

The Curious Case of the Bombay Plan

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Abstract

'Bombay Plan', authored by a group of Indian industrialists and technocrats in 1944, was meant as a fifteen year investment plan for India. The strategy of the government's five year plans after independence was very similar to the Bombay Plan's. First three five year plans had almost the same sectoral outlay pattern and together they can be described as a scaled down version of the Bombay Plan. The Plan remained at the centre of news and interest for more than a year. But thereafter it was as completely forgotten as it was at the centre of interest previously. This paper discusses the background and making of the plan, compares it with the official five year plans and discusses the probable reasons of its exile into oblivion.

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1 Introduction

‘Bombay Plan’ is the nickname of a fifteen year economic plan for India proposed by a group of industrialists and technocrats in January 1944. Initially it was released for private circulation only. Soon afterwards, the Plan was published as a pamphlet in response to the interest generated by it². Demand led to a number of reprints within the first few months; the document was also translated into a number of languages during this period. Within a few weeks of publication Lord Wavell, the Viceroy of India mentioned it as containing a useful and novel approach to the country’s economic problems³, and Jeremy Raisman the Finance Member welcomed it though doubting some of its financial assumptions (Lokanathan, 1945). By March of that year the Federation of Indian Chambers of Commerce and Industry (FICCI) endorsed the Plan at its annual meeting. Later the document was edited by Purushottamdas Thakurdas in two tiny pamphlet-sized volumes⁴ and published by Penguin as ‘*A Brief Memorandum Outlining a Plan of Economic Development for India*’ in 1945.

Looking back at it today, one can not help feeling that the Plan lives a curious, almost spooky, existence. Books on Indian planning mention it as a mythical forerunner without revealing any more detail. Students generally get to know of the existence of such a plan but very few have had an encounter with it. The Plan has faded out of public memory as completely as it had occupied centre stage previously. This is curious because the Plan’s strategy and methods foreshadowed the official five year plans of independent India launched just a few years later. Hence it would be educative to use the Bombay Plan to explain the evolution of the methods and strategies of aggregate planning in India. But it has not been used for this purpose.

²The ‘Bombay Plan’ for India’s Economic Development, Bombay, The Commercial Printing Press, 1944.

³He would revise his opinion soon as British industry reacted adversely to the document. See footnote 25 below.

⁴The two volumes had 55 and 34 pages respectively.

Secondly, the Bombay Plan's targets were overwhelmingly more ambitious than anything the Planning Commission of the government of India ever attempted. It envisaged the doubling of per capita income over 15 years and proposed appropriate sources of finance for this ambitious target. The Planning Commission never addressed why a target close to the Bombay Plan's was not aimed by it. Was the Bombay Plan unrealistic in its technical assumptions or did the proposed finance options become infeasible afterwards? These questions are of interest to students of economic history and planning and to economists generally.

I believe that the publication of the Bombay Plan was a significant economic and political event and it is an important document. This paper is an attempt to get it back into discussion. I will organise the essay as follows. First I will describe the making of the Plan and the background in section 2. I will then describe the Plan itself in section 3 concentrating on the physical side of it. I will discuss the assumptions, targets, sectoral outlays and the intertemporal strategy. In section 4, I will briefly compare the Plan with the first three five year plans of free India which spanned fifteen years like the proposed Bombay Plan. As I will argue, the first three five year plans have a significant amount of intellectual debt to the Bombay Plan- a fact that has not been acknowledged officially⁵. With these discussions as background, I will ask in section 5 why the Plan was so completely wiped off the public memory. I will explore separately why Indian political parties including the Indian National Congress (Congress), the government of India and the industrialists themselves let the Plan sink unceremoniously into oblivion.

⁵Except recently when India's prime minister Manmohan Singh made some statements acknowledging the Plan's intellectual heritage. See below.

2 Making of the Plan

The backdrop of the Bombay Plan was formed by political developments of the 1930s that started emphasising economic issues. Indian National Congress adopted an economic programme and an agrarian programme in 1931 and 1936 respectively. The Wardha session of 1937 debated the need for national planning as a means of economic development and closed with a resolution in favour. Next year the Haripura session followed it up and appointed the National Planning Committee with Jawaharlal Nehru and K.T. Shah as chairman and secretary respectively⁶.

The Bombay Plan was published against this background in January 1944. The National Planning committee had started its work but did not publish anything until 1948⁷. Therefore Bombay Plan was not a reaction but an original proposal. The document was signed by the following eight personalities:

1. JRD Tata, son of a cousin of Jamsedji Tata, one of India's pioneer industrialists. At the time of the Bombay Plan JRD Tata had business interests in iron and steel and the aviation industry. He would later develop one of the largest industrial conglomerates and be regarded as an industrial leader of modern India.
2. G. D. Birla, the leader of the Birla group of industries. At the time he had business interests in textiles, jute and insurance. At least three large business groups originated from the businesses established by G.D. Birla.
3. Sir Ardeshir Dalal an able administrator and technocrat, had experience of working in government administration in various capacities and was the first Indian appointed as Municipal Commissioner of Bombay

⁶This committee was succeeded by the Advisory Planning Board set up by the Interim Government in 1946.

⁷Its report published in 1948, Shah (1948), was reviewed by Vera Anstey in *Pacific Review*, see Anstey (1950).

in 1928. He joined Tata Iron and Steel Company Ltd. as resident director in 1931 and initiated reforms like profit sharing bonus for workers which was a first at the time. In 1944, the Viceroy of India invited him to join the Executive Council as Member-in-Charge of Planning and Development.

