CHAPTER I

INTRODUCTION

The world we live in presents a sharp contrast in respect of natural endowments, economic conditions, cultural heritage, social organisation and political traditions. The countries of the North like the U.S.A., Canada, etc. are more prosperous than most of the African and Latin American countries. Factors responsible for disparities are generally classified as economic, social and political. This section of the introductory chapter throws some light on these factors and also analyses the main indicators of economic development.

(a) ECONOMIC FACTORS: The underdeveloped or less developed countries have certain characteristics. Economists like Gunnar Myrdal, W.A. Lewis have enumerated their characteristics as abundance of labour force, low productivity, lack of skilled personnel, inadequacy of capital due to low saving and above all, absence of scientific and technical know how.

In fact for decades and sometimes for centuries these countries did not enjoy the advantage of having their own economic policies. Instead, their economies were dovetailed with the economies of their respective metropolitan powers.
Consequently, neither their industries could develop nor they could produce primary goods according to their economic requirements. The economies of the former colonies were mostly lopsided and disturbed.

The inequality of opportunities to develop has been essentially responsible for the prevailing economic conditions in these countries. This process of unequal opportunities and lack of their own economic policies, has tended to preserve a 'low quality' of their factors of production and a low effectiveness of their productive efforts. The capital that these countries attracted or borrowed from developed countries went in to the economic enclaves which were controlled from abroad and were mainly devoted to the production of raw materials. Consequently, even the international trade helped promote the production of primary products in these countries.

(b) Social Factors: In addition to economic factors, social forces also prevented the people of developing world to raise their voice against exploitation. The institution of caste system, which was (and still is) the hallmark of our own Indian social system, proved detrimental to their economic progress, and came to prevent the movement of labour and capital, which consequently dampened the spirit of enterprise.
and progress.\(^1\) The 'Joint Family System' was another institution which reduced the incentive to work, hindered the spirit of enterprise and encouraged laziness. It discouraged self reliance, curtailed economic freedom and made man afraid of taking risks and launching on new ventures. Certain rigid religious dogmas persisted in unbridled growth of population which resulted in low per capita output, low income, low savings and therefore, low capital formation, and ultimately slowed and disturbed the pace of industrial growth.

(c) **POLITICAL FACTORS:** Political factors too have contributed for this state of underdevelopment. An underdeveloped economy may be viewed as 'the arrested economy of a relatively static society', due to the imposition of superior needs of expansion of a metropolitan economy.\(^2\) The emergence of the capitalistic colonial system was one of the important factors which caused the economies of the countries in the southern hemisphere to become underdeveloped. The colonies were invariably used as markets for the products of the manufacturing industries of the ruling empires, while they procured primary goods from the dependent territories so as to make them produce such products in plenty. They also tried to monopolise the economies of the dependent countries for their vested business interests.

---

both as an export and import market and the colonies were made to accept 'enforced bilateralism'.

Gunnar Myrdal, while explaining the causes of underdevelopment laid emphasis on the importance of 'segregation', 'transfer of culture', 'racial and cultural differences', as important factors having bearing on the spirit of enterprise and the urge of developing the technical skills of the native population. He also rightly pointed out that lower wages, adherence to traditional way of life, wide intra-economic imbalances further hampered the process of development. 3

The contrast between the developed and underdeveloped countries has been so striking that it attracted the attention of eminent economists and social reformers to frame policies to bridge the ever widening gulf between the haves and have-nots. The spread of socialistic system, the liberation struggles and movements for political emancipation, all indicate a constant struggle to overcome the age-old backwardness of underdeveloped countries. The twentieth century witnessed the upsurge of colonies for emancipation, universal desire for peace, liberty and equality - all these contributed towards the fundamental change in the relationship between colonies and their metropolitan powers. It was felt that political domination and subjection by one nation over others can not

continue for long. Perhaps this was an important factor that led to the causes of de-colonisation.

The people in the third world countries have been increasingly becoming aware of the vast international inequalities and of the dangers that such inequalities would bring. These inequalities may be attributed to the present international economic order, which have given rise to frustrations and discontentment in the poor countries and has thereby threatened the foundation of world peace. The two World Wars were the glaring examples of this process.

