CHAPTER - III

A HISTORICAL EVALUATION OF INDUSTRIALIZATION PROCESS AND
EMERGENCE OF MODERN ENTERPRISE

3.1 PRE-INDEPENDENCE DEVELOPMENTS

The preceding chapter indicated the evolution of industrial policies and their implications so far as the industrialisation of the country was concerned. The present chapter attempts to analyse the growth of modern industry in India before and after independence.

Our performances in the field of industrial development in the recent past has been fairly satisfactory and the availability of entrepreneurial potential made the task of Indian planners considerably easier and enabled them to start building on a base of a 'semi-industrialized' system already endowed with enterprenurial activity.¹

In the first half of the 19th century, although a few industrial undertakings were started by the British Capitalists in the Bengal Presidency and by some Indian merchants in the Bombay Residency and there were more or less pioneer ventures

started in a rather haphazard manner due to lack of planning. None of them, in fact, presented intricate problems of modern capitalist enterprise.²

Private Enterprise encouraged and supported by foreign capital took a lead in economic and commercial development of the country. Upto the year 1845, private enterprise under the patronage of the then Government promoted modern banking and insurance; indigo and tea plantations, steamships, Cotton presses, coal mines, and similar activities were geared almost exclusively to the growing needs of external trade with Britain. Even more interesting was the fact that the Cotton Mill Industry of Bombay and other parts of the country was not exclusively Indian from any point of view—viz., financial personnel or ownership.

To trace back the history, we would find that even the first Cotton Mill on Indian Soil was established by an Englishman in 1817. The Fort Gloster Mill in Bengal was started in 1830 under the European Management. Not only this, the C.N. Davar's Mill in Bombay was established in 1854 jointly with the Englishmen. Then in 1870 the foundation stone of Kohinoor Mill was laid by Killick Nixon and Co. (a British firm of managing agents). In later years too, we find the

Sasson, Greeves and Cotton, Brandley and Bradey interests dominating in the industry in Bombay, and the Harveys, Stanesses and others setting up cotton mills in Madurai, Coimbatore and Cawnpore (Kanpur). Obviously, all this was due to the decline of traditional industries and crafts partly owing to the impact of machine made goods and partly owing to a deliberate pursuit of a policy to retain India as a permanent market for articles manufactured in the U.K. However, later on, beginning with the decade 1850-60 and ending with the World War I there was an extended involvement of British capital and enterprise in various types of activities. There was a simultaneous growth of jute manufactures, state-initiated railway expansion and associated growth of foundaries and metallurgical industry, and significant expansion of coal mining and tea plantations.

The decline of the indigenous industries and the rise of large scale modern industries were the outstanding industrial events in the 19th century for which credit goes to the private enterprise. However, in the beginning the pace of development of the large scale industries was a bit slow but it gained momentum by the end of the 19th century. Industrial development of the late 19th century was, to a great extent a by product of certain inter-related developments like improved transport and communications, growth of

foreign trade and consequent accumulated commercial fortunes. All this led to great potentialities for industrial advance. 4

While examining the historical perspective of industrialization in India, it may not be out of place to mention that by the turn of the century the country had been undergoing a process of modernization. Although, comparative statistics for this period are awfully inadequate, but the available data regarding employment in large scale industries, the extent of urbanisation, the spread of education, the production in selected industries and changes in internal and external trade, force this conclusion on us. 5 Towards the end of the fourth decade the Reserve Bank of India laid sure foundations for progress and during this period, despite the shyness of Indian capital a number of joint stock companies came into existence. Interestingly, during this period bigger banks increased more than five fold.

In the history of industrial enterprise in India, the year 1905 is described as a turning period. The partition of Bengal announced by Lord Curzon, led to the Swadeshi movement urging the boycott of foreign goods and buying Indian goods. This led to the industrial consciousness of the people to a phenomenal degree almost overnight and consequently,


there was great outburst of industrial promotion by the Indians themselves. Between 1900 to the outbreak of World War I in 1914, the number of Joint Stock companies registered in India rose from 1340 to 2744 and the paid up capital of these companies increased from 34.7 crores to Rs. 76.6 crores, showing an increase of nearly 105 per cent and over 120 per cent respectively. The War had a considerable impact on the industrial development of the country as the British Government realised the importance of having an industrially developed India, albeit, to win the war. This realisation drew the attention of the Government for the development of selected industries and the first "industrial Commission" was appointed in 1916 to conduct a comprehensive survey of available resources and the industrial potentials and possibilities. Then in 1917, the Munition Board was set up to foster the development of certain types of industries and consequently several new industries were set up and many existing industries were further developed and extended.