4. Lala Shriram, a prominent north Indian industrialist who turned the Delhi Cloth Mills (DCM) into an industrial conglomerate, later known as the DCM Shriram Industrial Group. Lala is reputed for early managerial and workplace reforms like profit sharing with employees and workers' participation in management. He established or was a major influence in a number of institutions: Shriram College of Commerce, Lady Shriram College for Women, Indraprastha College for Women, and the Shriram Institute for Industrial Research.
5. Kasturbhai Lalbhai had wide ranging interests in textiles business and shipping. He served as a director of the Reserve Bank of India from 1937 to 1949. Active in the education sector, he was a member of the group that started the Ahmedabad Education Society which grew into the Gujarat University. He was also an important influence in establishing and developing the Indian Institute of Management Ahmedabad.
6. D. Shroff was director of a number of prominent industries including a few of the Tata group. He was an unofficial⁸ delegate to the Bretton Woods Conference. He later became the founder-director of the Investment Corporation of India and the chairman of the Bank of India and the New India Assurance Company Limited.
7. John Mathai was a professor of economics at Madras University and a political personality. He served as the Director-General, Commercial Intelligence and Statistics during 1935-40. He was India's first railway

⁸Unofficial because India was still not independent.

minister and then served as finance minister for two years. He also worked as director of Tata Sons Ltd.

8. Purushottamdas Thakurdas was a Mumbai based businessman and business leader. He, with G.D. Birla, was involved in building business associations like ICC, IICC and FICCI. He was an advisor for the Indo-British Trade Agreement and acted as member in a wide range of public committees and negotiations.

The purpose of the Plan as the signatories discussed among themselves is recorded in the minutes of the Plan's secretariat meetings. According to the minutes, the following was the purpose behind the effort. The government (they meant the future government of free India) might take populist economic measures in a hurry after the war. Such measures were all the more likely if the government faced organised political demands for redistribution of income and wealth. These measures would harm the prospects of long run economic development of India. This possibility however could be avoided by proceeding in an orderly and more caring path of development before such a contingency arises. The Plan was proposed to initiate the process and make both the government and the public aware of the long run issues of development and distribution⁹.

This documented objective notwithstanding, many people have speculated on deeper motives of the industrial houses. They have pointed to two domestic developments to have influenced the motives. First, that it was clear by then that the Congress would initiate some form of planned industrialisation after independence. This, according to some observers, prompted the biggest industrial houses to push forward their own wish list in the form of a plan. The second was the Quit India movement of 1942. Letters of the Plan authors to one another and to the government record that they had an apprehension of a worst case scenario where the Congress might lose control

⁹General Note, J. Mathai to Thakurdas, 8.12.1942, in PT Papers, File 291, part 1, Nehru Memorial Museum and Library.

of mass movements, which might then turn against private property generally¹⁰. Lala Shri Ram, for example, wrote to P. Thakurdas, “I am afraid that this sabotage¹¹ may any day start of private property also. Once the Goondas know this trick, any Government . . . will find it difficult to control it. Today Mahatma Gandhi may be able to stop it, but later on it may go out of their hands too.” (*P.T. Papers*, 31.08. 1942)¹².

Left parties in general and a number of left-oriented scholars emphasised this apprehension to be behind the Plan, which they interpreted as a document for building up public image. They have reasoned that private business had a robber baron image¹³ and its reputation particularly plummeted during the war. In view of the violent events of 1942, a threatened Indian business felt it must improve its public image to survive in the fast changing political environment.¹⁴ This view was common among the various left parties who stated it with different degrees of force. Most clear statement that I came across is from the Indian Trotskyites who claimed pointedly that the Indian bourgeoisie had been scared by revolutionary movements in India and elsewhere and wanted the government to escort the process of industrialisation after independence. I quote here from an article in the *Workers' International News* that conveys the characteristic flavour: “Having been frightened out of their wits by the revolutionary energy of the masses in 1942, now the Indian bourgeoisie attempt to by-pass political power through an economic weapon. This is the background of the famous “Bombay Plan” put forward by the Indian industrialists.” (Naidu, 1944).

Quit India movement and related violence preceded the Plan closely- the first meeting of the Plan secretariat took place in December 1942. This

¹⁰Chibber (2003) documents a number of these exchanges and communications.

¹¹He was referring to events in his mills.

¹²Shri Ram to Thakurdas, P. T. Papers, file 239, part 4, Nehru Memorial Museum and Library.

¹³This view is supported by some scholars, eg. Kochanek (1974), chapter IX, and the references in that chapter.

¹⁴See Chibber (2003), p. 95.

might have given a disproportionate importance to these events in contemporary analysis. Though industry was wary of violent events, I did not find any direct indication that it was fearful of losing private property rights to the people of the country around this time¹⁵. I find it more reasonable to interpret its anxiety as a general concern, which was shared by many others outside industry and business circles as well. Nor was it based on the experience of the Quit India violence alone. Political and economic developments of the time generally shaped this anxiety much like that reflected in these lines from Birla to Rajagopalachari in 1946: “It is hardly necessary for me to draw your attention to the economic consequences of the disturbed conditions. If I do so it is only to emphasize the danger and I hope that our Government may be able to take timely steps to prevent the catastrophe which is hanging on our head. . . . In provinces like Bengal, Bihar, UP, production is seriously affected. Today you can’t even build a house. . . . serious labour shortages, coal shortages, no bricks, Muslim *mistries* don’t come in Hindu areas and Hindu labour don’t enter Muslim areas.”¹⁶ In spite of the events of 1942, industry leaders like Mr. Birla were confident by 1943 that the years of the *Raj* were over and that they would be soon called upon by the nation to play a critical role in the post-war reconstruction of the country. There are some evidences that they therefore wanted to share one another’s views on the future industrialisation of the country¹⁷.

