel, this was not a family concern and from the beginning its management was highly professionalised and its control was vested in a broad group of big and courageous capitalists with a patriotic outlook. Because of the large and prestigious group, which stood behind this co-operative venture, there was no difficulty in raising the initial share capital of Rs 4.5 crore, a large chunk of which came from *maharaja*s, princes, *zamindar*s, *sardar*s and other feudal elements. So far as coastal shipping was concerned, Scindias were in fact able to finance more than double the tonnage allowed by the agreement with BISN. In 1928 Scindia Steam, applying to the government for revision of this agreement, stated that it could provide the necessary finance for an additional 80,000 tons of shipping costing Rs 1.6 crore. Clearly this shows the financial soundness that the Scindias had acquired by 1928. The Scindias followed a systematic policy of training Indians for the navigation, marine engineering and wireless branches. Though initially there were great difficulties in finding technically qualified Indians, an energetic policy with regard to technical training ultimately enabled Scindias to employ Indians exclusively as deck and engine officers, and wireless operators. Throughout the period under review, the Government of India was indifferent to the shipping and shipbuilding industry in India, which, unlike the iron and steel industry, was not considered vital to British strategic considerations in the East.

Automobiles

In 1935 selected leaders of Indian business and industry met under the guidance of Sir M Visveswaraiya, who had taken up the task of lobbying India's capitalist circles for starting an automobile industry, at Tata House in Bombay to consider the question of starting a car factory in Bombay. The meeting responded favourably to Visveswaraiya's urgings that with the development of Tata's steel works at Jamshedpur and Bombay's metallurgical workshops, India had now technologically reached the stage for car manufacture.

On 17 April, 1936 at the Indian Merchants' Chamber in Bombay, an Automobile Factory Committee was appointed to prepare a scheme for car manufacture. The scheme made no headway for a time. Characteristically it was Walchand Hirachand who first took up the scheme in earnest and he received assurance of patronage from the Kher ministry in Bombay. Meanwhile in Eastern India the Birla group had also taken up the project of a car manufacturing plant in India, and though neither group received any assistance from the Government of India during the Second World war, Walchand Hirachand and Ghanshyamdas Birla began to push their respective plans in rivalry with each other in spite of numerous obstacles. In 1942, the Birla group formed the Hindustan Motors Limited in Calcutta with a paid-up capital of Rs 4.96 crore. Also Walchand in 1944 formed the Premier Automobiles Limited In Bombay with a paid-up capital of Rs 2.2 crore. Since in India only a nucleus of ancillary industries existed at the beginning of the fifties, the Premier Automobiles set up their own ancillary industries. The following ancillary industries had developed by the early fifties: pistons (India Piston started production in 1952), cylinder liners (started by India Pistons in 1952), leaf springs (started by Metropolitan Springs in 1951), electric bulbs (started by Pradip Lamp Works in 1951), fuel pump diaphragms (undertaken by United Trading Company in 1944 for the Defence Department). The development of the above-mentioned industries can be better understood by taking a look at the way the Indian business houses grew in that period.

The Growth of Indian Houses

If nationalist-minded professional service groups had exhibited the keenest interest in industrialisation among all classes of Indians in the *swadeshi* period preceding the First World War, after the war the task of promoting new industries was taken up mainly by traditional merchant communities who accumulated immense assets by wartime speculation and branched out from trade, contracting and speculation to modern industrial and manufacturing activities in the boom following the war. Especially prominent in this process of transformation of traditional merchants communities into modern entrepreneurial groups were the Gujarati Banias, whether Jain or Hindu, from whose ranks came Walchand Hirachand, Ambalal Sarabhai and Kastubhai Lalbhai, the Punjabi Hindu Khatris, Aroras and Banias, among whom figured Lal Shri Ram, Karamchand Thapar and Gokulchand Narang; and most dramatically of all, the Rajasthani (including parts of the Punjab)

Maheshwaris, Agarwals and Oswals, both Hindu and Jain, grouped together under the generic name Marwaris, whose migrations throughout India threw up such large groups as Birla, Dalmia, Juggilal Kamlapat, Sarupchand Hukumchand, Surajmull Nagarmull, Jaipuria, Bangur, Goenka. Some details of the origins and investment patterns of some growing Indian houses during this period can be studied.

