



From the Raj to Independence: British investment in the Indian electricity sector[☆]



Pierre Lanthier

Université du Québec à Trois-Rivières, Canada

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ABSTRACT

During the colonial times, electricity in India developed for a significant part thanks to British investment. Its growth remained modest and mainly linked to industrial needs, public lighting and common transportation. World War II stimulated industrial production and, consequently, the demand for electricity. The immediate years following the war were even more promising since the preparations for national Independence included a major restructuring of electricity generation and distribution. The 1948 Law on electricity and the first 5-year plans which began in 1951 set the framework for a major development. Instead of nationalization, India chose a policy which allowed for the participation of both private and public enterprises. British and Indian private investment responded positively to the change. At the beginning of the 1950s, the British presence was felt in the power industry. However, a decade later, it was already diminishing. This paper explains the nature of the policy which allowed a partnership between private and public sectors, the reasons why the latter finally prevailed over the former and the consequences on British investment.

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Introduction

Electricity generation and transmission has been developed through successive and partly intertwined technical and financial phases, in a fashion not dissimilar to experiences of many other public utilities.¹ The first phase, which occurred before World War One, involved the building of municipal and regional central stations, supported by private business, most often with the help of multinationals. The second phase began during World War One and culminated after 1945. It consisted of a greater role for government policy towards implementing national grids, animated by national interests, be they private or public. This has been called

the “domestication” phase, since international participation was taken over by national investors, and in particular by the state through nationalization. The third phase, thanks in big part to denationalization and deregulation, opened the national grids to continental competition from the 1970s onwards.² This made possible the return of competition and of international investment. Across the period, the electrical industry underwent technological development and a gradual increase and diversification of consumers. Such is the general scheme, based on the Western experience. Can we apply this scheme to the developing world? In this paper, we look at the development of electricity in a key emerging country, India.

The history of Indian business in the twentieth century has focused quite extensively on sectors such as textile, jute and metal working, which constituted key activities, especially when India was a British colony. Electricity, however, has been neglected in these studies, which is surprising considering that this sector became so important after Independence. During the colonial times, Indian electricity developed thanks to local entrepreneurs such as the Tata family, but also to British investors. Its growth

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E-mail address: Pierre.Lanthier@UQTR.CA.

¹ T. P. Hughes, *Networks of Power. Electrification in Western Society, 1880–1930*, Baltimore, The Johns Hopkins University Press, 1983; W. J. Hausman, P. Hertner and M. Wilkins, *Global Electrification. Multinational Enterprise and International Finance in the History of Light and Power, 1878–2007*, New York, Cambridge University Press, 2008.; R. Millward, *Public and Private Enterprise in Europe: Energy, Telecommunications and Transport 1830–1990*, Cambridge, Cambridge University Press, 2005; J. Clifton, F. Comin and D. Díaz-Fuentes, *Privatization in the European Union: Public Enterprises and Integration*, Kluwer Academic Publishers, 2003; J. Clifton, P. Lanthier and H. Schröter (eds), *The Economic and Social Regulation of Public Utilities. An International History*, London, Routledge, 2013.

² This did not mean the public sector disappeared, however. See Del Bo, C. and Florio, M. (2013) “Public enterprises, planning and policy adoption: three welfare propositions”, *Journal of Economic Policy Reform*, 15(4), 263–279.

remained modest, however, and was linked mainly to industrial needs, public lighting and common transportation. The participation of British investment could be explained on the grounds that local capital was scarce. Lack of local capital was a prime reason for foreign investment in electricity in many other countries at the time.³ However, the ability of the Tata family to gather Indian capital before World War One shows clearly that the situation was different in India. The colonial context and the prevalence of rural society must be taken into account here.

Before Independence, electricity consumption remained underdeveloped. World War Two stimulated industrial production and, consequently, the demand for electricity. The immediate years following the war were even more promising since the preparations for national Independence included restructuring electricity generation and distribution. Indeed, the 1948 Law on electricity supply and the first 5-year plans which began in 1951 set the scene for a major expansion.

Under such circumstances, one would expect an important shift in the management of electricity in India, including the withdrawal of foreign investment. However, British investors and entrepreneurs reacted rather positively to policy reform in the power industry. At the beginning of the 1950s, their presence was still felt.⁴ Yet, by the end of the 1950s, their participation became marginal. In this paper, we examine the role of British investment in the development of the Indian electrical industry. More specifically, we will insist on the 1945–1960 period, which transformed definitively the dynamics of this industry. What was the nature of the changes and which among them contributed to the diminishing presence of British investment? Could we assume this was the Indian equivalent of domestication? This article does not claim it holds a definite explanation to the marginalization of British investment, but it does put forward a set of hypotheses to work on for future research.

This article uses as primary sources industrial yearbooks and governmental reference manuals published during the 1940s, 1950s and early 1960s. Three of them, published in the 1950s, contain useful information on 63 private electrical companies.⁵ They give historical as well as financial and human data during the years just before and immediately after the Independence of India. By complementing this information with other sources, it has become possible to have a reasonable idea about the private investment in Indian electricity during these years. The article is divided into three parts: the first one examines the situation of Indian electricity under the Raj and the role played by the British in its growth; the second part describes the changes which occurred from 1944 to 1948 in the regulation and policies related to electricity; and the last part shows the consequences of these changes, particularly for the British investment.