As the agitations of 1942 waned, G. D. Birla took the initiative of producing an appropriate document. The group set up a secretariat. Tata was to provide half of the cost and the rest was to be shared by other secretariat members. John Mathai, director of a Tata company at the time, was assigned the secretary’s role¹⁸. The Plan got ready by January of 1944. As

¹⁵They were indeed more fearful of losing property to the government for some time after the publication of the report of the Economic Programme Committee in 1948. See below in section 4 for some discussion on this.

¹⁶Birla to Rajagopalachari, 12 November, 1946. Birla Papers, Series II, File No. R-5. In 1946 of course the religious relations were much more volatile than in 1944.

¹⁷See Kudaisya’s biography of G. D. Birla, Kudaisya (2003), page 224-225.

¹⁸Proceedings of the First Meeting of the Committee on Post-War Economic Develop-

mentioned in the introduction it was first released for private circulation, and then published as a pamphlet and saw a number of editions, reprints and translations soon. What was initially circulated was later called volume 1 of the monograph published by Penguin. It contained the plan targets, the physical and financial plan and the time sequence of investment outlays. The second volume was written later and addressed issues of income distribution and planning machinery. It is worth a mention that the second volume was not an afterthought- i.e. not produced in response to the leftist critique (see below) that the Plan was silent on income distribution. It was stated in the introduction to the first volume that the authors were working on income distribution issues to be published soon. They were anxious to start public discussion and hence the Plan was released into circulation before other parts were ready¹⁹.

I will not detail the reception of the Plan from different quarters like the government and political parties because that is not within the scope I set up for this paper. Some of those reactions will however appear any way when I explore the reasons for forgetting the Plan in section 4. For contemporary scholarly review of the Plan please look up Anstey (1945), Lokanathan (1945) and Prasad (1945).

3 Bombay Plan and the Five Year Plans

First three five year plans of the government of free India spanned fifteen years which equals the horizon of the Bombay Plan. So it is instructive to compare the Bombay Plan with the first three plans, particularly the sectoral outlays and the time sequence of priorities. I will describe the essential features of the Bombay Plan first to facilitate comparison.

The aim of the Bombay Plan was to attain in fifteen years time, ‘a general

ment, 11.12.1942, P. T. Papers, File 291, part 1, Nehru Memorial Museum and Library.

¹⁹See Bombay Plan, page 1.

standard of living which would leave a reasonable margin over the minimum requirements of human life.’ (Bombay Plan, p.7). This minimum requirement contained food, clothing, shelter, healthcare and basic education²⁰. It was calculated that per capita real income of the time would have to be doubled to attain the targeted consumption.²¹ But because population was increasing by 5 million a year²², national income had to be trebled in fifteen years to attain the proposed increase of per capita income.

A set of sectoral growth rates was then established from this targeted increase of national income. Together the rates would ensure the desired growth of national income and were taken to be feasible given the technology of the time. Over the fifteen year horizon, the Plan envisaged 130% increase in agricultural output, 500% in industry and 200% in the services. This amounted to a structural transformation of the economy. According to the Plan’s calculation the contribution of agriculture, industry and services to GDP would change from 53, 17 and 22 per cent²³ respectively at the time, to 40, 35 and 20 per cent at the end of the Plan²⁴. Chapter 3 of the Plan explains the logic of the sector targets and their inter-relations. These discussions show that the secretariat had done extensive research for the Plan. The Plan also developed targets for education, health and housing based on an informed discussion of requirements (see below).

Sectoral growth targets were then used to calculate outlays for the respective sectors. The Plan estimated capital and recurring costs separately, which

²⁰The authors considered 2800 calories of well-balanced food per day, 30 yards of clothing per year and 100 square feet of housing as the minimum need for any person.

²¹Rs 74 per person per year was taken as necessary to attain the minimum at pre-war prices. Target per capita income was calculated by using this. V. K. R. V. Rao’s national income estimate of 1931-32 was used as the basis to estimate the income in 1943-44. Calculations were at constant prices- the average of 1931-39.

²²The Plan used the latest Census.

²³The Plan notes that in fact the proportion of agriculture was higher. The figures available to them were based on 1931-32 prices, when agricultural prices were abnormally low due to the Great Depression.

²⁴Some small and unclassified incomes were not included in these figures.

made the assumptions about costs easy to follow. It then combined the two to produce the total outlays. These outlays are shown in Table 1.

Table 1: Bombay Plan: Sector-wise Capital Outlay.

Capital Outlay	Rupees Crore
Industry	4,480
Agriculture	1,240
Transport and Communications	940
Education	490
Health	450
Housing	2,200
Miscellaneous	200
Recurring expenses	–
<i>Total</i>	10,000

The size of the Plan at Rs. 10,000 crore was equivalent to 30 billion U.S. dollars. The Plan discussed a financial strategy and the sources of finance for both rupee resources and foreign currency in chapter 4. I will not discuss the finances in this paper and focus on the physical plan.

Table 2: Bombay Plan and the First Three Five Year Plans

Sectoral Outlay in percentage

	First Plan	Second Plan	Third Plan	Bombay Plan
Agriculture and Community Development	15.1	11.0	14.0	8.3
Irrigation, and Multipurpose Irrigation and Power	28.0	19.0	22.0	45.0
Industry, including Small Industries	7.6	24.0	24.0	
Transport and Communication	23.6	28.0	20.0	9.0
Social Services	22.6	18.0	17.0	27.6
Miscellaneous	3.0	-	3.0	10.0

I want to first compare the sectoral allocation of the Bombay Plan with that of the five year plans to highlight the extent of similarity. Table 2 provides this comparison.

First about the differences. Allocation for 'transport and communication' (row 5) in Bombay Plan is significantly smaller. What is itemised under this heading in Bombay Plan is also different. Spending itemised and discussed in the Bombay Plan is for transport alone, which included rail, roads, waterways, harbours and reconstruction. There is no separate discussion of non-transport communication items like post and telegraph. It appears to me that such items were to be funded from the miscellaneous category and some might have been also included in investment for engineering goods. Even if we make reasonable assumptions for these expenses, Bombay Plan's allocation ratio for transport and communication would fall short of the five years plans'. On the other hand the size of the Bombay Plan was much larger. So the absolute amount of spending on transport and communication would not be very much smaller, and the amount of spending on transport alone would be no smaller at all.

