Summary and Bibliography

India's Economic Policy

Charan Singh

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Mir Singh and Netar Kaur, parents of Charan Singh.
Village Bhadaula, District Meerut. Uttar Pradesh. 1950.

Charan Singh: An Introduction

Charan Singh was moulded by three key influences: his early life in a self-cultivating peasant family and the realities of the village, the teachings of Swami Dayanand Saraswati and those of Mohandas Gandhi. His thoughts, ideals and friendships took shape during the mass movement for *Swaraj* and freedom from colonial British rule led by Gandhi. His private and public life was one, his incorruptibility and high character recognised by all who encountered him. Singh believed deeply in a democratic society of small producers and small consumers brought together in a system not capitalist or communist instead one that addressed as a whole the uniquely Indian problems of poverty, unemployment, inequality, caste and corruption. Each of these issues remains intractable today, and his solutions as fresh and relevant to their amelioration and ultimate eradication.

Charan Singh was born on 23 December 1902 in Meerut District of the United Provinces (Uttar Pradesh) in an illiterate tenant farmer's village hut. His mental fortitude and capability were recognised early in life and he went on to acquire a B.Sc., M.A. in History and LL. B from Agra College. He joined the Indian National Congress, at 27, in the struggle to free India from British rule and was imprisoned in 1930, 1940, and 1942 for his participation in the national movement. He remained a member of the Legislative Assembly of Uttar Pradesh from 1936 to 1974 and was a minister in all Congress governments from 1946 to 1967, which provided him a reputation as an efficient, incorruptible and clear-headed administrator. Singh was the state's first non-Congress Chief Minister in 1967 and again in 1970, before his tenure in 1977-78 as the Union Minister for Home and, later, Finance. This journey culminated in 1979 when he became Prime Minister of India. Over much of the 70s and early 80s he remained a figure of major political significance in Indian politics till he passed away on 29 May 1987.

Charan Singh wrote scores of books, political pamphlets, manifestoes and hundreds articles on the centrality of the village and agriculture in India's political economy. Many of these thoughts are relevant to India today as we struggle with an agrarian crisis with 67% of our impoverished population living in the villages and 47% engaged in unremunerative agricultural livelihoods. He helped write the 611-page report of the Zamindari Abolition and Land Reforms Committee in Uttar Pradesh in 1948 and also wrote the books *Abolition of Zamindari* (1947), *Joint Farming X-Rayed* (1959), *India's Poverty and Its Solution* (1964), *India's Economic Policy* (1978) *Economic Nightmare of India* (1981) and *Land Reforms in U.P. and the Kulaks* (1986).

> "Charan Singh's political life and economic ideas provide an entry-point into a much broader set of issues both for India and for the political and economic development of the remaining agrarian societies of the world. His political career raises the issue of whether or not a genuine agrarian movement can be built into a viable and persistent political force in the 20th century in a developing country. His economic ideas and his political programme raise the question of whether or not it is conceivable that a viable alternative strategy for the economic development of contemporary agrarian societies can be pursued in the face of the enormous pressures for industrialisation. Finally, his specific proposals for the preservation and stabilisation of a system of peasant proprietorship raise once again one of the major social issues of modern times, namely, whether an agrarian economic order based upon small farms can be sustained against the competing pressures either for large-scale commercialisation of agriculture or for some form of collectivisation."

Brass, Paul. *Chaudhuri Charan Singh: An Indian Political Life*.
Economic & Political Weekly, Mumbai. 25 Sept 1993.

Summary

India's Economic Policy. 1978

India's Economic Policy
The Gandhian Blueprint[1]

BY CHARAN SINGH

Background

Charan Singh wrote this book in 1978 when he was Chairman of the Janata Party's[2] Economic Policy Committee to present his thoughts on radically changing the course of the Indian economy away from the top-down capital-intensive industrialization pursued since 1947 under various Congress[3] governments. Singh proposes a redirection towards a bottom-up Gandhian blueprint based on peasant agriculture and 'cottage' industries with decentralised production. Singh shares his analysis of an entrenched urban bias in India's governance since Independence, the neglect of the rural in favor of the urban and industrial, and the consequent misunderstanding and mismanagement of agriculture. He presents precise policy prescriptions which offer hard choices for policy makers.

The task of building a new nation and economy after the devastation wrought by centuries of colonial exploitation, along with the acute crises of capital formation and technological backwardness, was the herculean task facing leaders of newly independent post-colonial nations. Latin America, for example, saw neo-colonialism (Black Skins, White Masks) quickly fill the space colonialism had vacated, and dictatorships propped

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[1] Published 1978 by Vikas Publishing House, Delhi. 131 pages. *India's Economic Policy* lays out a clear, alternate model for India's development.The Janata Party was the first non-Congress political party elected to power in Delhi, 76 year-old Charan Singh was Union Home Minister as well as the Chairman of Janata Party's Cabinet Committee on Economic Policy in 1978. Charan Singh put together a common socio-economic vision to try and bind together the disparate political coalition that was the Janata Party.

[2] Bipin Chandra et al, *India Since Independence*, Penguin, 2000. p. 458.

