Capitalist Planning? The “Bombay Plan” as Contribution to Economic Debates Within the Indian National Movement, 1927-1945

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The desire to draft a planning framework for India after independence was not only expressed by leftist groups. It was also on the agenda of business groups who published the Bombay Plan in 1944. Ideas of “economic nationalism”, “state control”, and “socialism” were attained from heterogeneous debates within the national movement and attached to a pro-capitalist agenda. This paper will explain the power relations behind the Bombay Plan, within the field of political forces of the Indian national movement. It shows their success in the strategy of co-operating with the Indian National Congress (INC) to impose their economic agenda. Secondly, it argues that there was a strong capitalist interest in planning.

Keywords: planning, national movement, Indian National Congress, Indian businessmen, Bombay Plan

Introduction

The interwar period between 1918 and 1939 marked a phase of thinking about economic planning around the world. The trend towards stronger state regulation was an outcome of the global economic crisis of the 1930s, influenced by the Soviet case which caused astonishment. Depending on the political programme these regulations ranged from raising trade barriers to deficit spending and state-led infrastructure projects, not only in fascist Germany and Italy, but also in the US and in the UK (Schivelbusch, 2006, pp. 9-13).

These ideas influenced the growing academic interest in India towards “modern” economics which from the beginning focused on the question of British rule and its economic impacts. Therefore, it was a highly politicized project in which planning was either used to substantiate colonial rule or to serve as justification for the national cause. In this context, the concept of “economic nationalism”, developed by Dadabhai Naoroji around 1900 (Chandra, 1966, p. 636), became influential on actual plans and policies in the 1930s and 1940s and should be seen as a precondition for the National Planning Committee (NPC). Planning did become so engrained into the nationalist project that any group seeking to shape independent India had to engage into the discourse.

The examination of the businessmen’s Bombay Plan warrants a discussion on how these respective ideas used the planning framework in order to gain influence over the movement and whether they were successful. Ideas of “imperialism”, “nationalism”, “state ownership” vs. “state control”, and “socialism” were interpreted in different ways and unfolded distinctive trajectories pointing to the political power that these various interests
were able to attain.

The emergence of a capitalist class is important in this context since businessmen in India did not form a homogeneous group. They could be differentiated along regional, communal as well as professional lines, making it interesting to note how such conflicting interests played out vis à vis the state. The Federation of Indian Chambers of Commerce and Industry (FICCI), on the one hand, serves as a good example, demonstrating the capitalists’ ability to organize their interests and form an efficient pressure group. Leftist parties on the other hand, were less able to foster cohesion across lines, and were significantly divided on the question of collaboration with the national movement. This configuration had a major impact on India’s political economy.

The Bombay Plan of 1944 is the manifestation of business planning. Drafting a plan was not only a hegemonic project of shielding the movement against any leftist influences, it was not just a “capitalist plot” (Lockwood, 2012a; Chibber, 2006). Beyond that, the planners of the Bombay Plan had a clear political and economic interest in the actual implementation of it. Ideas of “imperialism”, “nationalism”, “state ownership” vs. “state control”, and “socialism” were attained from heterogeneous debates within the national movement and attached to a pro-capitalist agenda.

Due to their emergence in a phase of colonialism, Indian capitalists were always aware of the fact that they were not able to become the dominant class on their own within the Indian state. There had always been a process of negotiation within a field of forces between the colonial government, British entrepreneurs as well as within the Indian business world itself. The rise of the Indian National Congress (INC) just added another faction to it. This paper will explain the formation of the forces behind the Bombay Plan, starting with the emergence of a capitalist class and then move on to their interaction with the national movement. The third part uncovers the capitalist agenda of the Bombay Plan.

**The Formation of Business as an Interest Group Within the Congress**

**Heterogeneity of the Business Community**

Although Indian “industrial” enterprises took off from the second half of the 19th century, the country saw its first significant galvanization of industry during the First World War. Relative economic weakness of countries directly engaged in the war was especially beneficial for jute and cotton firms (Rothermund, 1988, pp. 66-67). This genesis complicates generalizing the affinity of Indian business for colonialism since war time profits were either generated because of the weakness of British competitors within the market or due to the strength and tightness of the colonial market (Tripathi, 2011, p. 298). Thus, relations between Indian companies and the national movement varied accordingly.