1) Tata: Tatas emerged in the industrial field in the late nineteenth century as one of the three biggest Parsi houses in early cotton manufacturing enterprise, the other two being Wadias and Petits. The capital base for J N Tata's entry into cotton manufacture was acquired in trade with the Far East. Tatas continued their import-export business with China, Japan and elsewhere on an extensive scale after their entry into manufactures. The import-export business was handed over to a new concern, R D Tata & Sons, with branches in Osaka, Shanghai, Rangoon, Liverpool and New York, and trading in cotton yarns, rice, metals, sugar with a capital of Rs 15 million. By 1914 Tata interests embraced trade, hotels, cotton manufacture, iron and steel and hydroelectricity. Industrial banking, insurance, construction, soap and cement were taken up after the First World War. The thirties saw the floatation of Tata Airlines, the forerunner of Air India. The Second World War and its aftermath brought about another giant stride by Tata, as reflected in the floatation of Tata Chemicals (1940), Tata Tube (1940), Investa Machine Tools and Tata Locomotive (TELCO).
2) Birla: Birla Bros., Mahashwaris from Pilani (Rajasthan), reputedly grew into a firm with a capital of Rs 80 lacs from a base of Rs 20 lacs by trading operations during the First World War. They established several industries between 1918 and 1922. After a fierce battle against racial exclusiveness, G D Birla established direct connections with the London jute market during and after the war, becoming a leading raw jute exporter of Calcutta. Then he set up a jute mill in Calcutta. He also set up two cotton-textile mills in Delhi and Gwalior, and later on one in Calcutta. From this base followed expansion at a breakneck speed during and after the Second World War, further expansion of cotton and jute interests: manufacture of textile machinery, automobiles, bicycles, ball-bearings, fans, non ferrous metals, rayon, plastics, plywood and vegetable oil; takeovers of tea and coal interests; entry into aviation; expansion of insurance; assumption of banking and floatation of investment and trading companies on a large scale.
3) Dalmia: Ramkrishna Dalmia, a Maheshwari of the Jain faith from Rohtak in the Punjab moved into industry in the early thirties. He set up a sugar mill in Bihar, which he later diversified as Rohtas Industries. This initiative was followed up by manufacture of cement of its own. Dalmia emerged as an important group in the industrial complex of India in the thirties and in the next decade rapid expansion took place. Between 1948 and 1952 Ramkrishna Dalmia acquired control over the Punjab National Bank, Bharat Insurance, Lahore Electric, Bennet-Coleman (*The Times of India*), Govan Group (Dhrangadhra Chemicals, Raza Sugar, Buland Sugar, Indian National Airways). At the same time he took care to build up Rohtas Industries Limited. As a diversified concern producing sugar, cement, paper, vanaspati, chemicals, spun pipe he also expanded the group's interests to airways.
4) Walchand: Walchand Hirachand was a Gujarati Jain Bania settled in Sholapur in Maharashtra. He accumulated his capital as a contractor in buildings, railway works and other construction during the First World War. His greatest achievement was the Scindia Steam Navigation Company that was floated in 1919 and in the thirties he set up the Ravalgon Sugar Farm Limited (1933). The group played a pioneering role in sugar manufacture on modern scientific lines, shipping, shipbuilding, aircraft manufacture, automobile manufacture, engineering and machine tools, and building and bridge construction.

Table 3

Walchand Group of Industries

	Paid-up Capital (Rs)
Construction Companies	
Premier Construction Co. Ltd.	10,506,250
Hindusthan Construction Co. Ltd.	6,100,000
All India Construction	200,000
Sugar Manufacturing Companies	
Walchandnagar Industries Ltd.	10,450,000
Ravalgaon Sugar Farm Ltd.	4,400,000
Engineering Companies	
Cooper Engineering Ltd.	2,520,000
Acme Manufacturing Co. Ltd.	1,240,000
Automobile Industry	
Premier Automobiles Ltd.	22,500,000
Bombay Cycle & Motor Agency	1,140,000
Pipe Industry	
Indian Hume Pipe Co. Ltd.	8,000,000
	67,056,250

Source: Walchand Hirachand's Papers, File no. 333, "Walchand Group of Industries: Brief History," 1955.

There were many such business houses in India that helped in developing the organised industrial sector. Some of them are Thapar, Juggilal Kamlapat, Shri Ram. The overall growth of Indian business houses can be better understood from the following table.