[3] The Indian National Congress, once the broad-based umbrella political party of India. Formed in 1885, the Indian National Congress dominated the Indian movement for independence from Great Britain which it gained in 1947 under the guidance of Mohandas Gandhi. It subsequently formed most of India's governments from the time of independence till 1991, and then from 2004-14. It had a strong presence in state governments till 1967, when it lost elections and vote share in a number of States. At the time of this writing, the Congress political reality and future is at its nadir. Betraying the complete control of India's policy by industrialising, metropolitan elites its political opponent the Bharatiya Janata Party (BJP) follows exactly the same urban-oriented policies.

by foreign capital emerged as the new exploitative order. India, amongst the largest of these economies, had chosen for herself a democratic path upon getting rid of the British, and her vision for economic progress was bound to be more complex.

Jawaharlal Nehru's[4] plan of top-down centralised planning by the State and the model of industrialization won over the bottom-up, rural and handcrafted vision shown to us by Mohandas Gandhi.[5] Nehru established a broad consensus on the nature and path of development to be followed, a strategy based on self-reliance in manufacturing, preventing the domination of imperialist and foreign capital, growth with equity, and land reforms. This vision of public-sector based industrialisation was implemented with vigor till his passing in 1964 and carried forward by his daughter Indira Gandhi.[6]

Gandhi's vision of India saw its society, culture and economy based on self-sufficient villages and hand-driven cottage industries, focused on alleviating unemployment of the masses dependent on agriculture as their primary occupation. He wanted to build India from the bottom up, without much involvement of the state, although he never articulated a precise policy framework. Nehru, by contrast, was influenced by the marvels of Western industry, especially heavy industry, and famously believed these industries to be the 'temples of modern India'. The Congress, which ruled India for three decades since Independence in 1947, followed the Nehruvian approach despite an earlier conviction that the poverty and indebtedness of the peasantry was the most important

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[4] Pandit Jawaharlal Nehru (1889–1964) was India's best-known and amongst the most charismatic leaders of the movement to gain Independence from the colonial British state, next only to Mohandas Gandhi. He was the first and longest serving (1947-1964) Prime Minister of India, and a towering figure in Indian politics before and after Independence.

[5] Singh often cited Gandhi and Nehru's fundamental differences, made crystal clear in these letters exchanged in October 1945. Gandhi to Nehru (*http://www.mkgandhi.org/Selected Letters/Selected Letters1/ letter13.htm*), and Nehru's reply to Gandhi (*http://www.gandhiashramsevagram.org/selected-letters-of-mahatma/gandhi-letter-from-jawaharlal-nehru.php*) Singh saw this critical fork in the road as fundamental to the 'industrialised' trajectory of India under Nehru after 1947. Singh pointed out Nehru came to accept this error in 1963 in speeches in the Indian Parliament, but it was simply too late as he passed away a year after, his spirit broken by the China War.

[6] Indira Gandhi (1917–1984), daughter of Jawaharlal Nehru, was a prominent politician and stateswoman in Independent India and became the central figure of the Indian National Congress from 1967. She served as Prime Minister (1966–1977) and again from 1980 till her assassination in October 1984, making her the second longest-serving Indian Prime Minister after her father.

and urgent problem of the country on the heels of Independence. The focus of the first four Five Year Plans remained fixated disproportionately on heavy industries as the engines of India's economic progress. This strategy damaged India's commitment to equity, self-reliance and aversion to foreign capital, creating in effect two nations urban and rural, industrial and non-industrial with vastly different conditions of sustenance and hope.

Charan Singh was in opposition to the emphasis on heavy industry at the expense of agriculture his entire public life. His prescription, articulated in various books, pamphlets, newspaper articles as well as the laws he wrote into the statute books, had been a return to the Gandhian vision. Singh's predictions about the dangers of the capital-intensive model of industrialization went largely ignored. By the latter half of the 1960s, however, the fault lines of this approach had become self-evident, as the economy was in the grip of a massive crisis and India had acquired the reputation in international circles of a beggar and a basket case.

This was primarily a result of India's declining agricultural production, which made her dependent on imports of food grains, paid for by foreign capital and aid which came with strings attached. For example, at the behest of the World Bank and the US, India had to devalue its currency in 1966, while the balance of payments and food shortages were so acute that India had to abandon its Socialist Five-Year Plans for annual plans between 1966 and 1969. "It was at this most vulnerable time for the Indian economy, with high inflation, low foreign exchange balance, food stocks so low as to threaten famine in some areas and nearly half the imports being met from foreign aid that the US decided to suspend its aid in response to the Indo-Pak war (1965) and India's stand on Vietnam"[7].

These developments brought into sharp relief that inadequate food production was at the heart of India's dependency on foreign nations as well as the biggest constraint on industrialization. Crises of unprecedented unemployment, high inflation and scarcity of food continued long after Indira Gandhi's 1971 election on the "*garibi hatao*" platform and its promises which "did little and accomplished less"[8], so that the added burden of feeding 10 million Bangladeshi immigrants and back-to-back monsoon failures in 1972 and 1973 led

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[7] Bipin Chandra et al, *India Since Independence*, Penguin, p. 458.