It is thus, that the political tensions which have been implicit in the inadequate progress of the two-thirds of the world population became clearer. As more and more of the underdeveloped countries would gain political freedom, they would strongly aspire for economic independence, and with progress in these countries their consciousness of backwardness would be sharpened. Hence it was increasingly felt that the disparity between the developed and the underdeveloped countries should be reduced to the minimum, if not completely alleviated. Efforts are also being made to bring out the people of the underdeveloped area from the darkness of such miseries of contrasts. In this connection it is worth quoting late President Kennedy when he declared, ".... to those new States.... of half the globe
struggling to break the bonds of mass misery, we pledge our best efforts, to help them for themselves, for whatever period is required.... If the free society", warned Kennedy, "cannot help the many who are poor it can not save the few who are rich." 14

It is therefore evident that the socio-politico-economic factors have all contributed for the development of the developed countries and they have equally been responsible for the backwardness and uneven developments of many developing countries.

INDICATORS OF ECONOMIC DEVELOPMENT:

The division of the world into developed and underdeveloped countries is rather an over simplification. Because of the vast differences in respect of natural and human resources and socio-economic and political conditions, no single yardstick can be used to measure whether a country is underdeveloped or a developed one. Professor H.S. Frankel suggested that whether a society is economically developed or underdeveloped, "will depend on the specific criteria of development applied" in a particular situation. 5

---


The degree of industrialisation and the ratio of the labour force employed in industry may indicate the level of development in a country. It is therefore, that a country which is highly industrialised and in which a greater proportion of the people work in secondary and tertiary sectors of the economy is considered to be a developed country and vice versa. But these indicators may not be solely relied upon for the measurement of economic development. There are countries which are not highly industrialised and yet they are in the list of developed countries. Newzealand, Denmark and Australia are the examples, which have developed because of their primary industries. Similarly, the other yardstick of the occupational distribution of labour force may not be sufficient to indicate a country's level of economic development.

The underdeveloped countries suffer from scarcity of capital which often leads to high interest rates. But this may not be the only reason for high interest rates for it may be due to other factors as well, such as international mobility of capital, high risk premium, low marginal productivity of capital etc.6

Differences between agricultural output of the countries under consideration would also indicate their levels of economic

development. The indicators may also vary depending on the nature of economies. In a closed economy, as stated by Lewis, "it would be one of the conditions for economic growth that agricultural productivity should be rising rapidly. For if agricultural productivity were not increasing faster than demand, agriculture would not be releasing the labour which was needed for expanding the other industries and expansion of those industries would also be held up by the steady movement of the terms of trade against them." Thus a comparison in respect of the agricultural production may indicate whether a nation is economically developed or not. It should, however, be remembered that the difference in agricultural production may result from, besides many factors, differences in soil, climatic and geographical conditions.

The most common indicator of a country's economic development is its national income data. As an economy advances, its national income also rises and thereby raises the standard of living of its people. But sometimes even these figures are deceptive. Therefore, before using them for purposes of comparison between different countries, some important limitations of national income figures should be borne in mind. According to Miere and Baldwin, "... Net

national income is preferable to per capita income as an indicator of economic growth because a larger real national income is normally a pre-requisite for an increase in real per capita income.\(^3\) If we take per capita income as an index we may not find any proof of growth even when the total national income is increasing along with the increase in population. Kuznets is of the opinion that, "... the choice of per capita, per unit or any similar single measure to gauge the rate of economic growth... carries with it the danger of neglecting the denominator (population) of the ratio..."\(^9\) Merely a rise in national income does not, therefore, mean a rise in the standard of living. The average standard of living may rise only when real per capita income is rising. The best approach to identify developed and developing countries would, therefore, be to compare nations in terms of real per capita income because this would reveal the relative standards of living.