Whereas this paper focuses mainly on political alliances of industrial commerce, small-scale entrepreneurs in trade, money lending, or operating within other areas of the “traditional” credit system were numerically superior within the business community (Panandikar, 1965, pp. 414-441). Due to direct competition with “modern” British finance, these businessmen were more open to Gandhian and nationalist ideas. However, within the period of 1927-1945 it is useful to focus on industrial businesses since their economic growth within the interwar period enabled them to form a counterweight to British industry in the 1940s. This trend was enhanced by the simultaneous pull-out of British finance out of the subcontinent during the same time (Kidron, 1965, pp. 53-54).

However, it must be emphasized that it is impossible to draw a clear distinction between “traditional”
businessmen and Indian industrialists. Instead, industrialization in Indian can be seen as an organic process where the latter grew from “traditional” trade and credit family enterprises. In this context, Hazari (1967) analyses the capital structure of emerging industrial firms and observes that they consisted of an “inner” and “outer” circle, i.e. ventures mainly were financed directly by family capital and partly by shareholding of other business units (p. 7). Therefore, the lack of access to “modern” finance was compensated by capital accumulation within family networks which was sometimes even a comparative advantage as opposed to their British counterparts (Tomlinson, 1981, p. 455).

Apart from differentiations of economic activities within the sector, there were huge regional variations, distinct in terms of political preferences. This was peculiarly evident in the Calcutta-Bombay dichotomy of business relations to colonial authority. While Calcutta was characterized by high degrees of racist divides which complicated market entry for Indian entrepreneurs (Misra, 1999, p. 127), there were tighter business connections in terms of management and firm operations in Bombay (Tripathi & Mehta, 1990, p. 55). Unsurprisingly, Calcutta’s businessmen had formed closer links to the nationalist movement much earlier than their counterparts in Bombay. The best example for this is Ghanshyamdas (G.D.) Birla, a Marwari who soon became very active in the jute sector. In his autobiography he describes the racial discrimination he faced while doing business and how these “insults” shaped his political thinking (Birla, 1953, p. xiv). This resulted in a close affiliation to Mohandas Gandhi which was not only visible in Birla’s financial contributions to Gandhi’s campaigns, but also in his functions as an “emissary” between business and Congress interests (Ross, 1986, p. 232).

Differences in affinities with the national movement in Bombay were not only a result of a more inclusive management structure of companies, it was also the outcome of worsening economic conditions within the cotton sector. Cheap raw cotton goods from Japan threatened British and Indian businessmen alike and led to collaborative demands to protect the imperial market from the outside (Chatterji, 1992, pp. 240-244, p. 248). One enterprise that especially benefited from the imperial framework was the Tata Group which was able to diversify its portfolio significantly during the wars, ranging from steel to cotton producing companies (Gordon, 1978, p. 7). This explains why the Tatas were slightly more in favour of the colonial government than businessmen elsewhere. The same is true for other Bombay-based entrepreneurs such as Purshottamdas Thakurdas and Walchand Hirachand to a certain extent (Bhattacharya, 1979, p. 28).

Newly emerging industrial towns such as Ahmedabad, Coimbatore, and Kanpur also became centres of national agitations. National sentiments were widely shared among the business communities there. For example, cotton producers such as Ambalal Sarabhai and Kasturbhai Lalbhai in Ahmedabad had a strong affiliation to Gandhi. According to Tipathi and Jumani (2013) this had not only to do with these companies facing direct competition from fine cotton manufacturing firms in Lancashire, but also with cultural affinity based on a Vaishnava Jain working ethos (p. 260). It should be mentioned, however, that this cultural loyalty paid off economically as well. Due to Gandhi’s sway over trade unions in Ahmedabad this town was relatively spared from labour agitations which were prevalent in other parts of the country in 1928-1929 (Tripathi, 1981, p. 313; Sarkar, 1989, pp. 232-233).

I ideological Premises for Political Participation

The reason Gandhi played such an important part in shaping the relations between business and the national movement was his concept of “trusteeship of wealth” appealing to industrialists, even though his ideas
of organizing production within the village on a subsistence base were otherwise different from the developmental vision they had for India (Zachariah, 2005, p. 163). This theory justified the concentration of wealth and power in the hands of a capitalist class in case these possessions were somehow redistributed (Singh, 1975, pp. 126-127). Since this created the paternalistic vision of the “trustee”, it was crucial in awarding agency to businessmen in the realm of common economic interests and lay the foundation for their engagement in political spheres.