[8] *https://en.wikipedia.org/wiki/Garibi_Hatao*

to terrible droughts throughout the country, leading to an economic recession and widespread civil unrest. It was with this backdrop Indira Gandhi announced the infamous Emergency in June 1975 that severely curbed civil liberties of the citizenry, jailed of thousands of political leaders, workers and civil society members, shackled the judiciary and emaciated the Constitution of India. Indira Gandhi's authoritarian hopes were dashed to the ground by the people in a snap Parliamentary election in 1977, which led to the electoral victory of the hastily put-together opposition coalition of the Janata Party as India's first non-Congress government of India.

Almost a decade after he left the Congress following a long period of disillusionment with the party's "widespread corruption, incorrect development policies and moral decay"[9], Charan Singh's Bharatiya Lok Dal (BLD) provided "the principal electoral base for the decimation of the Congress in North India"[10] in the 1977 Lok Sabha (parliamentary) elections. Singh was appointed the Union Home Minister in the Janata government, and was also tasked by the Cabinet to formulate the economic vision of the new government that he lays out in *India's Economic Policy: The Gandhian Blueprint*.

Charan Singh comes across as one the few politically prominent de-colonisers of the Indian mind.

Misplaced Priorities

Before detailing his blueprint, Singh provides a succinct summary of the reasons he advocates a complete reversal of the economic policies the country had followed since Independence under Nehru and subsequently Indira Gandhi. He starts with an assertion of the primacy of agriculture – by Singh's economic definition for "the utilization or exploitation of land" – over industry.

Agriculture not only provides the basic necessities of food, it also furnishes raw material for consumer industries such as textiles, jute, tobacco, oilseeds etc. Singh agrees that it benefits from consumer goods (shoes, clothes, books etc.) and capital goods industries (iron tools, diesel pumps, fertilizers etc.), along with the growing demands of an

[9] Lohit, Harsh S. (2018), *Charan Singh: A Brief Life History*, Charan Singh Archives, p. 10.
[10] Ibid, p.12.

urban industrialized population which provide a market for agricultural products. However, in the final analysis, agriculture can subsist without the fruits of industrialization as it had before the advent of machinery. By contrast, industry must necessarily depend upon agriculture to feed its workers and provide raw materials for its products.

Furthermore, in India where agriculture was by far the largest source of employment[11] and one of the biggest sources of income, then only an increase in surplus agricultural output could put money into the pockets of the masses, leading to the creation of an internal market for the products of industrialization. Surplus agricultural produce could be exported to gain crucial foreign exchange instead of spending it as India did on importing food grains. It contributed to capital formation for innovation and further growth in indigenous agricultural industries, and a decrease in unemployment and underemployment as a consequence. This growth, in turn, would increase output per unit land and unit labour, leading to the freeing of labour employed in agriculture to take up occupation in non-agricultural sectors, stopping the subdivision of land holdings to the point that they became uneconomical for farming.

Singh demonstrates that such a migration is essential to economic progress and reiterates that his intention is not to advocate the prioritization of agriculture to the *neglect* of industry as the two are interdependent – he questions the *kind* of industry appropriate for India. He boldly declares that it was in Nehru's emphasis on the prioritization of heavy industries, "the first strategy he adopted in trying to ape the USSR, that his mistake lay which ruined the economy"[12]. Effects of this policy had caused a shortage in agricultural production which forced India to import food as aid, most notably from the US. It had formed, in Singh's words, "the biggest constraint on further industrialization or development of non-agricultural resources"[13], caused a rise in prices and a shrinking of the internal market, fomented unrest in the cities and vitiated the climate for investment.

Thus, Singh declares, for India to progress "there is no escape from agriculture"[14], and puts forward a two-pronged plan: "first, increase in

[11] And remains so, with close to 50% of India's population engaged solely in agriculture in 2020 CE.
[12] Singh, Charan (1978), *India's Economic Policy*, Vikas Publishing House, p. 6.
[13] Ibid, p. 8.
[14] Ibid, p. 7.

agricultural productivity per acre and simultaneous reduction of the number of workers per acre; secondly, a transformation of our national psychology"[15]. Leaving the latter for analysis elsewhere, Singh moves on to address the former.

Agrarian Structure

An increase in agricultural productivity means an increase in the efficiency of utilization of the three factors of production: land, labour and capital. In Indian conditions, where the land to population ratio was low and subject to little or no increase through either reclamation of land or exploitation of overseas colonial empires, circumstances dictated the maximisation of productivity per unit of land not of labour. In contrast, the productivity model in Western countries and in the USSR, where land was plentiful and labour the limiting factor, maximised per unit of land.

Thus, these economies made extensive use of machinery, and advocated farming on large farms with the help of this machinery. The USSR's policies, motivated by theories of "economies of scale" which argued that mechanized farming on large farms would automatically increase agricultural productivity as they had done in industry, adopted large cooperative farms as their agricultural strategy. India had done the same under the influence of Marxist ideology in vogue amongst the urban elite intelligentsia in the Fifties and Sixties. Singh, however, rejects machine-based farming, whether in large private farms or cooperative farms, and puts his weight behind an independent peasantry tilling small farms directly under their possession as the *sine qua non* of increasing agricultural productivity. He stands with the bullock cart and plough economy in farming.