The second difference is in social services (row 6). Bombay Plan discussed

the requirements of housing, education and health to sketch a thoughtful, though very brief, outline of policy for each of them. The discussion led to a well-researched proposal with breakdown for various aspects. As an example, it allocated its education budget over primary, secondary, tertiary, adult, vocational and scientific education as well as research, providing reasons for the amounts. Five year plans provided for a smaller allocation on social services. Arguably, they also show a lack of vision compared to that of the Bombay Plan.

Leaving these two sectors, the rest of the allocations are strikingly similar. To appreciate the extent of similarity, note the following:

1. Items classified as ‘irrigation, and multipurpose irrigation and power’ (row 3) and ‘industry, including small industries’ (row 4) in the five year plans were clubbed together in the Bombay Plan’s presentation. Together they form very similar percentage of overall outlay in the Bombay Plan and the five year plans.
2. Difference in agricultural spending (row 2) between five year plans and the Bombay Plan is only apparent. The amount in the Bombay Plan presents only direct spending on agriculture, while for the five year plans it includes spending on community development. When community development items are taken out from five year plan outlays, the proportions are almost equal.

Therefore the allocation ratios for industry and agriculture were almost the same and the proposed spending on transport not very different.

Similarity of allocation is not the only similarity. Time sequence of investment outlays is also similar between the two sets of plans. Bombay Plan had laid out how sectoral outlays were to be sequenced over the fifteen year horizon. It explained the rationale and importance of the sequence in chapter 5 of volume 1. The fifteen year period was broken into three five year terms. Investment strategies were formulated for the three terms in a way that the

transitional costs like inflation could be minimised. The first five year period was to give significant emphasis on agriculture and consumption goods though investment in basic industries was to be started off, and a relatively modest beginning would be made for transport²⁵. The second five year term was to increase the allocation for heavy and core industries by reducing that for consumption oriented industries. The assumption was that growth of the first five years would spur private initiative in food and consumption goods production in later years. In the final five years, transport and social services came in for special attention even as industrial investment was to continue. The Indian government's first three five year plans chalked out an identical intertemporal path. They stressed agriculture and consumption goods in the first plan, and then heavily invested in basic industry and transport from the second plan onwards.

These similarities are not coincidental but follow from common assumptions and identical strategic vision, of which the following are the most important.

(i) Both assumed a central role of the government. This is well known for the official five year plans both from actual experience and from proclamations like the Industrial Policy Resolution. But the extent of emphasis on the government's role in the Bombay Plan is not known widely. It was indeed the central institutional assumption for the Bombay Plan document. At the very beginning the document states "...we think that no development of the kind we have proposed will be feasible except on the basis of a central directing authority which possesses the requisite powers and jurisdiction" (Bombay Plan, page 2). The amount of power the authors wanted for the central mechanism can be judged from the following statement, "...in order to prevent the inequitable distribution of the burden between different classes which this method of financing will involve, practically every aspect of economic life will have to be so rigorously controlled by government that

²⁵I am using 'transport' where the text of the Bombay Plan uses 'transport and communication' or simply 'communication'. This is because the Plan's spending on transport and communication was mostly in transport as I pointed out earlier.

individual liberty and freedom of enterprise will suffer a temporary eclipse.” (page 48). This view, uncharacteristic of private industry as it was, surprised observers. On the other hand it means that there was no difference between the Plan’s vision of the implementing mechanism and that of the government of India’s.

(ii) Both plans emphasised rapid development of the basic and core industries as part of overall strategy. Official five year plan documents mention it again and again. Perhaps it is most summarily stated in the second plan document when describing its objectives as “rapid industrialisation with particular emphasis on the development of basic and heavy industries”. (2nd Plan, chapter 2, section 6). Bombay Plan on the other hand states the idea this way: “Basic industries, which will get priority over the other type of industries would include among others the following groups: Power..., Mining and metallurgy..., Engineering..., Chemicals..., Armaments, Transport....., Cement.... These industries are the basis on which the economic superstructure envisaged in the plan will have to be erected.” (Bombay Plan, page 25).

(iii) Both denied any role to foreign direct investment. Bombay Plan made it clear in chapter 4 titled ‘Sources of Finance’. Discussion of the finances made it obvious that foreign investment had no place in the scheme, though the Plan carefully avoided stating it explicitly anywhere²⁶. Government of India documents were however explicit from a fairly early date. The Advisory Planning Board of the interim government of 1946-47 wrote, “Foreign capital should not be allowed to enter or where it already existed, to expand even in non-basic industries such as consumer goods. If necessary the coun-

²⁶Bombay Plan’s insistence on no foreign investment became a sore point with the British. As an alternative Lord Wavell proposed a portfolio of ideas for ‘reconstruction’ which L. S. Amery, an influential British conservative politician described to be “as bold and . . . methods more practical than those of the Birla scheme.” ‘Birla scheme’ here refers to the Bombay Plan. British industry suggested cooperation between British and Indian business using the framework of wartime cooperation as a model. See Wainright (1994), page 39 and footnote 28 on that page.

try should rely on imports. In due course of time it will be possible to restrict or discontinue foreign imports; but foreign vested interests once created would be difficult to dislodge.”²⁷ This position was carried over into the government of India’s five year plans and would not change until the liberalisation of 1991.

