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INDUSTRIAL PLANNING IN INDIA ✓

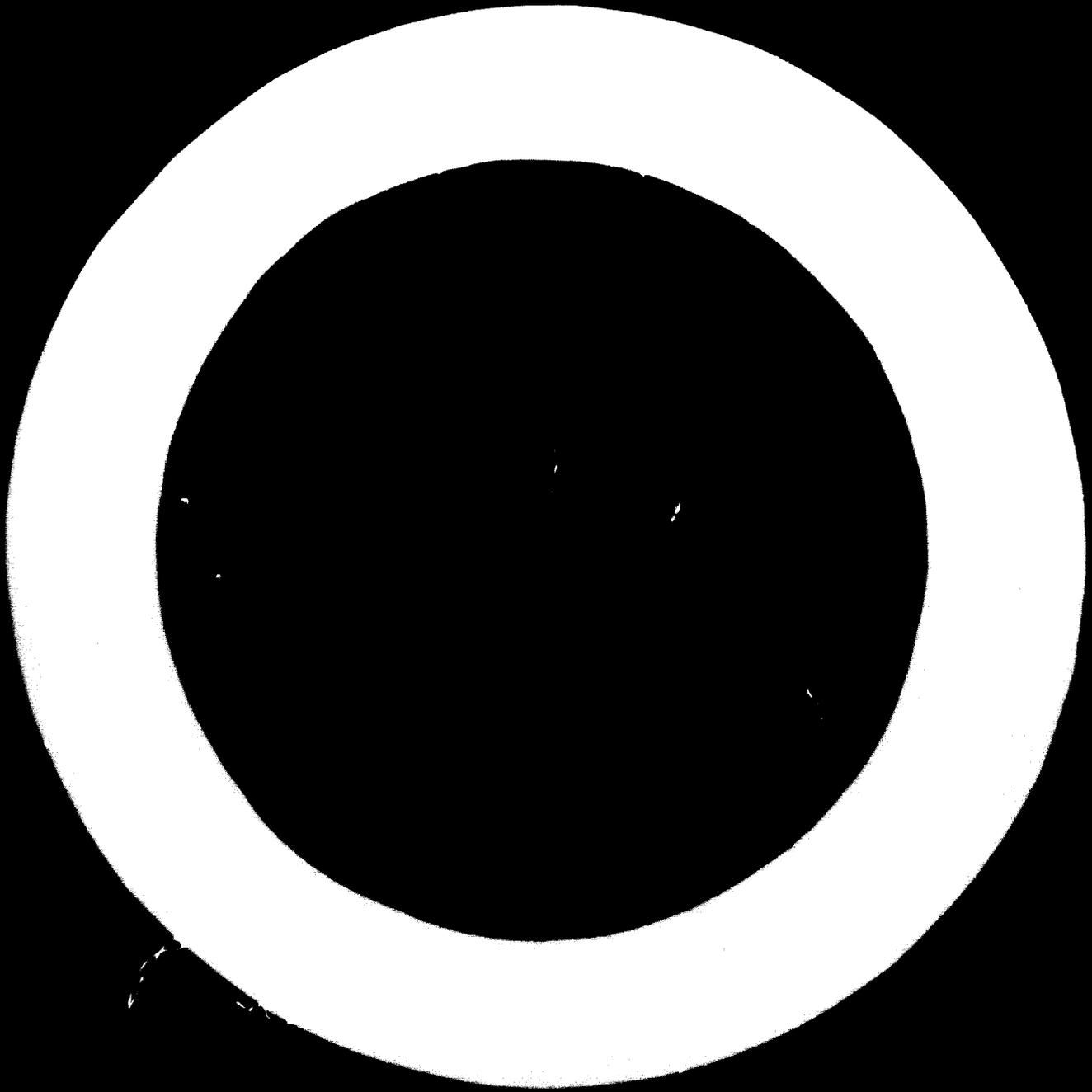
by

M. S. Pathak
Member, Planning Commission of India
New Delhi, India

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Introduction

Planning is essentially an integrated and co-ordinated exercise for development and as such an understanding and appraisal of industrial planning in India would be better appreciated, if this is preceded by an outline of the purpose, approach and process of development planning adopted in the country.

The new horizon

2. The attainment of independence in 1947 signalled the beginning of a new era of social and economic freedom. It aroused aspirations for better living, wider opportunities of work, greater social justice and larger participation in economic activities. The major task before the country was the transformation of the traditional social and economic structure so that mass poverty and ignorance could be removed and a democratic and egalitarian social order established. The first three years of independence were, however, mainly devoted to tackling a number of political and administrative problems. Millions of refugees uprooted as a result of partition of the country were rehabilitated and 500 and odd princely States were integrated. The administrative structure disrupted by partition was sought to be reorganised and above all a new Constitution for the governance of the country was drafted.

The Constitution and social framework

3. The peoples' aspirations were presented in the Constitution which came into force in January, 1950. The Constitution laid down certain Directive Principles, which though not enforceable by a Court of Law, are nevertheless fundamental in the governance of the country; it should be the duty of the State to apply these principles in making laws. According to the Directive Principles, the State shall strive 'to promote the welfare of the people by securing and protecting as effectively as it may, a social order in which justice, social, economic and political, shall inform all the institutions of national life'. The Directive Principles also state that 'the State shall, in particular, direct its policy towards securing that the citizens, men and women equally, have the right to an adequate means of livelihood; that the ownership and control of the material resources of the community are so distributed as best to subserve the common good; and that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment'. These three elements, namely, the promotion of economic and social wellbeing of the masses, provision of opportunities for employment and prevention of concentration of economic power, provide the essential basis for direction of social and economic policies of the Government.