Another important idea which underlay business-politics relations was the “drain of wealth”. The concept was popularized within the Indian national movement by Naoroji (1901) who accused British rule of impoverishing and under-developing India, causing famines by food exports, hindering development by destroying indigenous industry, and draining surpluses for reinvestment (p. 29). This lay the foundation for an economic nationalism favouring “swadeshi” products manufactured by Indian industrialists. It also granted these industrialists an important position within the campaign as they were indirectly assigned the position of leading India out of poverty by preventing the drain.

**The Relations Between Business and Congress**

Although individual political engagement of businessmen started much earlier, it became institutionalized by the formation of the Federation of Indian Chambers of Commerce and Industry (FICCI) in 1927 initiated by Birla and Thakurdas. FICCI did not include Bombay businessmen to a large extent in the beginning, but it was still a key first step in bundling business interests and influencing Congress politics, for instance by successfully urging Gandhi to participate in the round table conferences (Birla, 1953, p. 40). Congress’ authority over the political realm was broadly acknowledged by FICCI, which meant that demands were articulated within and through the party rather than by solo actions.

This configuration of business interests did not come together naturally. Pressure on Congress-business cooperation increased after the formation of the Congress Socialist Party (CSP) in 1934 which signaled a possible threat to commercial groups (Times of India, 1936, May 20; 1936, May 23). Forming a larger business alliance under FICCI and within Congress was only possible when the party came into office following the 1937 elections and it became clear that actual policies would not harm the entrepreneurial community. In that year Jehangir Ratanji Dadabhoy Tata joined FICCI to benefit from its close relationship to the Congress (Markovits, 2008, pp. 49-50). Contrary to initial fears, the Congress actually supported business interests by enacting the *Bombay Trade Disputes Act, 1938* which encumbered strike activities (Bradley, 1939).

The experience of governing stirred the interest in long-term economic policies. The NPC was formed in 1938 to come up with ideas for the economic future of India. The framework of “planning” was accepted not only by its socialist members but also by participating businessmen such as Thakurdas, Hirachand, and Sarabhai (NPC, 1940a, p. 3). The details of “planning”, however, were controversially discussed within the committee. Debates mainly focused on state ownership versus state control (NPC, 1939, p. 3, 102). This conflict remained largely unresolved until the NPC became inactive following Nehru’s imprisonment in 1939. Certain indicators, such as a low attendance rate of businessmen in committee meetings (NPC, 1940b, p. 34) as well as low financial contributions (Tripathi & Jumani, 2013, p. 274), suggest that the NPC was used as a take-off board for businessmen to formulate their own ideas of “economic planning” without interference. The justification for the formulation of the *Bombay Plan* without Congress participation was delivered by Nehru:

1 For a detailed account of the relationship between FICCI and the Congress see Chenoy (2015), especially chapter 3-5.
“Even under existing conditions we must make every effort to adopt all measures and policies which develop the resources of the country and raise the standard of our people” (NPC, 1939, p. 73, italics added).

The anticipation that the Second World War would provide similar economic opportunities like the First World War, only became true in certain sectors of the economy since the British government in London had made sure that the home industry was not suffering under the war efforts (Lockwood, 2012b, p. 164). Therefore, the 1940s were not beneficial for all Indian businessmen alike which increased claims for greater economic independence. This was accelerated by a change in monetary relations, with Britain becoming a debtor country due to financing its war endeavors by lending Indian money, thereby providing Indian sterling assets (Chattopadhyay, 1990, p. 21). It even caused (mainly, but not exclusively) Ahmedabad-based business participation in the Quit India Movement 1944 in Ahmedabad (Tripathi, 1981, pp. 181-182). The Bombay Plan was created in this environment, where the framework of an Indian national state was recognized by all its participants (Thakurdas et al., 1944, p. 2).

**The Bombay Plan**

The *Bombay Plan* was written by the leading business elite of its time, initiated by Birla and with the contribution of various entrepreneurs such as Thakurdas, Lalbhai, Sri Ram, and J. R. D. Tata. It was the Tata headquarters where preparatory meetings were held and the plan was finally released (Lala, 1993, p. 106, p. 221). After publishing the plan, business positions on planning were articulated in several newspapers, most importantly within the *Eastern Economist*.

There were two parts of the plan: The first one dealt with production increasing measures whereas the second part dealt with redistributive features within a frame of 15 years, divided into three five-year sections (Thakurdas et al., 1944, p. 2). Thus, the plan built on ideas developed by business and leftist forces alike. These ideas included anti-imperialism and economic nationalism which were attractive to businessmen seeking to reduce foreign competition and especially to communists as well due to their focus on British exploitation. Furthermore, the *Bombay Plan* was an outcome of the NPC insofar as the question of state ownership versus state control was directly addressed.

