

The Wartime Paternity of India's 'Licence-Permit Raj'

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Abstract

It is often believed that the economic policies of the government of India, from independence in 1947 till the liberalization of 1991, were a manifestation of 'Nehruvian socialism'. This paper argues that these policies had earlier roots, which it seeks to make visible, in the regime of economic controls which was spawned in India by the Second World War between 1939 and 1945. In general, modern Indian history has not given much weight to war; in particular, standard works on post 1947 India – like Morris Jones Government and Politics in India, Lloyd and Susanne Rudolph In Pursuit of Lakshmi, Paul Brass The Politics of India Since Independence, and Bipan Chandra India After Independence – have overlooked or neglected, the contribution of the Second World War to moulding the shape of the emerging state (Morris-Jones 1964; Rudolph & Rudolph 1987; Brass 1990; Chandra 1999). Yet precisely here, in the transformations unwittingly accomplished under British rulers during the Second World War, are to be found some of the foundations of the new government of independent India.

Although our existing textbooks imply otherwise, the threat of the Japanese attack on India frightened the British more than the Congress ever could. On his appointment as Viceroy in 1943, Lord Wavell received from the British War Cabinet a directive which began by telling him: "Your first duty is the defence of India from Japanese menace and invasion".¹ The new war priority of the colonial state often overrode its earlier law and order concerns. Every official, in every department of government, was meant to respond to the needs of the war effort. The war brought new tasks, and made the old ones secondary.

District officers now had to encourage recruitment for the army, collect contributions for war funds, track down army deserters, provide help to refugees, organize air-raid precautions, supervise rationing, and procure foodgrains – jobs unknown to the old district administration. This load stretched the re-

¹ Directive of war cabinet to viceroy-designate, 8 October 1943, in Mansergh (editor-in-chief). *Constitutional Relations Between Britain and India: The Transfer of Power, 1942–1947*. 12 vols., London, 1970–1983 (henceforth *TOP*). The quotation is from vol. iv, document no. 172.

sources of the state, preventing it from functioning normally. "Work as a Magistrate had to be almost completely abandoned in favour of new burdens", recalled one officer, who found that "touring had to be cut down to a series of lightning forays, often to track down and requisition stocks of hoarded rice."²

While most of India never became a battlefield (only the eastern fringe was an active centre of operations) the whole country was sucked into the war effort. Most war factories were concentrated in Bengal. At times, especially when refugees poured in from Burma, invasion seemed imminent. Parts of the province became virtually a military camp, with an endless demand for land and buildings, as many thousands of troops from Britain, the United States, African countries, Australia and China were stationed there. The army required and received supplies of food, guns, ammunition, uniforms, sheets, blankets, tents, boots, medicines, drink and tobacco. India's chief industrial contribution was textiles. Substantial amounts of steel were also manufactured by the Tata Steel Works, which were the largest in the British Empire. The army was a voracious consumer, and India's contribution was considerable.³ Contributing heavily with men and materials, India became a major supply base in the Second World War.

The relatively slender pre-war state would have lacked the ability to lift up the enormous economic burden of a world war. To do so required the state to change rapidly, in many ways beyond recognition. New government posts and departments proliferated, employing very large numbers of people; new policies were announced; and new legislations were promulgated. A stream of ordinances was issued under the Defence of India Rules. There emerged an official grandly titled the Controller of Capital Issues; a less loftily named Supply Department; a policy of price control, a foreign exchange control, as well as control of imports and exports. Massive amounts of money had to be raised. Balancing the budget was forgotten, deficit finance undertaken.

The end of the war did not end instability. Demobilization of soldiers, strikes by workers, communal riots and partition, rehabilitation of refugees, integration of the princely states, and continuing shortages and inflation preoccupied the state. Controls therefore continued. For example, foreign exchange control was first introduced in September 1939, with many officials of the Finance Department hoping that it would be dispensed with once the war ended. While it began under the Defence of India Rules, in March 1947 legislation in the form of the Foreign Exchange Regulation Act (FERA) was passed to put

² Swann, R. S. n.d. *Memoirs of R. S. Swann*. MSS.Eur.F.180/25, p. 4. India Office Records and Private Papers, British Library, London (hereafter IORPP).

³ For details, see Government of India, 1947.

exchange control on a statutory footing for five years. After five years it was extended for another five, and then in 1957 it was made permanent (Balachandran 1998: 808).

Later, the issue of government economic controls was much debated in India. On one view, such controls enabled the Indian nation to take its first steps, and later guided the economy towards maturity. By the end of the twentieth century, the opposite view became more fashionable. An economy capable of racing ahead of competitors was, it was argued, tripped by red tape. Praise was awarded, or blame accorded, to the idea of planning and the ideology of socialism.