Planning as the approach

4. Planned development was recognised as the most effective and rational means to give a practical shape to these Directive Principles. Accordingly, soon after the adoption of the Constitution, the Government set up the Planning Commission to undertake the preparation of socio-economic developmental plans for the country. The main functions of Planning Commission comprise of an assessment of the material, capital and human resources of the country; formulation of Plan for the most effective and balanced utilisation of the country's resources; determination of priorities, defining the stages in which the Plan should be carried out; allocation of resources for the due completion of each stage and determining the conditions as also the nature of machinery required for the successful implementation of the Plan. Besides, it was entrusted with the responsibility for periodical appraisal of the progress achieved and for making recommendations for the adjustment of policies and measures. The Commission, though constituted as an advisory body, commands a high level status in formulating and directing national economic policies. It functions under the overall guidance and direction of the National Development Council which consists of Chief Ministers of States and Members of the Planning Commission. The Ministers of the Central

Government also participate in its deliberations. The Prime Minister is the Chairman of the Planning Commission as well as of this Council.

Special features of planning in India

5. While accepting the planned approach to bring about a rapid advance of the economy and to make optimal use of the material, financial and human resources, the type and form of planning as adopted in India have certain special features, characteristic of the constitutional and political framework of the country. The method of planning has been adapted to fit in with the basic social values of democracy with the political structure of a federal constitution and with a mixed economy in which public and private sectors coexist and contribute to the fulfilment of the Plan. Indian planning is neither the kind of total planning as adopted in the socialist economies nor the indirect or 'indicative' planning of the type common in the market economies. The form of planning that India has evolved falls somewhere in between. The nearest parallel to it in the Western Europe is the French system of planning and in Eastern Europe the Yugoslavian system of planning. The main difference, however, is that unlike France, India has a federal structure of Government and the achievement of a socialist pattern of society is her avowed objective and unlike Yugoslavia she permits private ownership of

capital and gives a much larger latitude to the operation of the competitive forces in a market economy. The system of planning in India is indeed a combination of both direct and indirect planning and some economists have called it 'a third world of planning'.

6. It may be explained that while the Planning Commission has been entrusted with the formulation of Plans, yet within the framework of the federal structure and the powers and functions of Central and State Governments defined in the Constitution, the States enjoy a considerable freedom in formulating and implementing plans and policies. The responsibility of the Planning Commission lies in integrating co-ordinating and formulating the overall plan for the country and giving it a unified direction to serve the common national interest. In other words, the Planning Commission attempts to draw a coherent and a balanced national plan based on the total resources both of the Centre and the States keeping in view the overall national objectives and the relative priorities in different sectors. This exercise is a fairly complex process requiring the Planning Commission to bring about, through extensive consultations, a fair measure of agreement and understanding among the constituent units of the Federation on the broad approach and objectives of each successive plan, on the means and measures for achieving these objectives and on an acceptable programme of action.

7. Another feature of planning in India has been the acceptance of the concept of mixed economy.

The private enterprise has been accorded a **specific** role in the implementation of the Plan. A considerable area of economic activity is carried out by individuals and private corporate sector and economic decisions are widely decentralised. However, their activities in a planned set up have been sought to be regulated and made to conform to the overall social and economic objectives of planned development. The Government's powers of regulation and instruments of control as well as the fiscal and monetary policies have been used to give direction to the economic activities in the private sector.

8. Thus, the entire process of planning, while based on a decentralised and democratic pattern has been woven into one integrated whole and directed to achieve a unified and balanced programme for the optimum use of resources and to serve the needs of rapid growth and social justice.

Socialist pattern of society

9. The values and objectives sought to be achieved through planning have been summed up in the phrase 'socialist pattern of society', which has been adopted by the Indian Parliament as the goal of social and

economic policy. This concept which embodies the values of socialism and democracy and the approach of planned development, had its roots deep in India's struggle for freedom. Essentially, this means that "the basic criterion for determining the lines of advance must not be private profit but social gain and that the pattern of development and the structure of socio-economic relations should be so planned that they result not only in appreciable increases in national income and employment but also in greater equality in incomes and wealth". For achieving the above goal, the State has to play a dominant role. This implies that public sector has to expand rapidly. It is not only to initiate developments in fields which private sector is unwilling or unable to undertake but also to organise and regulate the entire process of economic and social activity which helps in the achievement of socialist pattern of society.

Planning Process

10. It is under the above framework that the planning exercise is carried out. The Planning Commission first carries out a number of econometric and other technical studies and sets forth the immediate as well as the long term objectives. Normally, a perspective plan of 10-15 years is drawn which not only attempts to define the long term objectives in concrete terms but also gives indication of the relative priorities

to be followed in the medium term or the five year plans. It lays down long term sectoral as well as overall physical and financial targets so that planning proceeds in a balanced and coherent manner. Within this broad framework, the immediate objectives, the tasks to be accomplished and the strategy and approach to be followed in the medium term plan are worked out in the form of a five year plan. These are placed before the Central Cabinet and the National Development Council and after their approval the detailed work of determining specific programmes and targets is undertaken by the State Governments and the Central Ministries within their own spheres of activities.

11. A number of task forces and steering groups are set up at the Centre and in the States to formulate tentative plans for their respective sectors or regions in the light of key figures such as population projections, targets for national income, savings, investment, employment etc. which are provisionally indicated by the Planning Commission. After the recommendations of these task forces and steering groups are received, a process of balancing is carried out in the Planning Commission - supply of various goods and services against demand, exports against imports, raw materials against finished products, production against consumption, savings against

investment, financial resources against physical resources, employment against labour force, training programmes against man-power requirements, etc. Allowance is also made for contribution likely to be made by the human factor, for example, improvement in skill and efficiency. In preparing the five year plans, programming techniques such as budgeting, material balances, inter-industry tables, are also made use of in a selective manner. It is thus through a long process of consultation and examination that a co-ordinated and integrated programme of development is drawn up in the form of a five year plan.