He cites a broad range of reasons for his stance, beginning with fixing a yardstick for the evaluation of these policies: maximisation of production of wealth or eradication of poverty, provision of full employment, equitable distribution of wealth or avoidance of undue disparities in income, and promotion of the democratic way of life India had chosen for herself. These goals remain unchanged in all of Singh's writings throughout his public life. His objections, as well as his

[15] Ibid, p. 3.

solutions, evolve from the considerations of these four factors and he places evidence for small farm cultivation based on these criteria.

First, Singh demonstrates data gathered in favour of the higher yield on small farms as opposed to larger ones. Agriculture being an organic process, no amount of machinery or labour can increase productivity per acre beyond a point whereas large farms, whether tilled by hired labour or in cooperative farms, cannot invest the tillers with enough motivation to farm it to its full potential. Furthermore, the use of machinery took away from employment and worked to concentrate power in the hands of fewer men, whether in capitalist or socialist structures. Lastly, large farms worked against the grain of democracy as evidenced in the Communist nations of U.S.S.R. and China.

Singh advocates small, independent peasant proprietorships where each tiller is the owner of the land he tills in the national interest. The self-cultivating peasant is attached to the care of his land, and this along with his family's inputs of labor leads to maximization of yields. This provides the most employment and the independence of the peasant provides the bulwark for the development of democracy and equitable distribution of the fruits of increased production.

Programmes for land reform were framed across India, though the coalition of powerful interests lobbying against these measures in the Congress party had led to shoddy implementation in many states. Uttar Pradesh, where Singh had been the founding architect of Zamindari abolition, had set the right example. However, many states had allowed for the erstwhile landlords acquire large farms under the guise of personal cultivation and erstwhile tenants and subtenants were thrown off their lands in collaboration with minor government officials and the legal system. Singh observes that "there is no sphere where the gulf between official policy and performance has been as wide as in the case of land reforms"[16], and cites this as the main reason for the rise of violent forms of Communism in many states of the country.

He approves of the suggestions of the World Bank for reforming the agrarian structure: "First, preparation of record of tenancies; second, fixation of cash rents as a multiple of land revenues; third, abolition of right of resumption by landlords for personal cultivation or permitting

[16] Ibid, p. 11.

it only in exceptional cases; and fourth, regulation of surrenders by the tenants." As for the size of an ideal farm, he advocates a balance between holdings too small to be economically viable and too large to be fully utilized because of lack of labour. After surveying data from various demographics, Singh advocates an upper limit of 27.5 acres and a floor of 2.5 acres, with variations accounting for regional variance in irrigation, quality of soil and climate.

Lastly, he stresses on the need for the consolidation of a peasant's scattered land holdings with a view to increasing the efficiency of their cultivation, as well as the extension of technical facilities such as irrigation, better seeds, fertilizers which work just as well on small farms as they do on large ones. The idea, Singh states, is to combine "the incentive of individual land use and private ownership of land with the advantages of a large farm"[17] and advocates the creation of service cooperatives in the fields of purchase, processing and sale while striving for the "creation and maintenance of independent existence of individually worked but linked or bound together by the principle of cooperation, rejecting both economic anarchy (prevalent in our country today) and collectivism (that has been ushered in the U.S.S.R. and China)."[18]

Labour, Capital, and Innovations

The question of land being settled, Singh moves on to the remaining factors of production: labour and capital. As Indian agriculture was already a labour-surplus enterprise employing vastly more than it needed to, there was much underemployment and disguised unemployment already in it, so that an increase in labour was unlikely to increase production significantly. However, an increase in the utilization of this labour capacity, as well as an increase in capital investment (Singh lists farming equipment, better seeds, machinery and fertilizers as forms of capital) would indeed lead to more production. This would produce a surplus which would set in motion the development pattern outlined earlier. Further, innovations in agricultural technology and practice contributed greatly to increased production, besides land, labour and capital. Singh cites the Green Revolution as an example of the kind of

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[17] Ibid, p. 25.
[18] Ibid, p. 26.

technological improvement India needed to implement, and states "as a rule of thumb that the degree of economic development of India turns on the extent of improvement in agricultural practices we are able to effect and the amount of capital we are able to invest in land."[19]

Despite this dire necessity, Singh laments that Indian agriculture had been "deliberately starved of capital"[20] since Independence, despite the government's rhetoric of priority for agriculture and shares a wide and damning set of statistics including governmental sources in support of his charge. He demonstrates the disparity in funds for industry versus agriculture since Independence, including sectors such as power, education, medical relief, roads and transport, etc. which both sectors availed but where industry was vastly preferred over agriculture by both private and public sectors, so much so that private investment in agriculture decreased with each Five-Year plan since the Second in 1956.

Adequate Remuneration

Singh turns his sights to urban bias in government and the impact it had on incentives to the peasantry which are responsible for maintaining production. He takes issue with the Agricultural Prices Commission's basis of a 'reasonable profit' for the farmers when calculating farm prices for the same. It is not profit but 'relative profit' that the farmer is concerned with so if the relative profit is more in cash crops he will not grow food grains. This fact is institutionally missed by an urban-led government, Singh laments, even as he rubbishes the "fallacy of confusing cause with effect"[21] which leads to the commonly cited argument that a rise in farm prices would lead to an increase in inflation. Typical of Singh's works though, and especially an economic blueprint, he proposes a solution to the farm prices' conundrum which balances the interests of all parties concerned: the producer, the consumer, the trader, and the government.