History shows however, that controls – often assumed in independent India to be the outcome of a socialist ideology – were actually sired by a war economy. One Indian Civil Service Officer put this point unequivocally:

“Many observers of the Indian scene are apt to take it for granted that the system of economic controls is the result of the avowed and oft-repeated aim of the Government of India to create a socialistic pattern of society by means of national planning ... This is not really so...it is just not historically true ... practically the entire paraphernalia of controls was already in existence before the age of planning was ushered in 1951 ... Economic controls in India do not, therefore, owe their origin to planning nor have they continued and developed merely because of planning” (Bhoothalingam 1985: 37).

In other words, economic controls were happily adopted by Indian planning, but were not its biological offspring. And the war economy also fathered other children, who grew up to have lives of their own: very high rates of taxation; sales tax as a major source of revenue; very widespread tax evasion, and a bureaucratic mindset convinced that businessmen should do as they are told.

Adding to his memoirs an appendix titled ‘The Long Shadow of the Second World War’, the economist I. G. Patel summarized his view as follows:

“In short, the post-war preference for price-stability vs. growth, management and planning vs. free markets, closed economy vs. freer international trade, public sector as against private enterprise, and the on-again/off-again flirtation with controls and high taxes all had some roots in our war-time experience” (Patel 2002: 191).⁴

⁴ Indraprasad Gordanbhai Patel (1924–2005) began his career as a professor of economics; he was later – among many other positions – Chief Economic Advisor of the Ministry of Finance, Economic Advisor to the Planning Commission, and Governor of the Reserve Bank of India. As an international civil servant he worked for the International Monetary Fund and other institutions. As an educational administrator, he was the director of the Indian Institute of Management at Ahmedabad, and the London School of

The world war ended: the controls and mindsets engendered, remained. They encouraged living with shortages rather than overcoming them; damaged the ideology and practice of the market; and opened the door to what C. R. Rajagopalachari dubbed the 'License-Permit Raj'. The effects of war on the state were profound and prolonged.

The State and the Stomach: Food Controls

This was particularly evident in controls over food. The British rulers of India boasted of the Pax Britannica, of the sense of security which they claimed had been engendered by imperialism, and of how visceral fears of anarchy had been allayed by their rule. The colonial state took the credit for peace. Responsibility for curing poverty was quite another matter. While famine relief might occasionally be organized, the regular of feeding the people of India seemed to depend more on the will of God, than on the actions of a government. It was this assumption which the 1940s overturned.

It was during the 1940s that the state in India undertook a huge new responsibility, which subsequently it could neither easily discard, nor properly fulfil. In the early phase of the war, as the state stumbled into various commitments, no one foresaw where its path would lead. The first steps seemed innocent and innocuous enough. In an uncoordinated way, at local levels, government officials' began to intervene in the grain market.

For example, when grain prices began to rise in the United Provinces in 1941, anxious district magistrates began to impose price controls. Similarly, in 1942 in Punjab deputy commissioners were empowered to fix maximum prices when they thought the situation demanded it. The results were unhappy. In the United Provinces, district officers often fixed prices without consulting each other, with the result that adjacent districts often had different fixed prices. Chaos resulted. Stocks moved to districts where controlled prices were high and disappeared from districts where prices were low. Then the districts short of grain had to increase their own controlled price levels: and so a spiral began.⁵ Government action was also the cause of rising prices in Orissa at a time when supplies were not short. None of this followed from any theory. "By conviction I hold with Adam Smith but in a crisis like this I am prepared to accept 100 % control", confessed one governor.⁶

Economics. He is said to have declined P.V. Narasimha Rao's offer to become Finance Minister, before the post was offered to Manmohan Singh.

⁵ From the script for a radio broadcast on 23 December 1946 titled 'Food Shortage and the Rationing', Banks Collection, MSS.Eur.D.919, IORPP.

⁶ T. Stewart (Bihar) to Linlithgow, 23 Sept. 1942, *TOP*, iii, document no. 295.

Then the Great Bengal famine of 1943 occurred, in which two to three million people died. Apart from the human cost, the military implications of famine worried the state. If the economy was wrecked there might be internal disorder and riots, munitions production would stop, the armed forces' food supply would dry up, and instead of fighting the enemy, soldiers would have to be used to maintain law and order inside the country. Moreover, the morale of troops would fall if they were stationed amid so much hunger and disease. (British and Indian soldiers, affected by the sight of starvation, had already begun to disobey orders and feed beggars with their rations.) Expressing his view that the country's utility as a war base was in jeopardy, Auchinleck, the army Commander-in-Chief in India, said "the import of food is to my mind just as if not more important than the import of munitions from the point of view of the coming operations against Japan".⁷ The British chiefs of staff agreed with him.⁸

A Foodgrains Policy Committee was quickly appointed, and with alacrity it recommended government procurement, rationing and price controls. Rationing was extended to cover sugar, edible oils, coarse cloth and kerosene, in addition to foodgrains. A huge public distribution system sprang up after 1942. The degree of government control over the economy changed remarkably. Ironically the colonial state wished to interfere as little as possible, to stick to its *laissez-faire* policy. A crisis, caused by military demands and expenditure, prevented it from doing so, and overturned its policy. The rationing apparatus of the government of India was a child of the Second World War.