In view of the above, it can be argued that the increase in national income and per capita income owe greatly to the pace of industrialization. The industrial development has a necessary and major role to play in almost every sound programme of development. Thus, economic growth and industrialization are both, positively correlated. An integrated and


balanced industrial programme, therefore, constitutes the hard
core of any plan designed to achieve accelerated economic
growth. Emphasising the need for it Nehru reiterated that
"... real progress must ultimately, depend on industriali-
sation..."\textsuperscript{10}

From the above indicators of economic development, it
is deduced that the process of economic development is mainly
characterised by the process of balanced and coordinated
industrialisation process which needs to be carefully planned
and suitably directed. The following section, therefore,
examines the case for industrialisation in a developing
country like India.

1.2: INDIA: CASE FOR INDUSTRIALISATION:

In the previous section we have seen that one of the
most important indicators of economic development is the state
of industrialisation in a country. This section will, there­
fore, examine the need for industrialisation in a developing
country like India.

It is a fact that industrialisation is the motor of
economic expansion machinery and it is more emphatically needed
in a developing country like India. In this process of

\textsuperscript{10} Nehru, Jawahar Lal: Speeches, March, 1953, India, 1958,
p. 11.
industrialisation advanced countries compete with each other to gain greater economic strength in the world context. The non-industrialised countries are seeking the help of advanced countries to become industrialised. It is an effort in which the developing countries place a major hope for finding a solution to their problems of poverty, insecurity and overpopulation and to overcome the backwardness of a stagnant society. The developing countries have now, therefore, come to believe that industrialisation is the easy way to achieve greater stability and a higher standard of living.

However, to consider industrialisation as the only solution to the varied problems would usually be justified because manufacturing activity is better rewarding than the agriculture and extracting industries. Further, the former is likely to have greater stability than the latter. It is true to a certain extent that industrial development can add to the level of national income and contribute partially to a solution of the problem of unemployment. It may, however, not be wholly correct to assume that almost all kinds of industrialisations would help achieve the goals. It may also not be a right approach to assume that the benefits of industrialisation flow more or less automatically from investment in industrial projects and that a small country can afford to go very far in achieving self sufficiency. Thus, it may not be desirable to give industrial development the top priority
position in the development programmes of a country in the early stages of growth.

The third world, unlike the western countries, suffers from resource constraints — both natural and man made. The economic history would also reveal that almost in all industrialised countries in its early stages, industry was built on the support of agriculture and its development. A similar viewpoint was expressed by I.M.F. in the following words:

"... It should not be assumed that an excessive concentration of development in the industrial field is in the interest of the under-developed countries. Industrial development requires very large investments for each worker; the immediate cost of resources is high relative to the number of people directly benefitted. The great majority of the people of these regions draw their incomes from agriculture. The greatest improvement in their well being would come from increasing their productivity in agriculture. This should not preclude industrialisation in these countries; but policy should be directed towards balanced development to increase production in agriculture as well as in industry...." \(^\text{11}\)

It can therefore be argued, that improvement in the productivity of agriculture is one of the ideal means of

\(^{11}\) International Monetary Fund - Annual Report, 1950, p. 7.
promoting industrialisation but agricultural improvements can not go very far unless there is industrial development to provide a sound technical base which is essential to modernise agriculture. If there is heavy stress upon achieving a high degree of self sufficiency in the initial stages, especially in a country with small population and/or small national income, an unsound direction to industrialisation is bound to result.

It is realised that industrialisation can not be an end in itself. Instead a means to raise living standards, improving the quality of life, increasing the level of employment etc. and therefore, Governments and all others involved in this process of industrial growth take the cognizance of the problems associated with it and the aims to be achieved.

An objective study of industrial development programmes in various countries also reveals that one of the important factors affecting the success of many ventures is the form of ownership and management. In mixed economies, emphasis of policy in favour of Government or private ownership or both, is very important. A Government may decide that programmes of industrial development are to be carried on in the private sector or it may attempt a classification by identifying certain types/classes of industries which are to be allocated to one sector or the other. A similar approach may be adopted in showing preference to public sector. Hence, in order to
make the private entrepreneurs to know their areas of investments a policy-decision of the Government is made known in the form of an industrial policy.