(iv) Both wanted to increase agricultural output by managing technology and inputs,– through irrigation, modern inputs and bringing more land into cultivation. Land reform was not considered as part of the plans. Bombay Plan discussed it as a social and distributive measure in volume 2 and not as an output augmenting measure in volume 1. The government of India too did not propose change in land relations as part of the plans.

These four common features form the basis of the Bombay Plan as much as of the government of India’s five year plans. Hence the plans were so similar. To stress the idea of similarity, I would draw special attention to the second five year plan. This plan is considered as unique and original, bearing the hall mark of Nehru era planning and vision. However the strategy on which the plan was based was already proposed in the Bombay Plan. The official second plan had two distinguishing features: (i) it emphasised public investment in the heavy and basic sectors of industry; and (ii) resources for investment were to be raised by forced saving. The latter was justified on the premise that investment would increase productivity in the long run sufficiently to justify the welfare loss of involuntary saving in the short run²⁸. We have already noted the emphasis on heavy and basic industries in the Bombay Plan. I also mentioned that the Plan wanted the emphasis to be heightened in the second of its five year periods and that overall allocation ratio for heavy industries was in fact more in the Bombay Plan than in the five year plans.

²⁷Quoted in Chaudhury (1984), page 9.

²⁸Mahalanobis’ (1953) model illustrated a path where sufficiently large investment allocation results in a long run growth rate that compensates the short run consumption loss from the large investment.

While proposing large outlay on core investment, the Bombay Plan was aware that investment of the proposed magnitude could not be supported by voluntary saving. The Plan, and later a pamphlet by G. D. Birla²⁹, explained forced saving in this context very succinctly. Observing that wars were able to mobilise resources by aggressively forcing down consumption, the Plan asked why this could not be done for economic development in peace time. (Bombay Plan, page 5). It later writes, "... a large part of the capital required, about Rs 3,400 crores, would have to be created by borrowing against *ad hoc* securities from the Reserve Bank..... There is nothing unsound in creating this money because it is meant to increase the productive capacity of the nation and in the long run is of a self-liquidating character." (Bombay Plan, page 47). Thus the Plan justified involuntary saving on the ground that the long run increase of output will automatically liquidate the loans for raising investment. In real terms it means that the growth of output will compensate for the short run output loss. Therefore the idea of industrialisation by pre-empting consumption with higher allocation to investment was not an original idea of the official second plan. There is no doubt however that to adopt this strategy in a new born state outside the communist bloc was certainly novel. Bombay Plan had dared to propose this novelty and Nehru's government had taken it up to implement³⁰.

Bombay Plan was however ahead of the official plans in its awareness of the macroeconomic implications of the plan strategy. It had realised that forced saving would stoke inflation. To quote the Plan " ..financing of economic development by means of 'created money' on this scale is likely to lead to a gap between the volume of purchasing power.. and the volume of goods available. How to bridge this gap and to keep prices within limits will be a constant problem which the planning authority will have to tackle." (Bombay Plan, page 48). The Plan proposed two precautionary measures.

²⁹G.D. Birla, *The Plan Explained*, (pamphlet), speech at FICCI.

³⁰For this reason the claim that the second plan was 'based on' the Mahalanobis model is misleading. The paper by Mahalanobis (1953) did not discover any growth strategy but was merely illustrative of an existing idea.

First, it emphasised the production of consumer goods in the early years, specifically discussing the production of textiles, leather goods, oil, glass, paper and tobacco³¹. The suggestion was that while in later years private supply would increase in response to demand, the Plan itself had to make provision for the early years. This was built into the Plan's temporal outlay sequence. Second, the authors believed that investment in consumption goods production alone would not suffice given the scale of the Plan. They therefore suggested curb on consumption with some form of rationing.

It appears that the Planning Commission did not understand the economics of its own plan as well as the Bombay Plan authors. It approached the plan mechanically as if it consisted of deciding about the investment allocations alone. This led to non-fulfilment of targets, inflation and disappointingly small increase in the number of jobs. G. D. Birla criticised the second plan document extensively bringing out the lack of clarity in the official vision. He pointed out that in order to succeed, the Mahalanobis strategy must leave room for all sorts of industry – small, medium and big, even as it emphasised the heavy and core sectors. He noted that the restriction on the factory sector accompanying the plan would create massive shortage of consumption goods and jobs, and would get in the way of the public sector investment.³² An article in the *Eastern Economist*, owned by Birla, described Mahalanobis as a 'statistician completely devoid of a sense of economic organisation', and the second plan framework as 'a theoretical shibboleth which if enforced, would in one sweep endanger India's future industrialisation.'³³ Taking a look in retrospect, it is difficult to accord credit to the official second plan of either originality or clarity of thinking.

There was however significant difference between the scale and ambition of the Bombay Plan and the official plans. The former had a target of trebling

³¹See Bombay Plan, pages 27- 28. It was noted that though initially these industries were in focus, the course of consumption goods industry would evolve with consumer choice and market demand.

³²Letter by Birla to Morarji Desai, referred to by Kudaisya (2003), page 327, notes.

³³Quoted by Kudaisya (2003), page 315.

the real GDP in fifteen years- which translates into an annual compound growth rate of 7.6 per cent³⁴. Five year plans were substantially less ambitious, target growth rates being 2.1%, 4.5% and 5.4% per year in the first, second and the third plan respectively³⁵. This is reflected in the plan outlay as a ratio of GDP. Average annual outlay of the first three five year plans was Rs. 945 crore³⁶, which was 10.3 per cent of the national income at the starting year of the plans in 1951-52³⁷. A comparable ratio for the Bombay Plan is more than 25%³⁸.

The difference of ambition arose from the inability of the government to raise finance in the scale proposed by the Plan. It was partly due to the changed circumstances from the partition of the country. Partly it was because some assumptions about trade surplus and exchange rates of the Bombay Plan failed to hold in the post-war. And partly it was because the Nehru government did not want to go for market borrowing to the extent that the Plan had proposed. It is beyond the scope of this paper to discuss these issues in any detail.