12. Since for operational purposes, five years is too long a period, five year planning is supplemented by an exercise in annual planning. The Annual Plan is really the national economic budget for a period of one year, an economic counterpart of the familiar financial budget. In the formulation of the Annual Plan, the same procedure as in the case of the five year plan is followed. The preparation of the Annual Plan provides on the one hand a much needed flexibility in the implementation of the five year plan and on the other sets out a programme of development to be implemented every year with sufficient concreteness and detail. One of the main objectives of the Annual Plan is to take account of every new opportunity for development that may present itself and to exploit this to the

full for pressing the rate of growth of the economy to the maximum. Another objective is to ensure that the current five year plan dovetails into the next five year plan in a smooth way and that no "knots in the bamboo", as it were, develop at the end of every five year plan.

13. It may be explained that within the national plan for the country as a whole, there are separate plans for each constituent State and Union Territory. At the State level the main institution responsible for the preparation of the State plan is the State Planning Department which works directly under the Chief Minister of the State. As in the case of the Planning Commission at the Centre, the Planning Departments in the States usually formulate their plans through groups set up by them. The State Plans are drawn up in the light of the main guidelines received from the Planning Commission and general directives given by the Council of Ministers of the State. Each State has also set up either a State Planning Commission or a Planning Advisory Committee for helping the State Planning Department.

Importance of industrial development

14. As the average living standards in India are extremely low and a large section of the population has been living below the subsistence level, the main task of planning has been obviously directed

towards raising the living conditions of the common man and particularly the weaker and the poorer sections of society. Since poverty is a cause as well as the result of under-development, the need to increase the size of national product and accelerate the rate of economic development has assumed paramount importance. Thus, laying the foundations of a sound and diversified productive structure for rapid economic growth, expansion of employment opportunities, and achieving a better redistribution of increased incomes have been the principal guiding considerations underlying the development plans.

15. Since about three-fourths of the people live in rural areas and agriculture accounts for about 50% of the national output, development of agriculture has continued to claim utmost priority in the scheme of development. But along with it, a high priority has been accorded to industry. This has been so, as, besides other reasons, the development of modern agriculture demands and promotes industrial growth.

16. The importance attached to the development of industry derives from its catalytic role in the development process. It is a prime mover in the process of economic growth. The advances in modern technology have enhanced the significance of the industrial sector in the growth process. It provides the major inputs by way of materials and equipment required

for growth in various other sectors such as irrigation, power, transport and communication, apart from agriculture. Besides its contribution to national output, it offers expanding opportunities of employment and diversified occupations, both directly as well as indirectly, by giving a fillip to activities in the secondary and tertiary sectors. In so far as it reduces the pressure of population on land and provides additional sources of income generation to the rural sector, it assumes added significance particularly in countries like India where dominance of the primary sector has not only been a drag on development but one of the primary causes of poverty and low productivity. Further industrial development offers, among other things, an effective means of developing the backward and depressed areas. Above all, the large and rich natural resources, abundance of manpower and a potentially vast and expanding market are factors which are favourable to rapid industrial development in India.

Strategy of industrial development

17. While industrial development is important from many points of view, the approach and strategy for its development will need to be worked out in the context of a variety of considerations, as relevant to the situation in each country.

The paucity of technological skills and financial resources often present a great constraint to developing economies in the initial stages of industrial development.

The requirements of building a modern industrial structure has to be reconciled against the total availability of resources and the claims of other sectors on these for balanced development. This implies a concerted effort for mobilisation of additional resources for investment and a consequent restraint on increase in consumption if the capital stock is to be rapidly expanded. It is necessary to ensure that growth in the industrial sector is consistent with the overall economic growth as well as development programmes in the related sectors.

19. At the technological level, the conflicting considerations of efficiency and economy at the enterprise level will need to be reconciled with the requirements of maximising employment opportunities which is an important objective in all developing economies. The pace of adoption of technology will have to be selective and regulated, as to take into account the development of technological skills on the one side and the availability of vast idle and unskilled manpower on the other. The highly capital intensive character of modern industry does not, at least in the short run, lend itself to creating large employment opportunities. Advanced and modern technologies are not only capital intensive but demand highly skilled labour - a factor which also militates against rapid adoption in an indiscriminate fashion.

Industrial development, if unregulated, also tends to support and strengthen the concentration of wealth and economic power in a few hands to the detriment of the common people. The strategy has, therefore, to take cognizance of this natural tendency in the economic system and provide adequate safeguards to prevent the growth of conglomerates and monopolies.

19. Keeping in view the above considerations and the objective of achieving a socialistic pattern of society, a comprehensive Industrial Policy Resolution was adopted in 1956. This embodied in concrete terms the long term approach and strategy of industrial planning in India.

Industrial Policy

20. The main objectives envisaged in the Industrial Policy Resolution are :

- i) Rapid growth of industries, particularly basic, heavy and machine building industries.
- ii) A progressively expanding and dominant role for the public sector.
- iii) A large and growing co-operative sector.
- iv) A private sector which will have the opportunity to develop and expand as an agency for planned national development, subject to control and regulation.
- v) Promotion of cottage, village and small scale industries.
- vi) Prevention of private monopolies and concentration of economic power in the hands of a few individuals.

- vii) Reduction of disparities in levels of development between different regions of the country.

21. The Resolution not only gives the policy directions for achieving rapid industrial growth keeping in view the socio-economic objectives but also demarcates the areas for industrial expansion in the public and private sectors. Recognising the need to speed up industrialisation and, in particular, to develop heavy industries and machine building industries on the one hand and the prevention of concentration of economic power and private monopolies on the other, the Resolution States that "the State will progressively assume a predominant and direct responsibility for setting up new industrial undertakings", in addition to the expansion of infrastructure facilities like transport. The Resolution provides that all industries of basic and strategic importance or in the nature of public utility services should be in the public sector. Other industries which are essential and require investment on a scale which only the State could provide have also to be in the public sector. At the same time, as an agency for planned national development, in the context of the country's expanding economy, the private sector will have the opportunity to develop and expand. The principle of cooperation should be applied wherever possible and a steadily increasing proportion of the activities of the private sector developed along cooperative lines.

