Chapter 4

CENTRAL GOVERNMENT POLICIES AND REGIONAL IMBALANCES

IN INDIA--A PROFILE

4.1 In this chapter, a brief review of the policies and programmes of the Central Government is attempted. Further an analysis is also made to find out the factors that influenced the government authorities in framing these policies and programmes of industrial dispersal for reducing regional imbalances.

Most of the countries of the world are faced with the problem of serious regional inequalities. As far as the developing countries are concerned, this problem has assumed such a magnitude that their very political and economic stability is threatened. Because of the complexity created by this economic necessity and the resentment over increasing disparities between backward and developed regions, the backward regions clamour for more resources and a discriminatory governmental policy in their favour. This is the reason why a strong 'desire' to ensure balanced regional development of the economy is incorporated as an important objective of national planning in most of the developing countries.
When one looks into the historical experience of India, it can be observed that the process of development under British rule was not entirely in accordance with the natural processes of development. The development of the country was guided by the economic interest of the foreigners. They paid special attention to the development of certain areas connecting with ports, skilled labour, capital and enterprise while the rest of the economy was ignored. As a result, certain 'enclaves' of development in the country was created while the rest was continually impoverished. "Economically speaking, they were really an outpost of economies of the more developed investing countries". Since these pockets had the advantage of an early start, they became centres of economic activity in due course of time.

Because of the glaring regional imbalances and inequalities which have arisen through a complex set of historical, socio-economic, demographic and cultural factors, the need for state intervention to achieve a balanced regional development is suggested by most of the economists. The economic literature of post second World War period with its firm grip as the distributive aspects

of growth has made its impact on the planners of the less developed countries to an extent that social justice, redistribution of consumption norms and eradication of poverty have become central issues in their planning models.\textsuperscript{2} Several compelling factors have induced governments in these countries to launch programmes aimed at the development of backward regions. They are now concentrating their attention on evolving a development strategy which would seek a reduction in regional imbalances without affecting the national income growth rates. In India, soon after independence, when the planning process started in the country, the objectives of planned development were conceived of, and referred to, the problems of regional development as one of them. While statements were made in official documents as well as in the parliament about the desirability of a regional balance and the need to disperse and diversify the economic activities, the very identification of the problems and potentialities of these areas had not been systematically done. In fact, the review of the industrial licensing policies revealed that the needed industries to the necessary extent did not really go to the backward areas.

This condition, however, has changed only when the policy instrument designed exclusively to promote industrial development in backward areas was instituted since 1970s.

4.2 POLICIES OF CENTRAL GOVERNMENT

India, being a federal country, consists of central government and 27 state governments. As per the Indian federal system, the responsibility for regulation of industrial development is shared between the centre and states. The important declaration as to expediency of control by the centre is contained in the Industries (Development and Regulation) Act of 1951, which lists in its first schedule the industries which are to be under the control of the Central Government. Therefore, in a broad sense, the Central Government has a crucial and overall responsibility in the regulation and development of industries so as to achieve national objectives which have been articulated in the Industrial Policy Resolution (IPR) and Statements. The IPR of 1948, the first in the post-independence period, had no direct reference to the problem of industrial development of backward areas. The policy of the government articulated more fully in the IPR of 1956 which was governed by the objective of attaining the 'socialistic pattern of society'. There was a specific
reference to the development of different categories of industries in the public sector and to the problem of industrial development of backward region.

In order that "industrialisation may benefit the economy of the country as a whole, it is important that disparities in levels of development between different regions should be progressively reduced. The absence of industries in different parts of the country is very often determined by factors such as the availability of the necessary raw materials and other natural resources. A concentration of industries in certain areas has also been due to ready availability of power, water supply and transport facilities which have been developed there. It is one of the aims of national planning to ensure that these facilities are steadily made available to areas which are at present lagging behind industrially or where there is greater need for providing opportunities for employment provided the location is otherwise suitable. Only by securing a balanced and co-ordinated development of the industrial and agricultural economy in each region can the entire country attain higher standards of living".³ Thus

the emphasis was on the provision of infrastructure in industrially less developed regions so that imbalances can be reduced.