Singh recommends the government not resort to import of food grains except in extreme conditions of scarcity, and that the whole country be treated as one food zone allowing for the free movement of

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[19] Ibid, p. 28.
[20] Ibid, p. 29.
[21] Ibid, p. 35.

food grain from one part of the country to another. Next, it calls for the selection of a "parity price", arrived at by fixing the ratio of the price of sale versus that of production for a particular year (considered the base year). Once this price for key produce is fixed, he advocates that the government not intervene in food grain trade so long as the trading price stays between 85 and 115 percent of this "parity price". If the price should fall below 85% the government would purchase the stock directly from farmers at 85%, while above 115% it would do the same from traders. Lastly, it calls for the setting up of *Vikas Kendras* where a farmer could promptly sell his produce at 85%, subject to withdrawing it at a later time upon payment of storage charges and the advance with interest.

Apart from this scheme, though, Singh argues against the fixation of a minimum support price except on select crops and short durations, even though he concedes that it appeals to the farmer community. The idea, he says, is borrowed from the West where only a very small proportion of the population is engaged in agriculture and can therefore be subsidized at a minimum price by the majority. In India that was far from the case and the cost of this subsidy would ultimately be financed by the State exchequer, which is largely the peasantry themselves. Besides, it would lead to a large staff needed to be paid, as well as the wastage in storage. As always, he remained opposed to the growth of government bureaucracy.

Singh is equally opposed to the state trading in food grains or state control over distribution of food as it invites the presence of the state in the economic life of its citizens, thus falling into the Communist trap which fixes the agricultural prices arbitrarily, and often to the advantage of urban interests. Besides, fixing of prices doesn't work historically and leads inevitably to the state taking over the production of food on the lines of the U.S.S.R. As for the dilemma of what to do with increased production without leading to a fall in prices for the cultivator, Singh advises five solutions: (a) export of agricultural products to other countries, (b) more consumption by our own countrymen, (c) a change in the cropping pattern, (d) industrial use of agricultural products within the country itself, and (e) a decrease in the number of agricultural workers. The last of these he considers as the goal of economic progress, as it frees up labour for non-agricultural sectors as is inevitably required for further economic progress and industrialization.

Despite the higher income opportunities in non-agricultural sectors, the farmer stays in his profession largely for lack of fluid capital and the unavailability of better jobs. With increased surplus production and the consequent price drop, fluid capital will develop for investing in cottage industry, leading to job creation and migration to non-agricultural sectors. However, he also cites that the farmer stays in his profession also for lack of knowledge about better prospects, and thus is likely to stay in his profession even if better opportunities arise.

Singh reiterates that, in order to achieve development, increased agricultural production must coexist with the requisite social and cultural attitudes. Therefore, he advocates that "the government and public workers will have to educate the farmers, through the various means and media at their disposal, that diversification of employment is in their own good and that, in the ultimate analysis, land is limited and cannot support an indefinite number of people whereas no such limitation applies to the non-agricultural sector."[22]

Urban bias: Before moving on, Singh blames the village farmer's lack of knowledge regarding his own betterment on the government's systematic neglect of India's villages and the lives of those who dwell in it. The per capita income of rural India, when compared to its urban counterpart, had been diminishing since Independence, and Singh illustrates its systematic genesis in the attitude of the government, reflected "in the discrimination it makes in provision of social amenities like health, housing, transport, power, and, above all, education available to the urban and rural areas — discrimination in investment in the human factor in the town and the village."[23]

Vast gulfs existed in these sectors in the treatment of villages and cities, and Singh singles out education as it is a precondition of economic development, not an effect of it. Literacy rates in villages lagged considerably behind their urban counterparts, and the availability of quality education in the village was non-existent. As for other sectors of prime importance, Singh shares some telling statistics: only 13% of the students of a study collected in 12 colleges covering professional education in six disciplines (architecture, engineering, law, management, medicine, and social work) belonged to the rural areas even though most of India's

[22] Ibid, p. 42.
[23] Ibid, p. 45.

people lived in villages[24]. Similarly, "over the decade of 1962-72, the 20 per cent of India that is urban, contributed slightly more than half of all Cabinet Ministers at the Centre, while the contribution of agriculturists remained at around 17%"[25]. Similarly, lopsided figures existed for the civil services, where almost 80% of the cadre came from the urban salaried and middle class, while agricultural labourers were grossly under-represented.

Singh locates this situation at the heart of the lack of imagination in governmental policies of welfare, especially those for the rural sector, and the poor implementation of policies which are, in fact, right headed. He doesn't locate all the blame in wrongheaded best efforts, but notes that "the present bureaucracy is fast developing into a hereditary caste, and the doors of the higher echelons of government employment are virtually closed to the sons of those who are outside the charmed circle, particularly the villagers."[26] A man's values are determined largely by his surroundings, whatever his intentions and education, and so without passing blame Singh concludes that urban values and leadership, epitomised by Nehru, had hitherto determined policies for a nation dwelling primarily with rural values.