The plan aimed at doubling the national income during a period of 15 years, allowing for a population growth of five million people per annum. In order to do so, it was planned to rise agricultural net income by 130%, to double it within the services sector, and see a 500% rise of net income within the industrial sector, resulting in an overall average income of 74 rupees per year (Thakurdas et al., 1944, p. 1, pp. 20-24). However, the planners were conscious that this meant “nothing more than to secure for our people their bare requirements as human beings” (Thakurdas et al., 1944, p. 21).

**Economic Nationalism and Anti-imperialism**

Becoming economically independent was the core aim of the plan. The idea of ending “imperialistic exploitation” (Thakurdas et al., 1945, p. 22) permeated through the plan, from finance to foreign trade and the sectoral organization of the economy.

The finance of the plan was based on Keynesian deficit spending models. Adding up all investments the objective was to raise 100 billion rupees—74 billion in India itself, 26 billion abroad. It was assumed that the

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2 Indian communists had an imperialist approach to the question of exploitation, as they had similar ideas on the “drain” of India’s resources due to British exploitation. In this point, it could be argued, there was a convergence between Indian industrialist and communist interests. For a communist perspective on the “drain”, see Dutt (1958, p. 77).
The savings rate in India was significantly low, therefore the country would be dependent on 34 billion of “created money” (Thakurdas et al., 1944, p. 46), i.e. the expansion of the monetary base, which was planned to be self-liquidating through the process of economic growth.

The most important element of foreign financing was the use of the sterling balances accumulated during the Second World War. A rise up to 10 billion rupees was expected until the end of the war. As they were considered to be available at the very beginning of the planning period, they were incorporated as a crucial resource to buy foreign technology. The sterling assets created a conflict of goals between the colonial rulers and businessmen, explaining the siding of entrepreneurial groups with nationalists and also seemingly leftist elements for the sake of economic progress.

In terms of foreign trade, it was aimed to achieve an export surplus, thereby creating foreign reserves at a level of six billion rupees. This was not only an important goal to overcome the “drain of wealth” where India was used as an imperial sales market for imported industrial goods, it was also significant since it was aimed at strengthening independence, because machinery imports were sought to establish heavy industries in India itself (Thakurdas et al., 1944, pp. 46-47). However, it was recognized that India needed “a minimal period of nurture and growth before being fully exposed to the full rigors of competition from established industries in foreign countries.” Therefore, foreign trade was envisaged to be controlled by the state to ensure foreign imports were restricted on the Indian market.

Consequently, the establishment of heavy industries in India was seen as the key element for economic independence. In relation to the industrial sector, agricultural growth played only a minor part within the Bombay Plan. Its role was to provide adequate quantities of food without exporting raw materials, thereby implying agriculture to merely be seen as providing the base for a secondary sector based take-off of the economy. Yet, to increase yield it was scheduled to form co-operatives to expand productive assets and to communize debt. Furthermore, it was hoped that this would bring technological advancement to agricultural production (Thakurdas et al., 1944, pp. 32-35).

The Legacy of the National Planning Committee

The NPC already aimed at economic independence, so it could be conceived of as a platform to link ideas of economic nationalism and anti-imperialism to business planning. Whereas there was a consensus within the NPC regarding the idea of economic independence, no agreement had been reached with respect to questions of state ownership and control. Business found its own answer by stating that questions of ownership should be decided to “allow private enterprise where it benefits and State enterprise where it is needed” (Birla, 1944, p. 382). Concretely, it was planned to leave the consumer goods industry in private hands and allow state control in key and heavy industries. State control was regarded sufficient and direct ownership would only create unnecessary inefficiencies (Thakurdas et al., 1945, pp. 28-32). Also, the plan implied the possibility that “if later on private finance is prepared to take over these industries, State ownership may be replaced by private ownership” (Thakurdas et al., 1945, p. 28).

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4 Economic controls after war. *Eastern Economist*, 02(02), 14.01.1944, pp. 41-43.
5 Large scale exporting of raw materials had been experienced as one of the economic traumas of colonialism (Thakurdas et al., 1944, pp. 30-31).
The NPC had not only raised questions on control and ownership of productive assets, it had also brought up the issue of how to frame the economic system in general. The Bombay Plan implemented these debates and referred to socialist ideas.