System of industrial planning

22. At the macro level, the formulation of ^{the} industrial plan is an integral part of the preparation of the overall economic plan. Thus, the long terms perspective plan and the broad outlines of the medium-term plan which are initially drawn up by the Perspective Planning Division of the Planning Commission provide the starting point for working out detailed programmes and targets in the industrial and mineral sector. The broad outline of the medium-term plan generally provides some guidelines in regard to the overall investment considered feasible in the industrial and mineral sector over the five year period as well as indications of the physical targets to be aimed at in some of the key industries. To the extent possible, the Perspective Planning Division provides data relating to material balances for the plan period for key commodities. In addition, the Perspective Planning Division also provides the broad sectoral growth envisaged in the Plan.

23. The detailed formulation of targets and programmes is undertaken by Steering Groups/Task Forces set up by the Planning Commission. The Steering Groups/Task Forces consist of representatives of the administrative Ministries concerned, the Planning Commission, Technical Advisers as well as representatives of the industry. All important groups of industries are covered in this manner by detailed studies carried out by the Steering Groups/Task Forces. The terms of reference of these Groups are fairly exhaustive, covering an assessment of

the current situation, an estimate of requirements as at the end of the terminal year of the Plan, the capacity and production levels to be achieved, the optimal manner in which the required additional capacity is to be created and the investment and foreign exchange requirements therefor. The Steering Groups/Task Forces are also expected to make recommendations pertaining to the level of technology in the respective industries, research and development, training programmes for personnel and other salient features relating to the growth and development of the industry concerned. In respect of industries where the gestation period extends beyond a 5 year horizon, the Steering Groups/Task Forces are also required to take a longer term view in making their recommendations for the five year period.

24. While the important industrial groups are covered by the detailed studies undertaken in this manner by the Steering Groups/Task Forces, programmes in respect of other industries are generally drawn up by the Development Councils set up under the Industries (Development and Regulation) Act. These are standing bodies which continuously review the progress of their respective industries and advise the Government on current as well as planning problems. In addition, the Planning Commission undertakes extensive consultations with representative organisations of industries and their views in regard to the potential, and probable rates of growth are also taken into account.

25. Apart from the formulation of industry-wise programmes indicating the overall targets of production, the specific projects to be undertaken in the public sector will also need to be concretised before the finalisation of the plan. In other words, within the overall programme for each industry, the share of the public sector will have to be determined and the projects which would contribute to the level of capacity and production envisaged in the public sector will have to be specifically identified. Therefore, simultaneously with the formulation of the industry-wise programmes for the Plan, studies are initiated on project identification for the public sector. In regard to the role of ^{the} public sector in the industrial field, the objectives as laid down in the Industrial Policy Resolution and the broad allocation of financial provision available for public sector programmes in the industrial and mineral sector are taken into account. Thus all new units in schedule-A of the Industrial Policy

Resolution will have to be in the public sector. In these industries, the gap between the current capacity and the plan targets will, therefore, have to be almost fully met through additional projects to be established in the public sector. Similarly, in the context of the priority for each Plan and the expectations in regard to the contribution by the private sector, public sector may have to undertake certain new projects or expansions even in industries outside schedule -A. The task of identification of projects is undertaken by the Ministries concerned who commission detailed studies with the consulting organisation. In order that the investments in the public sector are optimised, the Planning Commission generally advises the Ministries to undertake feasibility studies of projects on a somewhat liberal basis, somewhat in excess of the number of projects that might ultimately be included in the final Plan. This is advisedly done with a view to enable the Planning Commission to make an economic choice among various alternatives that might be feasible.

26. The recommendations of the Steering Groups/Task Forces, Development Councils and Industrial Associations in regard to the overall programme for each industry, as well as project proposals received from the Ministries in regard to the public sector programme are then reviewed in the Planning Commission from the point of view of (a) availability of financial resources and relative priorities, (b) internal consistency in terms of material balances, and (c) physical possibilities. These reviews are undertaken in close consultation with the Ministries concerned. Finally, an internally consistent industrial plan is prepared and incorporated in the Five Year Plan.

27. The Plan so formulated could be said to consist of two parts. The first part consists of the public sector programme in which projects have been identified and resources allocated on a definitive basis. This part of the programme is entirely within the control of the Government, and, therefore, capable of fulfilment on a more assured basis. The other part of the programme consists of the activities to be fulfilled by the private and

the cooperative sector, Inasmuch as the fulfilment of this programme is dependent on the decisions to be undertaken by individual entrepreneurs in a decentralised manner, these are more in the nature of anticipations and expectations rather than a well-defined plan in the proper sense of the term.

Government can influence through its regulatory mechanism and fiscal and price policies the decisions in the private sector so as to make them conform to the Plan expectations but cannot be fully assured of their implementation in accordance with the Plan. As far as this segment of the Plan is concerned, the primary emphasis lies in providing a framework of policy which is conducive to influencing the flow of investments in the directions required.

Instruments of Control and Regulation:

28. The objectives and targets envisaged in the Five Year Plan are sought to be achieved through a number of instruments of control and regulation. These are mainly in terms of regulatory measures, ^{such} as pertain to industrial licensing, capital issues, imports, foreign investment and collaboration, monopolies and restrictive trade practices. In addition, the trend and direction of industrial investment and production is also influenced through selective flow of funds from the public financial institutions, fiscal measures and provision of certain incentives and disincentives which are constantly kept under review.