The Indian electrical industry by the end of the Raj

Before Independence, the electricity industry was regulated by the Indian Electricity Act of 1910, largely inspired by the British Electrical Lighting Act of 1888. Its purpose was to ease the way for private institutions and companies in their intent to build generating plants for their own needs or to supply energy to the immediate vicinity. The companies simply had to get a license from their provincial Government. The Act did not provide a national or provincial design for the development of electricity and was amended only 9 times, which is very little by Western standards. The Act applied to companies whose electricity production was primarily meant to be sold to suppliers, and also to suppliers, who had to get a separate license to distribute the energy to small consumers.⁶ Before World War One, the role of the public authorities would remain discrete. It is only in 1919–21 that the Government conducted a national survey, showing that India could develop from 6 to 13 million kW in hydro-electricity to insure its economic development.⁷

By the end of the 1920s and, over the next decade, the public authorities began intervening in electricity generation and distribution. Two reasons explain this change. Firstly, the Great Depression of the 1930s hit public finances hard. Although bitterly denounced by the companies and many municipalities, in 1932 the Government of Bombay imposed a tax of 0.5 anna⁸ per kWh in order to make up for its losses.⁹ Secondly, the consumption of electricity was becoming more diverse: besides industry and public lighting, electricity started powering hotels, public transportation and the houses of the privileged classes. The utility was becoming a public service and many provincial states showed interest in harnessing a river or transforming a valley into a reservoir. The Governments of Jammu and Kashmir, of Punjab, of Madras and of Travancore began the construction of big central stations.¹⁰

With the advent of World War Two, the public sector intervened even more decisively in the electrical industry. In 1941, the Government of India set up an Electrical Commission in order to “regulate, assist and control the power-generating industry in the interests of the war effort”. And, in 1945, the Government created a Central Technical Power Board for launching and organizing new power projects.¹¹

Needless to say, the private sector prevailed largely over the public sector before Independence. On the eve of World War One, there were some 120 small companies operating an electrical generator. Most of them were modest and their clientele were mainly public lighting and industry. Among them, around 20 were supplying electricity and 15 others were exploiting a tramway or a local railway network. The biggest central station, built by the Tata group, was still under completion in the suburb of Bombay; it was

³ See: W.J. Hausman, P. Hertner and M. Wilkins, *op.cit.*; J. Clifton, D. Díaz-Fuentes and J. Revuelta, “Financing utilities: How the role of the European Investment Bank shifted from regional development to making markets”, *Utilities Policy*, 29, 63–71; and W. J. Hausman, J. L. Neufeld and T. Schreiber (2014) “Multilateral and Bilateral Aid Policies and Trends in the Allocation of Electrification Aid, 1970–2001”, *Utilities Policy*, 29, 54–62.

⁴ See K.K. Subramanian, *Import of Capital and Technology : A Study of Foreign Collaborations in Indian Industry*, New Delhi, People’s Publishing House, 1972; M. Kidron, *Foreign Investment in India*, Oxford, Oxford University Press, 1965; M. Kurian, *Impact of Foreign Capital on Indian Economy*, New Delhi, People’s Publishing House, 1966.

⁵ *Investor’s Encyclopedia, 1951* (15th edition), Madras, Kothari & Sons; *Investor’s Encyclopedia, 1954* (18th edition), Madras, Kothari & Sons; *Investor’s Encyclopedia, 1955* (19th edition), Madras, Kothari & Sons. These yearbooks can be found in *The Asiatic Society of Mumbai*: ⁸332.6018, INV/INV, 202934, 204153 and 205518.

⁶ *The Indian Electricity Act, 1910, with Short Notes*, Delhi, Universal Law Publishing Co. Pvt. Ltd., to be found in <http://202.164.52.148/pdf/1910.pdf>; *India, a Reference Manual, 1953*, Delhi, Ministry of Information and Broadcasting, Government of India, 1953, p. 212–3; *Investor’s Encyclopedia, 1954* (18th edition), *op.cit.*, p. 1–2; *India, a Reference Manual, 1961*, New Delhi, MIB, Government of India, 1961, p. 286ff.

⁷ *The Indian Year Book & Who’s Who*, Bombay and Calcutta, 1947, vol. 33, “The Times of India” Offices, p. 351.

⁸ One anna represented 1/16 rupee.

⁹ S.N. Pendsay, *The B.E.S.T. Story*, Bombay, Bombay Electric Supply and Transport Undertaking, 1997, p. 34.

¹⁰ *India Reference Manual, 1953, op. cit.*, p. 210; 27, p. 732–3.

¹¹ *Ibid.*, p. 212–3. In 1948, the Commission absorbed the Board. And in the early 1950s, the Commission merged with the Central Water Power, Irrigation and Navigation Commission and became the Central Water and Power Commission. The new Commission’s duties were to perform project studies and advise the Central and State Governments concerning the harnessing of rivers.

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