Gandhi And Nehru

Singh opens the next chapter by delineating two opposing options India had at the time of independence: Mahatma Gandhi's bottom-up vision, centered on cottage industries, decentralization and an economy of self-sufficient villages; and Nehru's top-down vision based on heavy-industries, large machinery, central planning, and industrialization on the model of the West.[27] Following the Mahatma's untimely assassination in 1948, his economic ideas, which Nehru thought were terribly wrong when he was alive, were completely sidelined in favour of Nehru's vision. Singh recounts the salient features of the Gandhian vision and compares them with the path taken.

Gandhi believed that in a country such as India with a vast population

[24] Ibid, p. 48-49.
[25] Ibid.
[26] Ibid, p. 50.
[27] Gandhi and Nehru had fundamental differences, crystal clear in these letters exchanged in October 1945. Gandhi to Nehru (*http://www.mkgandhi.org/Selected Letters/Selected Letters1/letter13.htm*), and Nehru's reply to Gandhi (*http://www.gandhiashramsevagram.org/selected-letters-of-mahatma/gandhi-letter-from-jawaharlal-nehru.php*). Also see footnote 5, p. 71.

and limited reserves of land and other resources in comparison, mechanized industry could not provide employment to the villagers which was at the root of their poverty. Therefore, he was a strong advocate of small, cottage industries which could be set up with little capital. He cited the *Charkha* as an emblem of cottage and handicraft industries and placed it at the heart of the Indian civilization. Mechanisation, by contrast, would take away employment, concentrate power in the hands of a few (as it had in the West) and usher in the evils of capitalism. He visualized heavy industries existing side by side with his model but restricted to manufacturing only what these cottage industries couldn't.

Gandhi was always wary of the growing stature of the State, and publicly stated his opinion against the Socialist pattern so in vogue amongst his contemporaries. Nehru, by contrast, was fully committed to the ill-defined 'socialistic pattern' as the future. This vision saw heavy industries as the 'temples of modern India' and believed that the primary thing about an integrated plan was production, not employment, as employment followed production. In order to usher in this socialist pattern, it was necessary to accelerate growth, particularly develop heavy and machine-making industries, expand the public sector, and build a large and growing cooperative sector. It was conceded that heavy industries require large amounts of capital and a long gestation period, but it was argued that without them India would continue importing essential consumer goods which would hamper capital formation. The Five-Year plans since the second one in 1956 were predicated on this primacy of the heavy industries as the engines driving economic progress towards self-sustenance, growth of medium and small-scale industries, and increase in employment opportunities.

As he argued in his earlier works, Singh reiterates that the conditions for capital-intensive industries were, and continued to be, non-existent in India. Capital formation being essentially the difference between income and expenditure constructively spent for a task, say heavy industries, it was extremely difficult to raise it in a poor country like India where consumption was at subsistence level and there was little surplus to save. The planning commission grossly underestimated the capital-to-output ratios (the amount of capital required to be invested for one extra rupee of output) since the second Five Year Plan, and even if they'd been right the rate of capital formation would've been too slow to grow production faster than the rise of population levels in the same time. Singh writes:

> "It is this hard irrefutable fact of low rate of saving arising out of the ratio between our huge population (with its potential growth), on the one hand, and natural resources, on the other, coupled with the quality of our human factor, that advocates of high capital-intensive enterprises or heavy industries have overlooked. This makes them wrong and those of low capital-intensive, decentralized industries, right."[28]

Industrialization on the model India envisioned had been achieved only in countries which had grabbed colonies to compensate for their paucity of resources or possessed resources richly with respect to their populations. Perhaps if India started her industrialization a hundred years earlier there was a chance for her, but starting when she had, "we arrive at the irrefutable conclusion that capital in a measure required for a capital-intensive structure in India cannot be had, at least, rapidly through domestic savings, whether under a democratic or communist set-up." This left only foreign capital as an option, and Nehru went for it in his pursuit of industrialisation, besides investing into it every bit of domestic savings at the cost of food, water, clothing, housing, education, and health.

Mixed-up Economy

The economy which emerged in independent India, therefore, sought to combine democracy inherited from the West with the socialist pattern on the lines of Russia in a mixed economy where the private and public sector would coexist. This conception remained vague since the days of its inception. With time, as Nehru's conviction in socialism increased, so did the size and importance of the public sector as it came to own and dominate the most important sectors of the economy. Under the Marxist conception the state held power in order to end capitalist exploitation of workers who have no recourse against it, but Singh points out that Marx's predictions about the proletisation of industrial workers did not come true.

Furthermore, the hope that industries would be run better under the state was belied by the performance of government bureaucracy and

[28] Singh, Charan (1978), *India's Economic Policy*, Vikas Publishing House, p. 57.

public sector officials. This bureaucracy fell into the trap of human nature's response to power. Even workers' morale, which was supposed to be boosted with the prospect of a part in ownership, proved to be wishful thinking as they just passed from one set of bosses to another. What transpired was a growth in the size and power of the State, along with the inefficiency and corruption that large bureaucratic machineries inevitably bring, so that, "the value added per unit of fixed capital investment in the public sector factories is the lowest—one-sixth of that in the private sector factories."[29] Gandhi had criticised socialism on the grounds of the state turning into a leviathan, curbing individuality and regulating every detail of life. He advocated a decentralisation of power with a minimum of state ownership over a largely self-reliant democratic people managing their own affairs. Singh locates a fulfilment of the Gandhian warning in the ballooning of the state and advocates the Gandhian solution around small and local being beautiful.