29. The industrial licensing policy governs the creation of additional capacity under the provisions of a law called the Industries (Development and Regulation) Act which was enacted in 1951. The successive Five Year Plans have given considerable emphasis to the role of this legislation in the planning of industrial growth in the private sector. The Act provides for the registration of the existing undertakings in ^scheduled industries within a prescribed

period and prohibits the establishment of new units or substantial expansions without a licence. It empowers the Government to order investigations on grounds of fall in production, deterioration of quality, mismanagement etc. and further provides for taking over the management of undertakings under certain contingencies. The Act also provides for a number of institutions to be set up for associating ^{the} private sector with industrial planning and development. These institutions are the Central Advisory Council for Industries and Development Councils for specific industries.

30. The control of capital issues is designed to regulate the investment of available capital, whether it flows through new capital issues or is formed of reserve funds.

31. The availability of foreign exchange being limited, the management of this scarce resource plays an important role in the pace and direction of investment and production in the industrial sector. The release of foreign exchange for import of capital equipment or of raw materials has provided an important lever to the public authorities.

The policy of import substitution as a means for promoting industrial development is implemented in a large measure through import controls. Similarly, import control is also utilized for preventing the growth of non-essential consumption and of the development of industries catering to such consumption. The applications for imports are scrutinised from the point of view of essentiality, indigenous availability and source of import.

30. The role of foreign capital and technical know-how for industrial development is recognised. At the same time, foreign investment and collaboration will need to be regulated so that these supplement the domestic resources rather than compete with them. A selective approach in regard to import of technical know-how is also important from the point of view of promoting scientific and technological capabilities within the country. From these points of view, foreign capital investment and collaboration require the approval of the Government. Broad outlines

of policy in regard to foreign capital and technology has been laid down. Illustrative lists of industries in which foreign investment or technical collaboration would be permitted and those in which foreign collaboration - technical or financial - would not be permitted have been published. In regard to foreign investment in new ventures, foreign equity participation is, as a rule,, restricted to 40% of the capital. In exceptional cases, equity participation upto 49% may be allowed. Majority foreign participation is considered only on grounds of technology not being available in the country or where a major proportion of production is intended for exports. A special committee, known as Foreign Investment Board, has been set up to deal with applications for foreign investment and collaboration in an expeditious manner.

33. Keeping in view the social objectives of industrial policy, a legislation for preventing the concentration of economic power and curbing

monopolistic and restrictive practices has been enacted about three years ago. Under this legislation, an industrial undertaking having total assets exceeding Rs.200/- million and a dominant undertaking having assets exceeding Rs.10 million are required to obtain approval before establishing a new unit or undertaking substantial expansion.

34. The financial resources made available by the public financial institutions like the Industrial Development Bank and the Industrial Finance Corporation represent a significant proportion of the total resources available to the private sector for investment in industries. In addition, there are similar institutions at the State level which also assist industries in the private sector. Generally speaking, the financial institutions are guided in giving financial assistance to various industries by the priorities indicated in the plans. To this extent, the direction of investment in the private sector is influenced by the lending policies of the financial institutions.

35. Selective incentives and discentives by way of tax holidays and excise duties are also widely used for directing investment and production in the industrial sector in accordance with plan targets and changing needs.

Experience and Results:

36. The Indian economy has proceeded on a planned basis for a period of well over 20 years. The current year represents the final year of the Indian Fourth Plan. The Indian planners have gained considerable experience in the management of the economy and a degree of sophistication has been acquired in dealing with the methodological, technical, administrative and policy problems of planning and implementation.

37. That the planning process has bestowed considerable advantages to the economy is not in doubt. The rate of progress achieved over the last two decades in industrial investment and production is by standards that existed prior to the planning era something remarkable.

The economy has gained considerably in strength and potential. Significant structural changes conducive to growth and development have been brought about. The industrial economy has vastly diversified and technical and scientific capabilities have been substantially expanded.

38. Undoubtedly the growth of the economy has not proceeded during the period on a uniform basis. There have been periods of difficulties and of industrial stagnation. Taken as a whole, however, the picture is one of overall progress. Industrial production during the first decade (1951-61) increased, on an average, by 7% per annum. The increase during the next four years i.e., from 1961-62 to 1964-65 was around 9% per annum. Thereafter, there was a period of decline and stagnation with the industrial production slumping to 3.5% in 1965-66 and virtually to zero during the subsequent two years. These were extremely difficult years for the Indian economy with severe droughts and other problems. Industrial production showed a sharp

recovery in 1968-69 by showing a growth rate of 6.2%. During the next four years the overall growth rate has been around 5%.

39. More than the overall increase in industrial production, what is significant is the direction of industrial growth during this period. A substantial part of the investment was directed to strengthening the basic industries, particularly, capital and producer goods industries. Metals (ferrous and non-ferrous), fuels (coal and petroleum), heavy machinery and basic chemicals, including fertilisers, occupied a place of pride, in industrial investment during this period. The production of steel ingots increased from 1 million tonnes to over 6 million tonnes, aluminium from 40 thousand tonnes to 180 thousand tonnes, coal from 33 million tonnes to 74 million tonnes, cement from 2.7 million tonnes to 15 million tonnes, petroleum products from 0.2 million tonnes to 18.6 million tonnes and nitrogenous fertilisers from 9000 tonnes to 950,000 tonnes between 1961-62 and 1971-72.

In the machinery field, substantial capacity has been set up in a diversified manner so that the growth of the economy in various sectors, such as mining, irrigation and power, transport and communications can substantially proceed on the basis of the domestic equipment supplies. Similarly, production of industrial machinery has also been stepped up so that industrial programmes will also be largely based on machinery produced within the country.

40. Along with the expansion and diversification of industrial production, substantial progress has been made in technological capabilities and skills. Technology has either been acquired or developed to enable the planning^{and} designing of industrial capacity with indigenous effort in fields like metals, chemicals, mining, transportation and power generation. Competent consultancy services are now available in all these fields. The management of

industrial enterprises has become increasingly professionalised. The nature of international trade has also undergone a significant change. An increasing proportion of imports is by way of raw materials and components rather than finished products. On the other hand, the share of manufactured goods in the total volume of exports has progressively risen.