Given the similarity discussed earlier and the difference of scale noted now, it is difficult to escape the suggestion that the early five year plans constituted a scaled down version of the Bombay plan.

³⁴Some scholars have suggested that the target was too high. "In particular the growth rate recommended seems too high in view of the fact that there is no detailed policy outline for agriculture." Markovits (1985, page 27, footnote 70).

³⁵Source, Five Year Plans, Government of India.

³⁶Outlays for the three five year plans were respectively Rs. 2069 crore, Rs. 4600 crore and Rs. 7500 cr. Source, Five Year Plans, Government of India.

³⁷GDP in 1951-52 at 1952-53 prices was Rs. 9,110 cr.

³⁸Bombay Plan estimated India's per capita income as \$22 in 1944-45. Taking the population to be 340 mn (interpolation using Census data), GDP would be \$7.48 billion in that year. With the Plan's average annual outlay of \$2 bn, the ratio of the first year's income to annual outlay was more than 25%.

4 Why was the Plan forgotten?

A number of observers have recently commented on the similarity that I discussed above. They include Krishna (2005) who writes without any qualification or caveat that the Nehru era implemented the Bombay Plan. (Krishna, 2005, page 59). In a very similar tone Kudaisya (2003) writes “.. as things eventuated the Plan became the basis of independent India’s first Five-Year National Plan” (page 236). Also notably, India’s prime minister Manmohan Singh said in a speech at the centenary celebration of J. R. D Tata: “As a student of economics in 1950s and later as a practitioner in government, I was greatly impressed by the ‘Bombay Plan’ of 1944. In many ways, it encapsulated what all subsequent plans have tried to achieve . . .”.³⁹

Given the continuity of policy from the Bombay Plan to the official plans and other remarkable similarities, it is surprising that references to the Plan started thinning out in the late forties and then stopped entirely by the early period of official planning. By the time the fourth five year plan was launched, the Bombay Plan had already become a part of history. In this section I want to explore why the government of India, Indian political parties and business itself did not show any keenness to refer to the Plan after independence.

Communist Party of India and the Left: We may start with the political parties and first consider the Communist Party of India (CPI). Immediately after the publication of the Bombay Plan, CPI’s criticism was directed at the question of income and wealth distribution, which were not addressed in the first volume. CPI claimed that the Plan was irrelevant to the Indian people because it had not addressed income distribution. To quote B. T. Ranadive, at the time a member of the central committee of CPI, “Without an equitable distribution of wealth through minimum living

³⁹It was reported in all major Indian newspapers on August 24, 2004. The speech can be found at the website of the prime minister’s office, government of India. The URL is <http://pmindia.nic.in/speech/content.asp?id=12>.

wages, social security, etc, an all-round increase in the standard of living is not possible. ...a plan which defers distribution or ignores it ...can not be called a 'plan' for economic development..."⁴⁰. Overall assessment of CPI was that the Plan was a blueprint for building capitalism with the aid of the state. A related feature with which CPI and other left parties joined issue is that the Plan did not propose change of land owning pattern. According to them the Plan's attention to agriculture was not for the benefit of farmers but for developing capitalism in an agrarian country⁴¹. CPI did not revise this opinion even after the publication of the second volume of the Plan where the question of income distribution was central. This volume also discussed land tenure (page 14, volume 2), explained the merits of *ryotwari* and reasoned for replacing *zamindari* settlements with *ryotwari* (page 16, volume 2). But CPI and other left parties did not respond to these discussions either by accepting or rejecting them with reasoning.

CPI never changed its assessment of the intentions of Indian business in proposing the Plan and would soon distinguish between the Bombay Plan and the National Planning Committee's proposals which would be published in 1948. It theorised that the former was a blueprint for capitalism, while the latter promised a 'non-capitalist' path of development⁴². In a pamphlet published on behalf of CPI, the position was later summarised in these words: "... basic difference between the approach of the national bourgeoisie and the left democratic movement regarding the public sector while the latter wanted gradual curtailment of the role of big private capital and socialisation of major means of production in order to take to the path of non-capitalist development, the former wanted the state to enable it to

⁴⁰Ranadive (1944) p 11.

⁴¹To quote an article written later by a Marxist scholar, "The leading sections of the Indian bourgeoisie, who were responsible for drawing up the Bombay Plan, were not interested in developing agriculture per se, their interest in agricultural development derived from their overall objective which was the promotion of capitalism, notably industrial capitalism in India" (Patnaik, 1993, p 121).

⁴²See Mukherjee (1978) for a discussion of the position of the Indian left on the question of Indian capitalists' intentions.

develop the economy by taking to an independent capitalist path.”(Mishra, 1975, p 6).

Though it dismissed the Bombay Plan so thoroughly, CPI became a supporter of the Nehru era economic planning as a sequel to its support for the National Planning Committee’s proposals. Its criticism of economic policy of the period was based on the lapses and opportunism of implementation rather than the principles of Nehru era planning. It theorised that the Industrial Policy Resolution, central planning, and import substitution together provided a preferable alternative to capitalism until socialism could be established. This, I believe, led the CPI into a seriously contradictory position. Institutions and policies that CPI came to support now were mooted by and justified in the Bombay Plan. In these circumstances it was not possible to continue to cry down the Bombay Plan. Yet, accepting the Plan would amount to an admission of mistake which the party was not prepared to do. The troubling question the party was to face was this. Nehru era economics could not presumably move India away from capitalism if its institutions and strategies were the same as had been proposed by India’s big business. Further, as planning progressed, the similarity of vision and allocations of the Bombay Plan’s five year blocks and the official five year plans was to become more and more apparent. The contradiction remained a potential source of its discomfort.