This resolution has continued to be the cornerstone of government policy, though the subsequent (1971, 1980 etc.) Statements of industrial policies which have emphasised one or the other aspects of industrial development of backward regions in order to reflect changing conditions. The Statement of Industrial Policy issued in 1977 stated that, "The Government attaches great importance to balanced regional development of the entire country so that disparities in levels of development between different regions are progressively reduced. Government has noted with concern that most of the industrial development that has taken place in our country since independence has been concentrated around the metropolitan areas and large cities. The result has been a rapid deterioration in the living condition especially for the working classes in the larger cities and attendant problems of slums and environmental problems". In pursuance of this, the government decided to regulate licensing and financial assistance to industrial units.

4. Ibid. p.125.
coming up in large metropolitan cities having a population of more than one million and urban centres with a population of more than five lakhs as per the 1971 census.

The 'correction of regional imbalances through a preferential treatment of industrially backward areas' was one of the important objectives of the IPR issued in July 1980. The Statement says that "special concessions and facilities will be offered for this purpose and these incentives will be growth and performance oriented." It also emphasised the importance of ancilarisation, and states: "Industrial development has to be viewed in the broader context of generating higher production and employment. Overcoming the problem of poverty and backwardness need a multi-pronged approach. An integral part of this approach would be to create new focal points of industrial growth which have the maximum effect on the quality of life. This will have to be based essentially on the utilisation of local materials and locally available manpower. The ripple effect of substantial in backward districts in the past has in many cases not been adequate; mainly because such investments did not have effective linkages with local resources. Government, therefore,

proposes to encourage investments by public and private sectors which will meet these criteria and would also promote a network of spread out ancillaries". ⁶

The Five-Year Plans had been considered as the main instrument for implementing the IPRs and statements into action. Within the framework of the IPR, different aims and objectives have been set out in the succeeding Five Year Plans and the need to tackle the problems of industrial dispersal has been recognised in all the plan documents. The Five Year Plan stated categorically industrial development in India has so far been on an unplanned basis and it has been concentrated in a few selected areas. Although there has been a trend towards wide dispersion of some industries like cotton, textile and cement, industrial development in some parts of the country has lagged behind seriously. The excessive concentration of industries brings in its train certain economic and social disadvantages and a wider diffusion of industry is desirable from this larger point of view. Further, if industrial development in the country is to proceed rapidly and in a balanced manner, increasingly great attention will have to be paid to the development of those states and

regions which have so far remained backward." The plan pointed out that the large potential of industrial development in several backward states and observed that "it is often desirable to prepare development programmes in terms of regions, determined by physical, economic and administrative considerations. The need and priorities of different regions as well as their potential for short term and long-term development should be taken into account in drawing up and continually reviewing their development programmes." Anyhow, this broad approach could not be implemented into action in any effective manner as the share of industry in overall investment was very limited in the First Plan. The key industrial strategy of the Government of India was articulated more fully in the Second Plan. Specifically with regard to industrial dispersal the plan suggested a three pronged strategy: "In the first place the National Development Council recommended programmes for setting up decentralised industrial production. Secondly, it has been suggested that in the location of new enterprises, whether public or private, consideration should be given to the need for

8. Ibid, p. 141.
developing a balanced economy for different parts of the country. Thirdly, steps have to be taken to promote greater mobility of labour between different parts of the country and to organise schemes of migration and settlement from more to less densely populated areas." In short, the Second Plan urged the importance of reduction in regional inequalities and observed that "in any comprehensive plan of development, it is axiomatic the special needs of the less developed areas should receive due attention ... the stress of development programmes should be in extending the benefits of investments to underdeveloped regions."10 The plan approach sought to be implemented into policy to some extent in the industrial estate programmes and in the location decisions for specific public sector projects.

A separate chapter was devoted, in the Third Plan, to the balanced regional development, and special emphasis was laid on the development of backward areas. The Third Plan put forward the idea of large projects of nuclei for regional growth. It stated that "the benefits of a large project accrue in which it is located if certain related or complementary programme and schemes are undertaken.