As in other developing countries, planned industrialization has been of crucial importance, in India for achieving a balanced growth. It serves as a decisive instrument to reduce regional disparities, to secure the integrated development of agriculture and industry, and to promote a wider diffusion of economic power to bring prosperity. The planned distribution of industries is an effective method of making the economic pattern conform to man's needs. But in India, we have not been able to utilise satisfactorily the planned distribution of industries as a basis of social and economic planning, which the chapters that follow would reveal. However, the social costs of unplanned growth can be minimised, if not wholly eliminated by fiscal, monetary and taxation policies, land reforms, industrial licensing etc.

Though the balanced growth of one country, through the reduction of regional disparities constitutes an accepted objective of the national policy since independence, the people in every state have been demanding a fair and just share in the industrialisation programmes which unfortunately discriminates between those who are privileged and those who
are less privileged. In order to achieve a balanced development, the Government felt the need for effective results of planned economic development which could be possible only through decentralising the industries through the length and breadth of India.

To achieve this end, the Industrial Policy Resolution 1956 emphasised the need for deconcentration of industries and this was kept in mind by the Planning Commission in allocating the resources.**

Realising the need for achieving higher living standards and reduction in the disparities in the levels of development, the resolution also laid emphasis on a balanced and coordinated development of both the agricultural and industrial sectors. In order to attain this objective the Government adopted the policy of licensing of industries under the Industrial (Development and regulation) Act 1951, and implemented various

** "...The lack of industries in different parts of India is very often determined by factors such as availability of raw materials and other natural resources. A concentration of industries in certain areas has also been due to the 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 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 coordinated development of the industrial and agricultural economy in each region can the entire country attain higher standards of living..."

Industrial Policy Resolution, 1956, Para 15, (See Appendix I).
other regulatory and prohibitive measures. It is therefore pertinent to have an idea about the strategy adopted by our Government in having a balanced industrial development in the country. The following section is dedicated to present designs of economic development in this regard.

1.3: DESIGNS OF ECONOMIC DEVELOPMENT:

In the preceding section we have highlighted the need for industrialisation for our country. In this section, an attempt will be made to show how the process of industrialisation should start and what economic designs to be followed for making an all round development of industries in the country.

The Industrial Policy of India has two basic purposes— one, to channelise the investments towards a defined and definite end, and two, to limit the excessive concentration of industries in some regions and of economic power in a few hands. By formulating this policy the Government has effectively tried to influence existing pattern of production and has also been trying to bring about a harmony between the various sectors of the economy and sections of the society. All this, with certain exceptions, has led towards the predetermination of the level of investment and production, as well as controlled distribution and allocation of human and capital resources.
Before we study this phenomenon of industrial licensing, it would be pertinent to explain and examine the theoretical consistencies and/or inconsistencies of free and controlled economies. Hence an attempt is made in the following paragraphs to take a theoretical view of it before attempting to prove the hypothesis.

**FREE MARKET ECONOMY vs. CONTROLLED ECONOMY:**

The dogma of laissez faire was fascinating for the exponents of the free market economy. Though the classical thinkers were relatively more refined than the Mercantilists in their views, yet they laid greater stress on personal liberty and interest. However, economists like J.S. Mill, slightly changed their views from the then existing opinions and allowed state to interfere, if the public good so demanded. Moreover, they equally justified the existence of private property and wealth as a source of economic development. Among the earliest to revolt from the economic laws of the classicists, was the French economic writer Sismondi. To him the Government intervention was helpful in increasing the national happiness. This idea was further supported by the German nationalist economists like Muller, List and others and was moderated by the later socialist authors.

The main argument of the Free market economy or the
Laizzez-faire principle is that State should not interfere in economic matters, and the market mechanism should be allowed to work as a balancing power. This principle, however, later failed to cope with the changing conditions of the world economy. Rapid industrialisation, followed by the rapid changes in economic laws and principles, has left the theory of free market trailing behind the scene. Severe poverty and backwardness in poor countries, the elimination of the perfect competition and the growing inequalities on mass level have left no way except to leave the free market economy to take its own course and promote all round exploitation.