Thus CPI got into a position where they could neither say positive things about the Plan nor negative things. I would speculate that the leaders of CPI tried to escape the difficulty by avoiding talking about the Plan⁴³. Given that in a communist party what is avoided by leaders is avoided by all, including the intellectuals who support the party, the silence of the leaders transformed itself into an unofficial gag. Indeed by the middle of the fifties there was hardly any remembrance of the Plan from their side.

⁴³In the post-independence years, CPI had to maintain its socialist credentials against other organised socialists e.g. the Praja Socialist Party established in 1952.

Indian National Congress and the Government: Indian National Congress and the government led by it also went silent on the Plan. Like the communists, Congress too was in a position from where they could neither accept the Plan nor reject it. After independence, the Congress-led government projected itself as the champion of an alternative path of development and a socialist pattern of society. This idea shaped its foreign policy of forming a club of import-substituting countries—the non-alignment movement. The idea was also used to rationalise the government’s relations with China and the USSR. At home the government tried to utilise the Industrial Policy Resolution and the five year plans to project a seriously left-of-centre image in a fast polarising domestic politics. To be seen as toeing the line of big industrial houses at this point would seriously damage its claims at home and abroad. Congress was therefore in no position to acclaim the Plan.

It had to care for a few other compulsions too. Bombay Plan had been favourably mentioned by several members of the Congress after its publication and that continued to be used to paint the party as pro-business⁴⁴. Similarly, the closeness of Mr. Birla to Mahatma Gandhi and a faction of Congress remained a point of embarrassment and a reminder that the party was close to industry and business. Congress as a party would like to wipe out these sources of embarrassment and distance itself from the Plan and its authors.

⁴⁴Here is an example: “Any possible doubt about the attitude of the older parties towards the Bombay Plan, which frankly postulates a dictatorship of big business, has been dispelled by what happened in the autumn session of the central assembly. One Muslim League member had tabled a resolution calling upon the Government not to entertain the capitalist plan. . . . During the debate the Leader of the Congress Party did not have one word to say against the Big Business Plan. On the contrary he went out of his way to shower eulogies on the Member in charge of the Department of Planning and Development of the Government, who is one of the authors of the Bombay Plan. If that is not supporting the Big Business Plan, then human behaviour has no logic, and words have no meaning.” (from the Presidential address at the Conference of the Radical Democratic Party, 1945.). See p. 899, Ralhan (1997).

On the other side, Congress could not dismiss the Plan either. This option was closed because the National Planning Committee had copiously interacted and exchanged notes with the Plan authors and vice versa, and that was public knowledge⁴⁵. Also some Plan authors played important role in various technical and economic committees of the Congress. Some had been nominated for important government positions by the Congress. For example Sir Ardeshir Dalal was appointed as Member for Planning and Development of the government of India in August 1944 just a few months after he co-authored the Bombay Plan. J.D. Shroff served as India's delegate to the Bretton Woods Conference on post-war monetary and financial systems, and in 1948 Tata was India's delegate to the United Nation's General Assembly.

Congress therefore could neither cry down the Bombay Plan nor praise it. This possibly was the reason for it to go silent on the Plan and let it move out of attention and memory. The silence of Congress was understood by the bureaucracy of its government. Thus official plans and other documents of the Planning Commission also did not refer to the Plan⁴⁶.

Parties of the Right: We do not have enough material to speculate about the parties right of Congress. The only party on the right of Congress in 1944, the Akhil Bharatiya Hindu Mahasabha, had a different set of preoccupations at the time and I could not find it commenting or referring to the Plan. Some personalities who later founded or joined the Bharatiya Jana Sangh (est. 1951), the Forum of Free Enterprise (est. 1956) and the Swatantra Party (est. 1959) were in the Hindu Mahasabha or inside Congress in 1944. Many of them took public position on India's economic plans during their career in Jana Sangh or the Swatantra Party, but I did not come across anything on the Bombay Plan.

⁴⁵See Chattopadhyay(1989) and Mukherjee (1976), and Mukherjee (1978).

⁴⁶Tarlok Singh of the erstwhile Indian Civil Service who oversaw the mechanism and working of the Planning Commission and the plans in Nehru's time wrote his article on the Bombay Plan, Singh (1963), only after he retired from the government.

Swatantra Party's election manifesto of 1962 opposed 'the policy of Statism' and announced, 'the business of the State is not business but Government'⁴⁷. But its opposition was not against economic planning *per se*. It was against the curb on economic freedom for which it held the Nehru era responsible—both its economics as well as politics. The distinction between economic planning in general and that of the Indian government of the time could be seen in not only the Swatantra Party but other parties and forums of its kind. To take an example, Forum of Free Enterprise was founded by A. D. Shroff. It was against the growing marginalisation of private business during the first five year plan and the proposed nationalisation measures looming at the time. Mr. Shroff, an author of the Bombay Plan, clearly was not against economic planning as such. The resistance of these parties and organisations was directed against the restrictions on economic freedom and was located in the context of the on-going political process. Hence they did not, nor needed to, refer to the Bombay Plan which in any case was fading from public memory⁴⁸.

Authors of the Bombay Plan: We may finally ask why the authors of the Plan themselves did not dwell on it subsequently. The Plan was based on extensive research, economic calculations, reasoning and foresight. Hence it is expected that even if the authors lost political interest, they would retain an intellectual interest in it. For some time after its publication secretariat members actively promoted the Plan in various constituencies and forums⁴⁹. But after a period of activism, they seem to have withdrawn

⁴⁷From the Swatantra Party manifesto, To Prosperity Through Freedom.