10. Ibid, p.32.
Therefore, as an essential feature of planning, every major projects should be regarded as a nucleus for integrated development of the region as a whole. The plan urged "progress in different regions must, therefore, be watched carefully, and additional steps taken to speed up development in particular areas which are found to be seriously lagging behind." The plan also laid a particular emphasis on the need to disperse small industries. Thus, the plan states: "Although several industries such as village industries, village khadi ... are already located in rural areas, the development of small scale industries has so far been, by and large, in or near the cities and the larger towns. Since one of the principal objective of programmes in this field is to provide opportunities of income and employment in a dispersed manner all over the country, emphasis in the implementation of the programmes in the Third Plan will be encouraging the further growth of industries in rural areas, in small towns as well as in less developed areas having a marked industrial potential."
The results achieved in the first three plans were not considered satisfactory though there had some beneficial effects on the economy of backward regions. Conscious efforts have been initiated for the first time during the Fourth Plan, which states: "In terms of regional development, there has been a natural tendency for new enterprises and investments to gravitate towards the already overendowed metropolitan areas because they are better endowed with economic and social infrastructure. Not enough has been done to restrain this process. While a certain measure of dispersal has been achieved, a much larger effort is necessary to bring about great dispersal of industrial activity".  

4.3 WORKING GROUPS

Accordingly in 1968, the Central Government has taken concrete action to reduce the interstate disparities through successive Five Year Plans placing emphasis on balanced development. The Government of India set up two working groups to lay down the criteria for identification of backward areas and to suggest incentives to promote the industrial growth in identified backward regions.

regions. The working groups on 'Identification of Backward Areas'—commonly known as Pande Working Group—appointed with the terms of reference to recommend the objective criteria to be followed in identification of backward regions which would qualify for special treatment by way of incentives for industries to be set up in such regions. Among other things, the broad techno-economic factors which are relevant to the establishment of industries on a regional basis should be taken into account so that the grant of special concessions does not lead to irrational growth in industrial development. 15

The working group on 'Fiscal and Financial Incentives' for starting industries in backward areas—known as Wanchoo Working Group—was set up with the following terms of reference, "(a) to consider the nature of concessions to be given for encouraging the development of industries in backward regions and in particular to examine procedural financial and fiscal incentives'; (b) to consider the role of state governments and financial institutions in the development of industries in backward regions; and also (c) to examine the type of dis-incentives

that should be introduced to avoid concentration in metropolitan or highly industrialised areas".  

The Pande Working Group had urged that only 20 to 30 districts be selected for special incentives on the basis of backwardness and availability of infrastructure. The Central Government selected as many as 246 districts/areas for grant of concessional finance, income tax exemption and for preferential treatment to small scale units for import of raw materials, machinery and equipment etc. Out of these, 125 districts/areas were made eligible for assistance under the central subsidy scheme. Inevitably, the impact of these incentives on the development of backward areas has been largely negligible. The promotion of village, cottage and small scale units was also expected to lead to a more dispersed pattern of industrial development.

On the basis of the Report of these Working Groups, a long term programme was drawn up for the establishment of industries on a rational basis in the backward areas. The Fourth Plan thus provided the major breakthrough in the formation of a national policy for

backward area development in the country. First, it has taken particular care in identifying backward areas. Second, it has evolved special programmes for resolving their special problems. Third, it has suggested certain concrete measures for an efficient execution of the backward area development policy.17 The Planning Commission has proposed a number of criteria for determining the relative backwardness of states, regions, districts and decided to embark upon the development of the industrially backward districts of the backward states. 18 It has also developed an objective criterion popularly known as Gadgil Formula, for the allocation of central assistance during the Fourth Plan period. Gadgil formula has given weightage to population, backwardness, tax efforts, development project and special problems.