The failure of the free market economy stems from some of its hypothetical presumptions i.e. perfect competition in market, perfect mobility and divisibility of the resources and increasing returns to scale; and therefore, pleads for the merits of controlled economy. Industrialisation has given birth to monopolisation of the economic power, imperfection of the market and unbalanced growth in various sectors of the economy. All these digressions have prepared the ground for considering the controlled economy as a supplement or an alternative to free market economy.

The dogma of the controlled economy differs fundamentally from laizzez-faire. Its regulatory principles are also distinct.
In essence, it assures the middle of the two dogmas (laissez-faire and totalitarian) as valid and suggests the proper mobilisation of the existing resources in favour of the social ends, under the guidance and supervision of the State.

This dogma of the controlled economy (i.e. maximum social end) seemed to be more compatible with the economic conditions of the backward countries than advanced countries. It was, however, later supported and applied in both the two cases.

The main issue of the controlled economy stands for its application and this would no doubt be well served by formulating some sort of planned course for the economic adjustment in the society.

Due to the impracticalities of both the laissez-faire and controlled system, countries have preferred to use a blend of the two viz. mixed economies and have been showing satisfactory progress.

In the modern economic era, nations realized that the human salvation lies only in having a planned and pre-determined process of development. The economic ills of inequality, low savings and investments, unbalanced growth and other related
economic deficiencies could be overcome by planned and coordinated efforts.

Now the real issue is how to plan. To this end, two general approaches to the planning process are suggested - first may be called as theoretical approach, which holds the formulation of general programmes and composition of several models etc. as fundamental; and the other is to concentrate on some specific elements which are creating bottlenecks in the economy. Which one is more suitable to a particular country, would however, depend upon its circumstances and its political and economic set up.

As for the types of planning are concerned, it can be said that it is more or less associated with socio-economic and politico-economic factors of a particular country. For example, most Communist countries have followed a centralised system of planning whereas democratic and non-communist countries have been divided in two groups on this principle. The first comprises of capitalist or say the developed countries of North America and Western Europe where planning is being considered as a co-partner of the capitalist development, and the second category comprises of various under-developed or poor countries where the mixtures of the two systems are in vogue.
PATTERN AND POLICIES OF INDIAN PLANS:

Though planning was adopted in India after independence yet, the fundamental approach to this had already been made since long before its actual execution. The Indian planning under the influence of Democratic Socialism, introduced controls and regulatory measures to direct the investment criteria towards the multidimensional objectives of the State. This has however, raised the controversy about the nature and extent of these controls such as the extent to which producers be subjected to directions and controls and to what should they produce and to sell at what price. These are some of the problems involved with the actual working of the Industrial Policy in general, and Licensing Policy in particular.

Therefore, the Industrial Policy of India was so formulated that it could effectively check the undesirable investments without loosing the goals of the development plans. Thus it divided the whole of the investments into certain categories (on some preferential basis) leaving the final category into the hands of private sector (on some regulatory basis).

*A brief historical outline is given in Chapter II.
Industrial licensing, introduced through the Industries (Development and Regulation) Act, 1951, empowered the Government to control, regulate or prohibit the production and distribution of certain articles or import of certain industrial components or raw materials etc. It has since necessitated the Government licences for all big industrial undertakings* including all the cases of substantial expansion in existing unit or change in location or any diversification in products etc. It may be noted here, that all this was done to bring about a harmony between the planned and unplanned economic decisions as well as to achieve the goals of the socialist society, that is to restrict the concentration of economic power at a particular point and to provide better opportunities for regional development.

Nevertheless, ever since the introduction of industrial licensing policies, like other policies of the Government of India, they have been subjected to severe criticism and deficiencies. A comprehensive study will be made of the basic ingredients, required for the attainment of objectives like rapid economic growth, de-concentration of economic power, balanced regional development etc. And, in the light of this premise and evaluation we can judge the effectiveness of the

*Initially only private sector was covered under IDRA, 1951 but later the Government Enterprises were also subjected to it.
licensing system as to how far it has succeeded or failed in
achieving the planned objectives of economic development
especially on industrial front.

It would appear that the main hypothesis of the study
is that under the present situation, monetary and fiscal
measures may work more effectively than the existing policy
of operational controls. This point, however, would need
further research and analysis and has not been included to
be studied in the present work.