Table 4

Growth of Business Houses in India 1914-47 (paid-up rupee capital in Rs '000)

Business Houses	1914	1922	1937	1947
Calcutta				
Karamchand Thapar	-	-	NA	7,418
Juggilal Kamlapat	-	-	NA	8,900
Bangur	-	-	-	4,500
Birla	-	6,523	17,897	218,504
Surajmull Nagarmull	-	-	-	3,250
NC Sircar	3,133	3,418	-	-
Janoki Nath Roy	-	-	3,316	8,000
Ramkumar Agarwala	-	-	-	10,000
AH Dawood	-	-	4,500	4,500
Bombay				
Tata Hydro-Electric	-	NA	NA	96,697
Tata Sons	37,089	266,013	104,594	140,748
Morarjee Goculdas	1,950	1,950	NA	NA
Walchand	-	3,888	4,881	60,006
Scindia Steam Navigation	-	45,000	NA	60,000
North India				
Narang	-	-	2,400	2,700
Govan	-	-	3,300	12,850
Dalmia	-	-	16,000	8,500

Source: Investor's India Year Book, relevant years

Thus as is very much explicit from the above, the Indian industrial sector was quite developed and that too without government investment.

The gulf between private and free economic thinking and the policy of the government increasingly widened during the Second World War. Complex interrelationships between the Congress and big business, and the drift towards planning came about from 1937 onwards. The Congress's philosophy particularly in regard to economics was not a ready-made answer to the economic needs of the Indian capitalist class. Their conception of Hind Swaraj, properly realised, left no role for capitalists. Thus, one element in Congress's philosophy, trusteeship, led to the break up of capitalist concentration of business and industry into units of agriculture and cottage industry. The process of Congress and big-business interpenetration started in right earnest, though Congress never became an instrument of big business as such, and ultimately the big business had to come to a compromise. The Congress Raj, which emerged after 1947 amidst the tension of this dynamic adjustment has been controversially depicted as an intermediate regime, standing mid way between a fully socialist regime and capitalist regime under big business hegemony.

There were important divisions within the Indian capitalist class and the Indian National Congress and the interpenetration naturally took place at the periphery of each, along the points of contact between those elements on each side, which were closest to each other. The complexities of this interpenetration, so pregnant with explosive tension, must not be underrated. The differences of approach to the Congress and its policies within the top FICCI leadership contributed to these complexities.[1]

Paving the Road to Hell with Good Intentions

The government made the distinction between the public sector and the private sector more significant and wider by passing the Industrial Policy Resolutions in 1948 and 1956, which made India a mixed economy. These Industrial Policy Resolutions clearly demarcated the scope and role of the public and private sector:

(a) the fields exclusively reserved with the public sector,
(b) fields in which public and private sector can continue to exist but future development would be in the public sector alone, and
(c) fields exclusively reserved for the private sector.

In a broad way, the public sector was entrusted with the responsibility of developing heavy and basic industries, social and economic infrastructure while the private sector was broadly given the right to develop consumer goods industries. While banks and financial institutions, railways, civil aviation, power generation and distribution were in the public sector, the private sector in India embraced the whole of agriculture and allied activities, plantations, mining, internal trade, both retail and wholesale, much of the international trade, road freight traffic.

Shyama Prasad Mukherji and Jawaharlal Nehru, the two architects of the Industrial Policy Resolutions of 1948 and 1956 clearly made the distinction between the public and private sectors on the assumption that:

(a) a large-scale investment in the public sector was necessary to initiate and accelerate the process of economic development;
(b) a high level of public investment in infrastructure and basic and key industries was a pre condition for development and expansion of the private sector; and
(c) the growth and profitability of many private enterprises would depend upon public activities and on the expansion in the public sector investment.

[1] K Ray, Rajat, 1979, *Industrialization in India, Growth and Conflict in the Private Corporate Sector, 1914-47,* Oxford University Press.

It was generally held that for a mixed economy like India, the private investment was more interested in quick-yielding industries and in large profits in as short a period as possible. Naturally the private sector was considered for the consumer goods industries that involved limited risk and short gestation period. On the other hand, public investment being autonomous was considered most suitable to low yielding, long gestation and heavy investment sectors. The infrastructure industries were thus reserved for the public sector.

Table 5

Growth of the Private Corporate Sector in India

	March 1957	**March 1971**
Number of Companies	29,357	30,461
(a) government	74	314
(b) Non government	29,283	30,147
Paid up Capital (Rs Crores)		
All Companies	1,078 (100.0)	4,423 (100.0)
(a) government	73 (6.8)	2,074 (46.9)
(b) Non government	1,005 (93.2)	2,349 (53.1)

Note: Figures in brackets are percentages of total paid-up capital.