In pursuance of this approach, the Fourth Plan stressed the need to bring about 'greater dispersal of industrial activity and directed development in smaller towns and rural areas'. In order to attain this, the Fourth Plan introduced policy measures of "Concessional

18. Ibid.
Finance and Central Investment Subsidy for promotion of industries in selected backward areas/districts". 19

The Draft of the Fifth Plan emphasised the need to ensure that the industrial development of backward areas is consistent with the basic economies of location. As regards the overall approach, the plan stated that: "the main constraints in the industrial development of backward regions are that the strategy for the development of these areas has not been completely mapped out in terms of the inherent problems which have accounted for industrial backwardness and the organisational arrangements necessary to spearhead and support the industrial development programmes in backward areas both at the Centre and in the states are inadequate. An integrated approach covering the creation and expansion of basic infrastructure facilities and the provision of an institutional framework to coordinate the essential components of the industrial development programmes constitutes the basic pre-requisite for the more rapid industrial growth of the backward areas". 20

The broad conclusion that emerges is that the government showed much interest in encouraging industrialisation of backward areas and several promising approaches have been outlined in the plans. However, many of these promising approaches towards dispersal of industries have not in fact been pursued. The facilities provided under concessional finance and central investment subsidy, the two most important segments of the incentive schemes, were not availed to the desired extent and the manner in which it was envisaged.21 Wanchoo Working Group pointed out that the distribution of funds by the various financial institutions had not served the cause of industrial dispersal in any applicable manner.22 The Planning Commission decided that the Central Government instead of giving various incentives as suggested by the Wanchoo Committee should give only one incentive in the form of an outright grant/subsidy. The scheme favoured the developed states. This would become clear if one looks at the number of districts declared backward in different states. The five industrially advanced states have a large number of backward areas. Maharashtra (13 out of 26), West Bengal

(13/16), Gujarat (10/19), Tamil Nadu (9/16) and Karnataka (11/19). These states, which contain only about 35.4 per cent of the total population of India, obtained as high as 62 per cent of the total assistance sanctioned by the financial institutions such as IDBI, IFCI, ICICI, SFCs etc. till March 1980. In this context, the Sixth Plan (1980-85) had observed that "Regional imbalances in industrial development have not been corrected to the extent required ... even within the state, industries have tended to gravitate towards existing centres, the backward areas remaining substantially backward". 

From the Second Plan onwards the importance of infrastructural investment was approved and forms the main element of the policy package. The observed failure of policy in reducing interstate disparities in the levels of industrial development led to a reassessment and it is only with the Third Plan that particular attention was given to this problem in the plan documents. From the Fourth Plan onwards, subsidies for units located in backward areas and


restraint on expansion in metropolitan areas played an important role. The growth pole approach is implicit in the Third Plan's vision of large projects as nuclei for regional growth and mentioned quite explicitly in the Fifth and Sixth Plans.

On Location Policy, the Industries Act, 1951, the IPR and the Five Year Plan documents have been equally pertinent in stressing the need for balanced development. On finding that the industrial location in the country has been considerably influenced by the existence of infrastructural facilities, the Planning Commission stated: "It is one of the aims of national planning to ensure that these facilities are steadily made available to areas which are at present lagging behind industrially or where there is great need for providing opportunities for employment, provided the location is otherwise suitable". The need for dispersal of industries as a means of attaining a balanced development of the economy as a whole has also been emphasised in the Industrial Licensing Policy in

consonance with the Third Five Year Plan: "Balanced development of every part of the country, extension of benefits of economic progress to less developed regions and widespread diffusion of industries are among the major aims of planned development."

The mid-term appraisal of the Fourth Plan suggested that a Regional Location Policy may be formulated in order to take advantage of that area which has spare infrastructural factors. Such a location policy must discourage major industries from being located in metropolitan and large cities and, instead, encourage them to be located at medium size cities and towns. Consequently, they could be able to grow to sizes at which their economic viability could be better established. By judging from the measures adopted by the states and the results obtained, it is quite clear that this problem still persists to be a sensitive strategic issue. Evidently, this has again been stressed in the Sixth Plan Draft: "in the matter of regional imbalances a major cause of concern is that state governments have not succeeded in

---

preventing the growth of industries within and close to large metropolitan cities adding immeasurably to the problems of urban congestion". In practice, as Jagdish Bhagavati found it, "in the absence of my explicit assurances about the share in total allocations of investments the 'defacto' locational policy of the Indian Government was to degenerate into a political scramble for each industrial target by most states".