Lessons learnt

41. So much regarding the positive side of the achievements of planning. It should not, however, be construed that industrial development proceeded, in all its facets, strictly in accordance with the plans or that the progress in implementation and realisation of targets has always been according to expectations. Undoubtedly, there have been shortfalls, imbalances, delays and misallocation of resources. An important element in successful planning is the ability to forecast events, to modify the tools and instruments of planning in accordance with the changing requirements and to provide an appropriate framework of policies in tune with the emerging economic structure. As the economy becomes more and more complex, the style of planning and implementation will also have to change to be able to grapple with them. It would be of some interest to mention some of the significant problems that have been encountered in the process of planning over the last two decades and the adjustments and modifications in policies and procedures that have been made from time to time to deal with these problems.

42. As earlier mentioned, an important instrument forged for directing industrial investment in the private sector, in accordance with the plan requirements, was the system of industrial licensing. Through this instrument, it was envisaged that investments in undesirable directions would be prevented, regional dispersal

of industries encouraged and capacity requirements in accordance with the plan targets fostered. In the early years of the Plan period, industrial licensing system worked reasonably well. Licensing of capacity was regulated in accordance with the targets in the plans. However, as the pace of industrialisation gathered momentum, and the industrial structure became complex, several aberrations became manifest. With the increase in the number of industrial applications, it became increasingly difficult for the administrative machinery to deal with them expeditiously. Delays in the processing of applications for industrial licences tended to come in the way of speedy industrial growth, apart from causing a sense of frustration and irritation among the applicants. A number of procedural changes became necessary to speed up the processing of applications for industrial licences. Furthermore, certain industries were delicensed and in others, the limit of investment below which exemptions were given from the need to take industrial licenses, was raised.

43. Two other deficiencies were noted in the working of the industrial licensing system. These were in terms of concentration of economic power on the one hand and imbalances in the industrial structure on the other. A commission appointed by the Government in 1964 came to the conclusion that "the planned economy, which the Government decided to accept for the country, as the quickest way to achieve industrialisation on the right lines has proved to be a potent factor for further concentration."

An important observation made by the Commission was that

"big business was at an advantage in securing the licences for starting new industries or for expansion of the existing capacity". The Commission came to the conclusion that the system of controls in the shape of industrial licensing, however necessary from other points of view, had restricted the freedom of entry into industry and helped to produce concentration. A special Committee was therefore appointed by the Government to go into the details of the licensing system and examine the impact of industrial licensing on the problem of concentration of economic power. The Committee came to the conclusion that "in practice, the licensing system worked in such a way as to provide a disproportionate share in the newly licensed capacity to a few concerns belonging to the large industrial houses."

44. While licensing proceeded broadly on the basis of the plan targets, implementation did not proceed in the same fashion. A review at the end of the Third Plan indicated that while surplus capacities existed in certain industries, there were significant shortages in others. The Licensing Policy was not an adequate instrument to correct these imbalances.

45. All this led to the need for making significant modifications in the Industrial Licensing Policy at the beginning of the Fourth Plan. The licensing policy now makes a distinction between the larger industrial houses and foreign majority companies on the one hand

and other applicants on the other. The role of the larger industrial houses and foreign majority companies has now been restricted mainly to core industries which are of importance to the national economy, industries having linkages with such core industries and those possessing export potential. At the other end, there has been considerable liberalisation in terms of exemption from industrial licensing for entrepreneurs other than those belonging to larger industrial houses and foreign majority companies. This is intended to diversify ownership and to encourage the entry of small, medium and new entrepreneurs in the industrial field.

46. A further significant change made at the beginning of the Fourth Plan was in introducing a measure of flexibility in regard to the capacity to be licensed in different industries. In the earlier plans, licensing was generally restricted in accordance with the plan targets. This had led to a degree of rigidity. Restrictions on capacity led to the emergence of shortages and the absence of competitive conditions. Cost

considerations were at a discount in such an atmosphere. With the larger availability of raw materials and capital equipment from within the country, it was felt that ^{the} time was opportune to allow a larger degree of freedom to entrepreneurs and to bring about competitive conditions. The Fourth Plan, therefore made a departure from earlier plans by providing only indicative targets for all industries other than those included in the core sector. While resources preferentially would be canalized to the core industries, it was decided that licences would not be withheld merely on capacity considerations. The scope of new entrepreneurs to enter into the industrial fields was further extended.

47. Another problem that has come up prominently, is the difficulty in striking a balance between the need to promote domestic industries, vis-a-vis its cost to the economy. While import substitution has been widely adopted as a strategy for fostering industrial development and this has been successful to a large measure, the choice between domestic production and imports becomes increasingly crucial after the obvious areas of import substitutions are exhausted. There is often a tendency to ignore cost considerations in deciding the areas of import substitution. This can lead to mis-allocation of resources.

Import substitution pushed to extremes can retard rather than accelerate industrial growth. More recently, this factor has assumed significant importance in the Indian economy and projects are now more critically examined before these are accepted for purposes of investment decision.

48. Another significant problem that has arisen relates to the management and promotion of domestic technology. While a large infrastructure of scientific and technological establishments has been set up and considerable investments made on them, the scientific and technological efforts have not been closely co-related to the requirements of the economy. The contribution of these institutions to industrial and economic growth in the country has therefore been less than optimal. This has resulted in the continuing dependence of the Indian industry on foreign technology. This situation has, more recently, been sought to be corrected by limiting the period of foreign collaboration and by insisting on the Indian enterprises to devote greater attention to technological development and innovations on their own. This, of course, does not imply an embargo on modern advances in technology but attempts to foster the development of innovation and improvement on existing technology, whether imported or indigenous, through continuous effort.