The extent of rationing increased towards the end of the war, and – this is an important point – accelerated after the war was over. Apart from foodgrains, kerosene and sugar, the Government of the United Provinces also controlled cloth, iron and steel, paper, gur, salt and wood-fuel – a wider range of commodities than ever before.⁹ The total number of people in India dependent on government rations was a hundred and thirty million in April 1946.¹⁰ The colonial state had, for the first time in its history, directly committed itself to feeding a large section of the population.

The new interventionist role of the state was challenged after independence. Several politicians had misgivings about the responsibilities the state had acquired during the war. They felt that if the state divested itself of these responsibilities, it would return to a healthy normality. Administrative personnel

⁷ Auchinleck to General Brooke, 8 September 1943, *TOP*, iv, document no. 102.

⁸ *TOP*, iv, document no. 139, 24 September 1943.

⁹ *United Provinces Administration Report, 1946*, 23. V/10/191, IORPP.

¹⁰ The caloric value of the allowed ration of 12 oz. of cereals was 1,200. Telegram, Government of India food department to secretary of state for India, 24 April 1946. L/E/5/75, IORPP.

engaged in controls would be released for other more productive tasks. Constantly debated in the press and among the public, the issue of controls caused the deepest divisions in independent India's cabinet, coming up at almost every cabinet meeting.

The decision to lift controls, taken in December 1947, was due mainly to the influence of Gandhi. The corruption which controls gave birth to disgusted him: he was horrified that officials could take bribes in matters affecting the food of the people. Gandhi vehemently opposed controls, denouncing them at his prayer meetings. He made speech after speech in which he condemned corruption in the matter of food and asked that controls on food as well as cloth be abolished.¹¹ Rajendra Prasad, the food minister, duly put up a formal proposal that food control be withdrawn.

Most bureaucrats thought this was a wrong step to take. The secretary of the food department took the unusual step of opposing the proposal of his minister. Disagreements were sharp and genuine: this was the only meeting of the early cabinet at which a vote had to be taken. Six ministers voted for control and seven against it. As a result of this close vote, controls on foodgrains, cloth and sugar were lifted.¹² A new policy came into being (or rather the old one was restored). The government's hope was that decontrol would prove a better way to get food on to the market. It was hoped that it would bring out more stocks than the system of controls did, and that these stocks would be distributed without serious hoarding or profiteering. On the other hand there was a strong fear that if things went wrong the consequences would be grave. The economic structure of the country might be shaken severely and plans for development might suffer a serious setback.¹³

The experiment in decontrol turned out to be an utter disaster. Prices shot up and rationing and food controls had to be re-imposed in October 1948. A series of failed harvests between 1947 and 1952 prevented further such experiments. Thus activities intended to be temporary turned out to be permanent. Controls were established haphazardly in the early years of the war; they began to be effective in 1943; and, despite interludes without rationing, the pro-

¹¹ For example, on 30 December 1947, one month before he was assassinated by Godse, he said in a speech at a prayer meeting in Delhi: "I will say that control should go. Some people argue that rationing has brought much relief to cities. I think it should be removed from the cities too. If everyone conducts himself honestly there will be no need for controls." Gandhi, 1984, p. 328. Also pp. 182, 197, 243, 309-312.

¹² Iengar was the private secretary to the prime minister, and claimed that he attended every cabinet meeting.

¹³ Nehru to chief ministers, 2 December 1947. Parthasarathi, 1985, pp. 30-31.

curement and distribution of food remained, for the next five decades, one of the major tasks of the Government of India.

To conclude: wartime economic controls inaugurated an economic policy regime which persisted in India till 1991. History shows that controls – often assumed in independent India to be the outcome of a socialist ideology – were actually sired by a war economy. Thus, strangely, an imperial war effort moulded the shape of an independent nation state. Among other changes, as a result of rationing during the 1940s, about one third of the population of India began to look to the state for its food supply. This was indeed a profound change: it meant that the state and the people met more often. Moreover, while a police *thana* was almost always a place to avoid; a ration shop was a place to go to without fear, and regularly.

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