Certain proposals could be interpreted as having a “socialist” connotation. Indicators are, for example, the focus on redistributive measures to reorganize rural property relations in the second part of the plan (Thakurdas et al., 1945, pp. 5-18). Furthermore, the plan aimed at a free provision of basic services such as education and at subsidizing public goods, e.g. transports (Thakurdas et al., 1945, pp. 18-20). This was all embedded in a linguistic framework borrowing left-wing terms, such as sections suggestively condemning certain sections of the business community of being “mere rentiers” (Thakurdas et al., 1945, p. 16) and accusing them of “sluggish acquisitiveness” (Thakurdas et al., 1945, p. 1), evoking the idea of the “common good” (Thakurdas et al., 1945, p. 26) as a counter proposition and claimed to find solutions for the “layman” (Birla, 1944, p. 384).

Thus, the planners of the Bombay Plan tried to convince the Indian public that it was also possible for capitalists to engage into socialist discourses. However, the question of which system to choose for the independent state was somehow relativized by the following statement:

The distinction which is generally drawn between capitalism and socialism is somewhat overdone. The principle of laissez faire, which is regarded the dominant note of capitalism, has during the last hundred years been so largely modified in the direction of State intervention in various spheres of economic activity that in many of its characteristic capitalism has been transformed almost beyond recognition. (Thakurdas et al., 1944, p. 25)

The state was supposed to ensure that the positive aspects of both systems appeared. This was illuminated by Birla at the annual FICCI conference in 1944 where the plan was presented:

“None of this world can be free from the tyranny of this or that ‘ism’. But if India is to advance, prosper and progress and occupy its proper place among the important nations of the world, then the only ‘ism’ that is an ‘ism’ which employs the best of us, viz. the talents, the genius, the wisdom, the experience and the skill and energy of every section of the society for the purpose of promoting the largest real good of the largest India… I am not pleading here for any ‘ism’. I would at this place only ask every one (sic!) to judge the plan on its merits and not on any other consideration. (p. 384, Italics added)

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But were these businessmen really successful in merging socialism with capitalism as they postulated? Crucial features of the plan do not necessarily suggest so, because they relativize the social goal of the Bombay Plan. Every measure of it was secondary compared to its “ultimate goal” (Thakurdas et al., 1944, p. 7): the increase of production. Therefore, it was not much distinctive from neoclassical assumptions that the extension of supply would trickle down and create an adequate demand.

This was not only apparent in the relatively more qualitative character of the so-called redistributive elements of the plan, compared to detailed figures of production enhancing opportunities in the first part. It was also visible in the subordination of social relations under the premises of efficiency and productivity, thus the “total abolition of inequalities, even if feasible, would not be in the interest of the country” (Thakurdas et al., 1945, p. 4).

Furthermore, the idea of “created money” suggests that the planners willingly accepted inflation as a consequence of their resource collection. As inflation mainly affects lower sections of the population, this could
actually be interpreted as a regressive redistribution to the advantage of upper levels of society. It is possible that referencing to social goals was a mechanism to implement state measures favouring business interests such as advancing expensive initial investments. It was argued that it would be more resource friendly if the state undermined competition. This state support was to be secured through a “supreme economic council working alongside [a] national planning committee” (Thakurdas et al., 1944, pp. 2-3), thereby forming a body of experts to define the common economic good for society. Once this body was constructed, it was meant to be apolitical, meaning that “the plan was not to be sabotaged by any party government”7 and hence, “planning authority should be above party politics” (Birla, 1944, p. 386). In this way, the business vision of economic institutions for an independent India envisaged huge degrees of control over the state for capitalists.

Conclusion

This paper aimed at discovering the power relations behind the Bombay Plan. Unlike leftist groups, business was able to form a homogenous body and successfully influence the national movement. The participation in the NPC can be seen as a breakthrough in terms of legitimizing business’ engagement and agency in the formulation of the common economic good. The Second World War marked another historical turn where independence became inevitable and business openly sided with the national movement. To participate in the debate on national economic ideas, the Bombay Plan used similar language like leftist planners, but these terms had other meanings. Uncovering the plan it becomes evident that there is no specific “socialist” element to it. However, it was not just an attempt to gain control over the discourse, it was meant to shape independent India with pro-business economic policies. These included state interventions such as heavy industry subsidies to secure production and therefore company revenues, the protection of national business profits against foreign competitors, but most importantly, establishing the subsumption of the state budget under capitalist interests.

References


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6 This point was raised in a contemporary critique of the Bombay Plan by the communist M. N. Roy. For his comments on the Bombay Plan see Banerjee (1944).
7 The politics of planning. Eastern Economist, 02(11), 17.03.1944, pp. 401-402.