The locational decision in relation to major capital intensive industrial projects in the public sector or 'export intensive' projects have not been influenced by political pulls, pressures and intervention on the part of the states. These pressures have certainly influenced the Licensing Committee in allowing for the considerable proliferation of uneconomic scale plants which attended the progress of industrialisation in the country during the plan period. It is again a failure of Indian planners in fulfilling their regional industrial targets either on the

basis of economic efficiency or equity for assuring the states of getting some minimum industrialisation or largesse by way of laying down statewise targets of overall industrial investment. Instead, the whole thing was almost entirely to political pressures and hence scramble for most industrial licenses has resulted into dividing up each industrial target among as many states as possible. 30

Moreover, the major industrial projects in the public sector located in industrially backward areas have not produced the desired spread effects and growth and diversification of the regional economy. The Planning Commission had such developments in view when it termed large projects as the 'nuclei' of regional growth. 31

Another policy measure, that is, the provision of needed infrastructure in order to attract private investors has not succeeded much in many cases. In short, the analysis of location of new industrial units during the plan period has shown the failure of industrial planning in bringing about the necessary industrial dispersal for the balanced growth of regions. This is evident from the

remarks of the Planning Commission in the Sixth Plan: "It is clear, therefore, that the approach to stimulating industrial development regionally will require to be changed and the same approach will not work on an all India basis. What is needed, therefore, is a strategy which identifies clearly the natural, physical and human endowments and potential in different districts and identifies viable projects which are based on these resources."

As for the pricing policies, the notion of regional balancing was again to be translated into an effective set of policies provided by an efficiently functioning mechanism. According to Lefeber, the investment policies must be responsible to the signalling of the price system—which properly reflects changes in the demand and supply conditions prevailing in the diverse markets. Rational pricing and transportation policies and certain other methods would efficiently allocate industrial investments in the context of a planned economy. In Lefeber's view, the short run regional distribution of resources, treated wholly as a non-political decision, must

be effected with "the strictest regard for economic efficiency" in projects which yield immediate high returns. In the context of the Third Plan, he remarked: "extensive efforts to increase 'regional balance' would interfere with the desired rate of development". Because of the adoption of low yield type rural programmes or arbitrary location of industrial investment is, in essence, more a form of transfer payment aiming at 'regional balance' than a contribution to economic development with a larger industrial investments undertaken in the depressed regions the effort required for 'regional balance' depends upon two factors; (i) the minimum level of politically acceptable national growth rate; and (ii) the overall savings that can afford over and above the level which is needed to sustain the desired rate of development. To sum up, there emerges enough evidence from the analysis of India's locational and pricing policies to support Bhagawati's observation: "Planning for regional balance in India has been at best weak and work negligent and negligible".

Industrial Licensing Policy was supposed to regulate the private sector. For this, an Act of

34. L.Lefeber, op.cit., p.646.
Parliament known as the 'Industries (Development and Regulation) Act' 1951, was enacted and came into force in May 1952. The objectives of the Act were: (i) the regulation of industrial investment and production according to plan priorities and targets; (ii) protection of small enterprises against competition from large industries; (iii) prevention of monopoly and concentration of ownership of industries; and (iv) balanced regional development with a view to reducing disparities in the levels of development of different regions of the economy. The obvious policy, which was expected to be followed to achieve the objective of balanced regional development, was to grant more licences for establishment of industrial units in the lagging regions and controlling the establishment of more units in the leading regions by denying licences to them.

The Industrial Licensing Policy Enquiry Committee appointed in July 1967 under the chairmanship of R.K. Hazari revealed that the four industrially advanced states of Maharashtra, West Bengal, Gujarat and Tamil Nadu benefitted most from the operations of this policy. For example, in the decade 1956-66, these four industrially advanced states accounted for 59.31 per cent of the applications and 62.42
per cent of the licences approved (the share of Maharashtra, West Bengal, Tamil Nadu and Gujarat in total licences approved being 27.37 per cent, 16.47 per cent, 9.69 per cent and 8.89 per cent respectively). On the other hand, the mineral rich states of Bihar and Orissa got a meagre 5.16 per cent and 1.18 per cent respectively of licenses approved. The more disturbing factor is the fact that not only the most industrialised states received a large proportion of licenses issued, the highly industrialised areas within them cornered a very high proportion of licenses. Thus, out of the total number of licenses issued for Maharashtra, about 57 per cent went to the three districts of Bombay Suburban, Thana and Poona alone: while in Bengal, 71 per cent went to Calcutta, Howrah and Hooghly, and in Tamil Nadu about 59 per cent went to Madras and Coimbatore. In effect, however, as successive investigators and official committees have observed, the licensing policy as an instrument for reducing regional imbalances has been a failure.