Foreign Debt

Nevertheless, Nehru's idea of finding capital for heavy industries, as well as Indira Gandhi's subsequent nationalization of private industries, had been carried out with the help of foreign capital, leading to a debt which by 1972 was highest in the world at over 20 percent of national income.[30] Besides capital, collaborations were seen as another source of capital, whereby the state would attract private investors interested in establishing plants and factories in India. This method would come with no question of paying back capital or foreign governmental strings, while providing employment and enriching technical knowledge thought to be so critical to development by Nehru and his government.

Private capital investments came with strings attached, and equity of foreign firms in their Indian collaborations were as high as 75% in 1975. Further, public sector undertakings went into collaborations with foreign companies even when the technology was available in India, no doubt through some sweetening for politicians along the way, while the import of new technology was capital-intensive and maximised output per unit labour in a labour surplus economy looking to foreign aid for

[29] Ibid, pp. 64-65.
[30] Ibid, p. 66.

capital. The result was a vicious circle leading to the requirement of more capital to sustain industries which served to increase unemployment and concentrated the wealth they created into fewer and fewer hands.

Singh cites the example of Japan which imported technology only when necessary, but not foreign equity capital and management. This created a climate conducive to local entrepreneurship and prevented foreign claws from sinking to the economy as had taken place in India and other developing nations.

Dual Economy

The impact of foreign capital on India could be gauged from the fact that 20-25 companies amongst the largest in India were foreign in 1976, with 15-20% of the assets of the top 20 companies. However, the gains of big Indian firms had been even higher, despite the Congress government's lip service to their commitment to the equitable distribution of wealth, so that in the decade of Indira Gandhi's government the total assets of the top 20 companies increased by 120%.

This was achieved by big companies accruing special favours (familiar 'crony capitalism') such as easy processing of applications, early intimation about projects, lifting of bans on licensing for particular products, expeditious disposal and inadequate scrutiny. More effective, though, was the shutting out of rivals who did not possess the same size as the big fish using licensing red tape on private investments. As for the contributions made by these companies to the economy, Singh demonstrates that they appropriate a lion's share of institutional finance as at least 50% of their projects were financed by public sector institutions. Furthermore, these companies made no efforts to grow indigenous technologies despite their vast resources; instead their growth is dependent upon foreign technology and capital as foreign capital and indigenous capitalists make a symbiotic partnership for the appropriation of wealth. Thus, the industrial houses as a class came to back Indira Gandhi and her imposition of the Emergency as part of their vested interests. Singh points to the role big businesses played in German, American and Japanese history supporting authoritarian politics, and warns that India might be headed for the same if unchecked.

The overall result of capital intensive industries, though, Singh argues, is the creation of a dual economy characterised by vast inequalities of wealth, rampant unemployment and underemployment and the emergence of monopoly houses with their ever-increasing capital stock and mounting profits in contrast to crores of semi-starved and ill-clad dwellers of hutments in the countryside and slums of the cities. Despite the existence of such a gap before Independence, it had widened in the quarter century since, and Singh contends that this was not by accident but a direct product of India's planning strategy since 1947.

In a dense agrarian economy with vast labour surplus, the adoption of capital-intensive techniques leads to greatly lopsided incomes for those with the skills required to run complex technologies such as managers and engineers, leaving the vast majority behind. Workers in these industries were able to negotiate ever-rising salaries owing to their small numbers and vast demand, along with government bureaucracy in charge of supervising these industries, such that a sweeper in the industrialised sectors was paid Rupees 400 per month while a university teacher made Rupees 650 per month. Thus, white collar and industrial workers formed "a privileged class in a society where hundreds of millions, more than half of the people in any case, eke out an existence below the poverty line."[31]

However, the biggest disaster of the strategy, Singh argues, was the neglect of rampant unemployment. Surplus capital was considered the ultimate driver of economic progress, so that capital-intensive industries which the government privately admitted would concentrate power in fewer hands were encouraged, as it was believed that the profit they accrued would necessarily be invested back into further development of indigenous medium and small public sector industry. For the government it was easier to collect taxes from these large companies, as it was to collect under-the-table kickbacks, and in the long run economic growth from these large corporations would generate employment as an inevitable byproduct. This hope of reinvestment of profits was completely misplaced.

Singh explains the origin of this strategy was not in rational planning but in ideological and psychological captivation of India's leaders with the glitz and glamour of the West which prevented them

[31] Ibid, p. 81.

from seeing that conditions in India were vastly different, and therefore demanded equally different strategies. By the time Nehru came to realise his mistake in 1963 in speeches to the Indian Parliament it was already too late, both for him and the nation, and capital-intensive industries were producing so much surplus that they attracted more business despite ups and downs of the market, much to the detriment of small and cottage industries that produced the same products, hitting employment in the final analysis.