Source: CMIE, August 1992, Basic Statistics Relating to the Indian Economy.

The Government and the Private Sector

In 1951, the government passed the Industries Act to control and guide the direction of private investment and also the growth and diversification of the private sector enterprises. The Act aimed at channeling private sector investment in accordance with the Five-Year Plans, bring about balanced regional development, protection of small scale industries against the competition of large scale industries, prevent concentration of economic power in a few business families, and regulate and, if necessary, take over those industrial undertakings whose management was consistently flouting government directives or was working against public interest. Later, the government passed the Indian Companies Act, 1956 and the Monopoly and Restrictive Trade Practices Act, 1969 to restrict and regulate the working of the corporate sector. The acts aimed at preventing restrictive trade practices on the one side and concentration of economic power on the other.

Problems of the Private Sector

There was an inherent contradiction in the attitude and policy of the government as regards the private sector. The government on one hand had continuously emphasised the importance of the private sector in the mixed economy of India, and at the same time, it had taken various measures, both direct and indirect, which did not help the private sector to develop freely and rapidly. What it actually did was to restrict and hamper its growth.

Post Independence, some of the problems faced by the private sector were:

(a) Procedural Delays: There were too many regulations imposed by the government on the private sector and too many procedural delays. It is estimated that on an average, it took around seven years from the conceptual stage to the production stage for any significant investment to take place in India. Decisions, which were once taken at a low level of government bureaucracy, were now concentrated in the hands of top bureaucracy, or with the ministers and in some cases even in the hands of the cabinet. There was no delegation of decision-making, resulting in avoidable delay, cost escalation and higher burden on consumers.

(b) Unrealistic Controls: The government was influenced by contradictory motives, for instance, the protection of the consumers (price controls) and the prevention of concentration of wealth and income (capacity restraint). The price controls imposed by the government on many of the goods did not give proper incentive for additional production. Actually, the government should have encouraged competition among the rival firms and increased production would have automatically brought down the prices. On the other hand, price controls under conditions of shortage, perpetuated shortage. Also, licensing of capacity was meant to bring about organised growth and prevent monopolistic tendencies. However, in practice, it emerged as something unique in the whole world. While all over the world attempts were being made to increase capacity to create more employment, India was the only country in the world, which penalised increase in production.

(c) Reservation for the Small Sector: The government had generally worked on the assumption that small industries are in conflict with large ones, which always stifle the growth of the small and cottage sector. Accordingly, many methods were designed in order to help the small sector. One method was to provide excise exemption or, impose a lower rate of excise duties for goods produced in the small sector. Another method was to reserve certain products in the small sector and prevent the large sector from producing such goods. As a result of such measures, the complementarity of the two sectors was lost.

Conclusion

Thus, in the pre-Independence era, the private business houses solely shouldered the responsibility of manufacturing. India was considered to be an industrially developed country even without any government support or investment. Also, it was not that the big business houses present at that time concentrated only on consumer goods. They were also responsible for initiating infrastructural manufacturing in India. In the light of all this, it is very difficult to understand the rationale behind the initiation of government investment in Indian industry. The rationale presented at most times is that it was the need of the hour. Another argument presented is that, there was not enough capital in the hands of the private business houses. But, these excuses are all myths. Even at that time most private business houses boasted of a capital close to six to seven crores.

Another argument presented in favour of government investment in industry is that, India at that time was in need of an equitable growth of all areas i.e., it was absolutely necessary to develop all regions equally. But again, for this the government need not have invested but instead could have just formulated policies that gave incentives to the private businesses to operate in backward areas such as tax holidays, capital subsidies.

Thus, government investment was absolutely unnecessary and uncalled for even at the time of Independence. What was actually required was for the government to design industry friendly policies that would have helped in their development rather than to pass acts and laws that aimed at regulating and curbing the industries. If the government felt that certain areas of production would be neglected by the private sector because they were not lucrative enough, it should have just invested in those areas instead of blocking them completely from the private hands.

Hence, we feel no hesitation in concluding that the Indian government had failed completely to identify the potential of our vast economic resources and tap them fully to make India an economic super power. Today, after 50 years of independence, the government talks of privatisation as an innovative landmark in India's economic development; what they have probably forgotten is that, the concept of private hands is as old as the Indian industry is.

References

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