The above analysis indicates that the industrial licensing policy has all along favoured the already

developed states while the claims of the backward states were ignored. Even when recommendations were made to grant more licenses to backward regions, the backward areas of the developed states received a higher preference. At times, licenses for backward areas of the backward states were rejected on the plea that sufficient capacity had already been issued for the industry. In this regard the Industrial Licencing Policy Enquiry Committee felt that the licensing system was not properly organized for the purpose which it was expected to achieve. The Committee while suggesting the need for streamlining the licensing system, felt that "with all its defects, the industrial licensing system has an important role to play in planning industrial development. We, however, envisage a more purposive and rational use of the licensing instrument. It is also essential that licensing should be accompanied by the use of other instrument, financial assistance and fiscal devices, in proper coordination for regulating, guiding and assisting industry in the private sector". Rectification of regional imbalances assumes a crucial importance in the Fourth and subsequent Five Year Plans. It has followed the integrated area development approach to make a deep developmental thrust in the backward regions of the country. One of the

most difficult tasks before the Planning Commission was the choice of criteria for determining the level of development of various states and regions. The information was particularly needed for evolving a suitable regional policy for development and evolving of central assistance to various states accordingly.

Recently, a national urbanisation policy has been evolved to suggest comprehensive plans for the development of urban regions by taking into consideration their resource potentialities and limitations. With these added dimensions of regional planning, India has now reached the threshold of a broadly based regional development policy which may emerge in more concrete shape during the successive Five Year Plan periods. In the Fifth Five Year Plan a conscious strategy has been adopted for planning and integration of rural urban development. "Rapid growth cannot be achieved in isolation from urban growth. A rural-urban balance is essential for a mutual healthy growth of both. In the absence of integrated planning of rural growth centres and the development of small and medium sizes towns, large

metropolitan areas may develop excessive concentrations of population with their attendant problems, small and medium sized towns may, on the other hand, fail to develop into growth centres, supporting and stimulating the rural hinterlands ... growth centres, rural and urban, will have to be linked in a graded hierarchy. This will help overcoming the constraints to development in the rural areas, caused mainly by the scattered distribution of rural settlements and the diffused dispersal of rural service".40

Besides, there is one more important policy measure, that is, the policy of public sector enterprises. In order to appreciate the role of the public sector as a strategic choice for economic development, it might be necessary to recapitulate the state of economy at the time of India's independence in 1947 and the problems confronting the country which needed to be tackled in a planned and systematic manner. The major objectives of public enterprises could be summarised as follows: (1) to help in the rapid economic growth and industrialisation of the country and create the necessary infrastructure for economic development; (2) to earn return on investment and

thus generate resources for development; (3) to promote redistribution of income and wealth; (4) to create employment opportunities; (5) to promote balanced regional development; (6) to assist the development of small scale and ancillary industries; and (7) to promote import substitutions, save and earn foreign exchange for the economy.

In the perspective of long term development, spatial planning for socio-economic infrastructural change and organisation of poor people and their conscientisation, employment generative investments in the rural sector, and institutional support of various kinds at various levels are needed. So far in India, as also in other Asian and African countries, the development efforts are largely of felt-need type, in that the approach "favours change including mobilisation of the people through technological interventions and organisational innovations, but without disturbing the existing social and political structures." This approach had not succeeded in providing a rallying

point for the poorer groups to organise themselves to promote and protect their interests.42

The effectiveness of the present strategy will eventually be judged by the extent to which it succeeds in reversing the present trend of the metropolitan-centred and city-oriented growth rapidly out-stripping the patience of the rural poor residing in poor regions of villages of India.