Alternate Blueprint

Having shown the fault lines of the Nehruvian economic policy, Singh lays out his prescription for an alternative framework. He calls neglect of agriculture the "original sin" of India's economic strategy, and coupled with big machine, names these as the top two sources of distress. Naturally, therefore, his solution entails redirecting resources to the rural and agricultural sectors, a shunning of foreign capital and technology in favour of a strategy based on India's unique factor endowment aimed towards self-reliance.

Industrialization, wherever it had succeeded, had done so on the back of agricultural and labour-intensive industries as its "root and base"[32]. Trading in agricultural surplus forms the primary pre-requisite, in a strong internal market, for cottage and handicraft industries to develop. The rate of accumulating this surplus is what determines the rate and pattern of growth of the economy. In a labour-surplus and capital-starved economy like India, labour-intensive industries had to form the preliminary forms of industry. The surplus thus generated would come with employment which would raise the purchasing power of the masses. This, in turn, would lead to the creation of internal demand and generate innovations in techniques and new industries leading to further employment until such a point is reached in the indeterminate future when machines become less costly than the labour of an equivalent number of men.

Until this point is reached – and in 1977 Singh predicts it will be a long time – the industrial methods India had adopted could not be sustained; they had to form "the apex of an economic structure with agriculture

[32] Ibid, p. 91.

and handicrafts or village industries as its base."[33] Furthermore, labor intensive industries, worked with better techniques designed to enhance the capacity of an individual worker, would provide employment, prevent concentration of wealth in few hands, and foster democracy. They produce more per unit capital invested than capital-intensive techniques and can be set up by investing much less initial capital.

Singh rubbishes the "economies of scale" myth prevalent in many circles which deemed mechanization inevitable to increased production and cites cottage and handicraft industries as the only options capable of keeping up with population growth in the workforce. Machines increase output per unit labour upon the investment of capital; therefore, Singh advocates moving away from highly automatic, costly machines in favour of labour-intensive technology which maximises employment per unit capital invested, capital being the limiting factor in Indian conditions. He postulates:

> "The one rule of thumb during this period should be to substitute, in the existing set-up, labour for capital, and wherever possible and, virtually, in no case to allow a capital-intensive project to come up in future where a labour-intensive alternative is available."[34]

Intensive farming on small, independent holdings, along with its allied industries, would also provide ample new employment in the short run. Singh identifies agriculture, rural works (such as irrigation, soil conservation, afforestation) and rural cottage industries as three key areas of employment generation. Improvements such as the Green Revolution in these areas provided new employment, and Singh urges capital investment in the betterment of techniques as a precursor to further growth in employment much like in Japan.

To protect indigenous cottage and small industries, Singh prescribes protection by statute against mechanized large foreign or domestic industries. In his own words:

> "No medium or large-scale enterprise shall be allowed to come into existence in future which will produce goods or services that cottage or small-scale enterprises can produce, and no small-scale industry shall be allowed to be established, which will produce goods or services that cottage enterprises can produce".

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[33] Ibid, p. 93.
[34] Ibid, p. 102.

Additionally, he advocates regulating trade unions to keep labour cheap during this time, and a demarcation between small and cottage industries as well in the final analysis, so that the latter can be protected against the former. He encouraged construction of roads, buildings, railway and irrigation using manual labour to generate employment opportunities and provide a fillip to further industry development in their vicinity.

In conclusion, Singh argues for trusteeship on the Gandhian model under which "industrialists would work as trustees on behalf of the society"[35] and who "would be allowed to retain the stewardship of their possessions and to use their talent to increase the wealth, not for their own sake but for the sake of the nation, and, therefore, without exploitation"[36]. He finishes by stating the Janata Party's belief in a

> "…. course under which an overwhelming percentage of the people individually earn their own living, that is, avail of their own means of production and are not dependent on anyone else for their livelihood"[37]

Conclusion

Evaluation of an economic policy can only be made post its implementation over a period of time. Unfortunately, the Janata Party government was an uneasy coalition, riddled with factional politics. It disintegrated in mid-1979, obviating such an estimate. During its brief reign, Singh himself was ousted from his post as Home Minister in 1978 by Prime Minister Morarji Desai due to factional politics. Though reinstated as Finance Minister in 1979, this took away Singh's ability to drive economic policy from above[38].

Things are further complicated by the fact that the Gandhian economic experiment has never been carried out faithfully over a significant amount of time in any country, so its policies can only be measured against its criticisms. Gandhi's integrated vision of economy and morality intertwined has been rejected by all nations in favour of Western capitalist or communist alternatives. Singh's policy was created

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[35] Ibid, p. 121.
[36] Ibid.
[37] Ibid.
[38] Lohit, Harsh S. (2018), *Charan Singh: A Brief Life History*, Charan Singh Archives. *https://charansingh.org/biography*

from the practical point of view of the village and agriculture and represented a substantive break with the global vision of the urban and industrial elite who continue to manage India.

Singh’s emphasis on decentralization, social justice, unemployment and growing inequality of wealth have common cause with the multiple crises we see in contemporary India. Much can be learned from the inevitable connections of these misplaced policies with the deplorable conditions of the peasantry and the village that prevail in the country today.

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