49. The failure in the fulfilment of targets and the imbalances resulting therefrom can also be partly attributed to the divergence between the plan objectives and the pricing policies. Whereas the plan lays emphasis on rapid growth in key industries critical to the economy, these often are the industries in which fairly rigid price controls are imposed. The result is that investments do not flow in the expansion of these industries but get diverted to less priority industries. In such a situation, the shortages get accentuated necessitating stricter control on distribution and prices. Such contingencies have arisen in Indian planning and point to the need for the Plan to be supported by an appropriate policy framework.

50. The management of the public sector programme is another field in which experience has shown that there is imperative need for considerable improvement.

As in India, many developing countries have little choice except to accelerate industrial development through public sector investment. However, the approach and methods of project planning and implementation are very different from those connected with the preparation and implementation of the overall plans. Project identification, appraisal, construction and operation require highly sophisticated tools of modern

management. In the initial years of Indian planning, with the low level of technological competence, projects were generally conceived without due examination from ^{the} techno-economic angle and were implemented more or less on a turn-key basis through foreign agencies. The viability and profitability of the project were not fully analysed nor were the pre-requisites for operating such projects, after they are constructed, adequately provided for. The gestation period in developing the necessary skills of the workers to obtain full output from these enterprises was not recognised. The result has been that some large projects will have taken abnormally long to attain close to full capacity utilisation. The problems of management of complex undertakings were not fully appreciated and the induction of civil servants from the administration to man these projects has not been particularly rewarding.

51. With the increasing dependence over time on domestic technology and equipment for the construction of projects, the construction of projects has assumed a new dimension of complexity. The dovetailing of the numerous activities in the construction of complex projects and the integration of the timely

supply of domestic equipment, with imported equipment, present extremely difficult management problems. Further more, when it is realised that several of these projects also need close coordination with the progress of projects in other sectors which provide inputs or infrastructure facilities for their operation, as in the case of iron ore projects for export, the immensity of the task of management and coordination can be appreciated. A somewhat inadequate system for coordinating and monitoring the implementation of projects has been responsible, to a large extent, ^{for} ~~to~~ delays in construction and completion and consequent escalation in the cost of projects.

52. The overall industrial growth achieved during the plan periods at the national level has not been adequately reflected in terms of the progress in different regions. In a country of the continental size ^{of} ~~as~~ India, a fairly dispersed growth in different regions of the country is of paramount importance. Expectations in focussing locational considerations in the establishment of industries through the industrial licensing system have not borne fruit. While undoubtedly some dispersal has been achieved, equally there has been a pronounced tendency

to get industries concentrated in the more developed regions and States. Apart from denying the benefit of industrial progress to the under-developed regions, such concentration has also brought in its wake serious problems of congestion and pollution. In part, the problem is related to the expansion of infrastructural facilities at focal growth points so as to enable and attract industries to be established at such selected locations. In part, it is also related to the provision of adequate incentives to neutralise the disadvantages arising from location of industries in backward regions. Some efforts in both these directions have been made but experience has shown that these need ^{to} be increased to attract industries to backward regions. It would seem that these would need to be supported by appropriate institutional arrangements which would facilitate a detailed study of the potential for industrial development in different regions, the identification and promotion of entrepreneurs and provision of technical and financial support to such entrepreneurs to establish industries.

Fifth Five Year Plan: corrective Steps

53. The main thrust of the Fifth Five Year Plan is on improving the standards of living of the large sections of the people who are below the poverty line and the attainment of economic self-reliance. Greater emphasis is being placed on meeting the basic minimum needs of the people such as, elementary education, better health and nutrition facilities, house sites for rural landless, provision of roads and electricity and slum improvement and clearance. To improve the standards of living of the weaker sections of society, it is necessary that essential consumption goods are made available to them at reasonable and stable prices. The production programme for essential commodities like cloth, edible oils, sugar etc. will, therefore, have to be expanded during the Fifth Plan. At the same time, attention will also have to be given to the distribution and price policies for these commodities. The objective of self-reliance underlines the need to give high priority to accelerated expansion as well as fuller utilisation of the capacity in industries like steel, non-ferrous metals, fertilisers, petroleum refining and

basic chemicals so that higher levels of output from these industries can be obtained. Special attention will also need to be paid to ensure supply of construction materials for these projects and to remove bottlenecks, such as transport and power, in increasing industrial production.

54. Based on the experience over the previous plans and the deficiencies noticed, a number of steps are being taken preparatory to the commencement of the Fifth Five Year Plan to provide greater assurance to the success of the Fifth Plan. Keeping in view the main objectives of the Fifth Plan, the industrial licensing policy was again examined and certain modifications have been made in it. A consolidated list of industries which would be open, along with other applicants, for the participation of larger industrial houses and branches and subsidiaries of foreign companies has been published. The list includes core industries which are of importance to the national economy in the future, industries having direct linkages with such core industries and

industries with a long-term export potential. The definition of the larger houses has been modified to bring it in conformity with the definition contained in the Monopolies and Restrictive Trade Practices Act. The main objective of these modifications is to provide greater clarity of the Government policy with a view to creating an investment climate that would facilitate the achievement of the production objectives and priorities in the Fifth Plan.

55. A detailed examination is also currently under way of the procedures pertaining to various regulatory measures with a view to streamlining them and speeding up clearances from the Government. It is expected that the decisions that would be ultimately taken will prevent substantially the bottlenecks and delay in the administrative clearance of various proposals by the entrepreneurs.

56. Apart from these, the Planning Commission has also undertaken a detailed study of the policy framework relevant to the priorities and objectives laid down in the Fifth Plan.

This would inter alia cover the pricing policy for industrial commodities. This study is also expected to be completed well before the commencement of the Fifth Five Year Plan.

57. Another major effort in the Fifth Plan is to integrate and dovetail the scientific and technical effort to the requirements of economic development as contained in the Fifth Plan. The National Committee on Science and Technology have undertaken a detailed study, sectorwise, of the requirements of technological inputs, identification of specific areas of research and development to be undertaken during the Fifth Plan, the agencies which would be responsible for them and the time frame within which the work would be completed. Further, the National Committee on Science & Technology is also reviewing the entire policy framework appropriate for accelerated development, in a productive manner, of the scientific and technological effort in the country. The science and technology plans so prepared will form an integral part of the Fifth Five Year Plan.