⁴⁸That the left-right co-ordinate determines the position on economic planning does not hold in all cases, at least not apparently. Mr. Shyama Prasad Mukhopadhyay who was a founder of Bharatiya Jana Sangh was the Union Minister of Industry and Supply when the Constituent Assembly adopted the Industrial Policy Resolution. Later on Mr. Mukhopadhyay had resigned from Nehru's government protesting against certain policies but not against its industrial policy.

⁴⁹G. D. Birla was particularly active in promoting the Plan. He wrote a pamphlet referred to earlier and spoke at a number of forums. Like Birla, Dalal also wrote a pamphlet in 1944 to promote the Plan. See the role of Birla generally in the Plan endeavour

from the campaign and even stopped referring to it. They did not try to revise, edit or reprint the document any time later. The probability that this happened by default is small given the involvement of a group of serious-minded industrialists and technocrats. It is more likely that the authors consciously decided to allow the document fade from public memory.

We will speculate on a number of reasons for this. The first is that the leaders of Indian business who authored the Plan realised that business in general was not too happy with the document. FICCI's endorsement of the Plan was not spontaneous but came after serious efforts from Mr. Birla⁵⁰ and others. Even after endorsing the Plan, FICCI had not shown any interest in it. As Tripathi writes in *The Oxford History of Indian Business*, "...the federation (i.e. FICCI) refused to contribute even a paltry sum of Rs 1,000 to its (Bombay Plan's) funds, citing budgetary constraints."⁵¹ Dislike was even more pronounced among business outside the organised part that FICCI represented⁵². Besides this dislike, some business personalities had apprehension about possible abuse of the Plan and some thought it was pre-mature. Sir Padampat Singhania for example feared that if India did not get freedom soon then the Bombay Plan's proposals could be used by the British to control the Indian economy. He wrote about his fears to the authors of the Plan⁵³. The fear turned out to be true to an extent with the announcement of a 'plan' by the government in 1945. While business, political parties and Indian newspapers protested and opposed the plan⁵⁴, it certainly would have made the Bombay Plan even less popular among industry and business.

as recollected by Tata and reported in Lala (1988).

⁵⁰Birla's pamphlet referred to earlier was written for persuading FICCI.

⁵¹Quoted by P. Guha Thakurta in 'Bombay Plan and Mixed-up Economy', in Business Line, September 7, 2004.

⁵²Kochanek (1974) discusses the attitude of small and medium business of different sizes and different regions on the question of central planning, and their political dilemma in the late forties and early fifties.

⁵³See Mukherjee (1978), p1517.

⁵⁴See Mukherjee (1978).

Plan authors wanted the government to take an active role in building infrastructure and core industries after independence. It is likely that when they understood that the government led by Congress would move in that direction any way, they were happy to de-emphasise the Plan. This would have helped arresting the alienation of the leaders from business at large. Secondly, the leaders might have realised that if official plan effort was seen as emerging from the suggestion of big business houses, it would lose a significant block of support, not just from the communists but also from within the Congress party. This could be an extra reason for relegating the Plan into the background.

A likely third factor is that even though the Bombay Plan itself had proposed central planning, business leaders were surprised by the extent and form of control generated by the Nehru era planning. Business and industry were seriously concerned by the end of the first plan. This concern was behind the changeover from Hindu Mahasabha to Jana Sangh with more economic issues on its agenda. The same concern led to the emergence of the Swatantra Party and led Mr. Shroff to establish the Forum of Free Enterprise a few years later. The concern continued through the period as seen from statements of business leaders. After the end of the sixties, Tata said in his annual statement as chairman of TISCO, "In the past twenty years, the freedom of action and the scope of operation of the private sector have been subjected to a gradual but continuous process of erosion in the course of which the government has achieved a measure of control and ownership of the means of production and distribution, which would have been inconceivable to any of us if introduced all at once at the start and which is unprecedented in any country other than those under totalitarian rule..."⁵⁵

Leaders like G. D. Birla and JRD Tata probably sensed the rising culture of control much earlier. It could be as early as in 1948 when the report of the Economic Programme Committee of the Congress was published and Indian business was shocked by the proposal of nationalisation and other

⁵⁵Tata (1971)

measures mooted in the document. Kudaisya (2003) refers to a letter by Homi Mody to Birla, which shows the concern quite clearly⁵⁶. G. D. Birla was so perturbed that he, with Mody, drafted a strong refutation of the Economic Programme Committee's proposals on behalf of FICCI soon after. Around this time Mr. Birla wrote to G. B. Pant, "The British have gone and the princes and the *zamindars* are in the background. The Congress accustomed to a target for its hatred, is now finding only one target, that is the capitalist."⁵⁷ I believe that the Plan authors realised that they did not anticipate the political development that would attend centralised planning almost as soon as Congress started the warm up for five year plans. If true, this would be a strong reason for the Plan authors to move away from making any reference to the Plan.

5 Conclusion

I want to conclude this essay by pointing out an observation made by V. K. R. V. Rao while reviewing the first five year plan. He noted that the Bombay Plan and the first five year plan both provided for significant government control, but did not propose that the government should take over the economy like the Soviet plans (Rao, 1952). In this sense Indian planning was a novel institution, not an emulation of anything of the past. I believe that the idea of an economy with substantial private and public production was the most important contribution of the Bombay Plan and not, as is generally presented, an innovation of the government of India.

Bombay Plan was forgotten not because it was worthless or faulty or lacked vision. It was dropped out of memory for strategic reasons. Not mentioning it was the best strategy in the fifties for all the important players. I would

⁵⁶Homi Mody to Birla, 28 January, 1948 in Birla Papers, Series I, File No. M-19, Mody, Sir Homi and Russi.

⁵⁷Birla to G. B. Pant, 15 October, 1948, in Birla Papers, Series I, File No. P-10, Pant G. B.

suggest that it is worthwhile to bring it back into academic discussions and class rooms. It will help understanding the beginning of planning in India as also a part of the economic and political history of the 1940s.

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