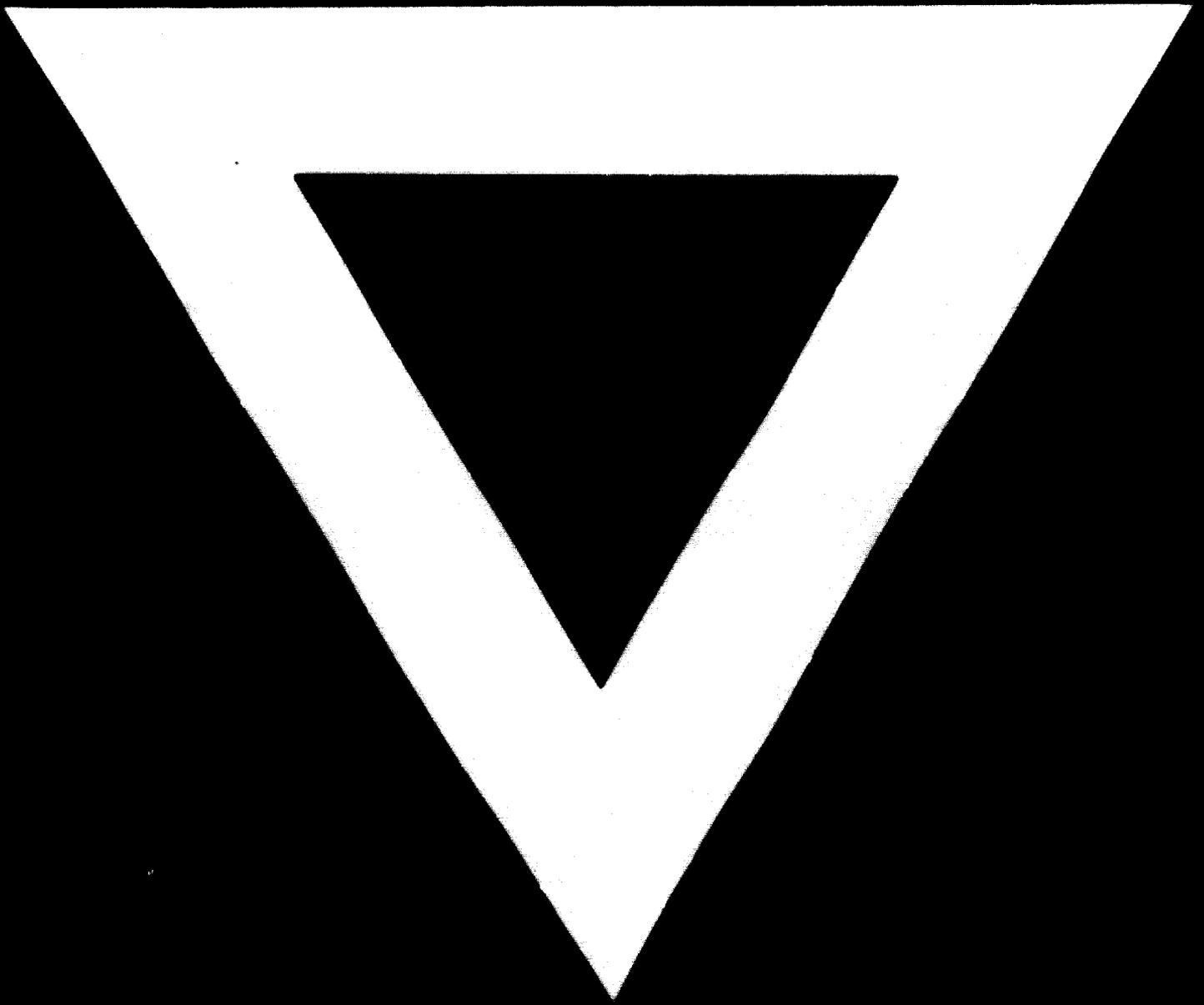
58. Several steps are also being taken to improve the efficiency and working of the public sector projects. A major reason for delays in implementation and cost escalation in public sector projects has been the inadequate preparatory work before the project is undertaken for implementation. Greater attention is, therefore, being paid to this aspect right from now and necessary financial provisions have been made for taking advance action by way of detailed investigations and feasibility studies on projects to be included in the Fifth Plan. The intention is to have a sufficiently large shelf of projects, well worked out in all details, before the commencement of the Fifth Five Year Plan so that meaningful choice could be made in their selection for inclusion in the Plan. Further, the machinery for preparation and evaluation of projects has been strengthened. A special cell is also being created in the Planning Commission for keeping a close watch on the progress of the major public sector projects and for monitoring them with a view to taking remedial actions in right time. Administration

and management is another sphere which is assuming greater importance because of the expanding role of the public sector. An intensive study of the problems facing the public sector projects is being made covering all aspects, such as organisational structure, operating methods, technology, industrial relations, training and development, personnel management etc.

59. Another direction in which greater emphasis is being placed in the Fifth Plan is the development of backward areas. A number of backward districts have already been identified on the basis of certain economic indicators. Special provision is being made for providing concessional finance and other incentives for attracting industries to these identified districts. Apart from this, consideration is also being given to the creation of an appropriate institutional machinery at the district level to support and encourage industrial development. Problems of special areas,

such as hill regions, which present problems of different dimensions altogether, are being tackled separately on a special footing. These large underdeveloped pockets in the country will need comprehensive planning and massive levels of investment to create altogether new infra-structure facilities. The gestation period for securing even a minimum level of development in such areas will also be large. A sustained programme of multi-level regional planning, as an integral part of the overall national plan, is proposed to be adopted to deal with the problems of such large areas.





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