**POST-WAR DEVELOPMENTS:**

After the end of World War I, the inter-war period (1918-1939) experienced the lack of a positive and vigorous policy. However, the first Indian Fiscal Commission was appointed in October 1921⁶ to recommend a suitable fiscal

---

⁶ Bhagwati, J. and Desai, P. Indian Planning for industrialization, Op Cit. p. 34.
policy, and on the recommendation of this commission, the Government adopted the doctrine of "discriminating protection" under which iron and steel, paper pulp, textiles, sugar, paper and matches industries were protected. The Indian entrepreneurial class devoted their energies during this period to the expansion and development of these industries. But, due to lack of capital, technical know-how and managerial skill these industries could not stretch their horizon any wider. There were no institutions to provide for long term finance (except the narrow and unpredictable Zamindars and the Princely States) to industries requiring long gestation period and heavy investments.

Due to the refusal of the then Government to take an active and direct part in the industrial development on the one hand, and the entrepreneurial class being distracted by the temporary and long-run costly advantages of protection of consumer goods on the other, the twenties and thirties were the decades of lost opportunities in India. Even with the outbreak of World War II there was no development in the sphere of capital goods industries except a few consumers' goods industries - like the Iron and Steel Industry that experienced some growth. By then India had become a permanent

7. Chopra, P.N. (Ed.) op. cit., p. 484.
member of the I.L.O. as one of the twelve states of major
industrial importance; its economy was weak and its industrial
development lop-sided. India was almost entirely dependent
on foreign countries for the supply of machinery and other
capital goods.

In this context, the observations of the "Economist"
were quite revealing. In its survey on Indian industrializa-
tion at the end of 1936, the "Economist" observed thus - " ... 
although India has begun to modernize its industries it can
hardly be said that it is as yet being industrialized...."9
This may, however be attributed to the fact that the pre-
independence industrial policy wavered between, orthodox non-
interventionist economic dogma on the one hand and a paternal-
listic urge which manifested itself, in sporadic industrial
upsurge, education and unviable and occasional small direct
assistance and concessions with interwar periods, on the
other.10 This apart, the outbreak of Second War did not make
the government to change its attitude towards the development
of industries. However, a big programme was launched in 1941
for the expansion of arms and ammunition, explosive plants,
and small factories. In this milieu, forty four firms were

---
licensed to manufacture machine tools, leather, drilling, shaping and planning machines, furnaces and power blowers; over 280 new items of engineering stores were being manufactured in the country ranging from small tools and machine parts to heavy calibre guns, torpedo boats and degaussing cables. In the production of drugs, leather manufactures, hardwares, cutlery and optical goods there were a considerable expansion, and in 1941 heavy chemical industry's foundations were laid down.

In the first census of Manufacturing Industries (CMI) in 1946, the industrial structure revealed the dominance of Iron & Steel Smelting, Rolling and Re-rolling and general engineering industries. Despite, the so called 'century of industrialisation' the impact was almost negligible on the overall growth of the economy. The then National Income Estimates revealed that over the period of 1900-1947 per capita income rose from an estimated Rs. 52.5 to Rs. 62.2 showing an increase of only about 20 per cent in about half a century. The share of industries and mining increased from 12.7 per cent to 17 per cent during the same period, which was rather marginal.

Looking from the point of view of employment about 2% of the total working population (over two million workers) constituted the labour force of the modern industry in 1947. The emergence of industrial labour had been slow, and halting
and one of the important reason was their continuing involvement with the countryside which resulted in excessive labour turnover, absenteeism and inefficient commitment to factory discipline. This was a view largely prevalent and authors like Charles A. Meyers also subscribed to it.\textsuperscript{11}

As for the finances to support the growth of industrialization before independence, it was provided mainly from the following sources:

(i) Personal sources of indigenous business communities and their ploughed back profits in trade and money;

(ii) The nascent and steadily growing capital market.

(iii) The then prevailing system of direct deposits, under which direct investments, on a loan basis were invited from the individual savers and a favourable rate of interest was offered for textile mills in particular were benefitted from it.

(iv) The modern commercial banks which developed through gradually also provided working capital as they operated in the English tradition, they kept away themselves from industrial long term finance.\textsuperscript{12}


\textsuperscript{12} Bhagwati, J. and Desai, P., op.cit., pp. 54-55.
India moved into a new era with a change in its industrial destiny by adopting a nationalist industrial policy on the one hand and started plugging various loopholes on the other so as to provide a solid base for industrialization process.

3.2 POST-INDEPENDENCE DEVELOPMENT:

On the eve of independence India was in the list of those top twelve industrial countries of the world on the basis of industrial output. But most of this output was contributed by consumer goods industries; and production of capital goods was practically nil. Although in 1946, India produced machine tools worth Rs. 91 lakhs, electric motors 46,000 h.p., power transformers 39,000 kva, and 473 diesel engines, but non-ferrous metals, electrical engineering, automobiles, tractors, prime movers and heavy chemicals were either non-existent or were still in their infancy. The first three years of independence (1947-1950) were the years of many ups and downs and are termed as the years of experiments. However, with all the difficult times and varied problems, the Government was determined to take a frontal attack on the economic and industrial fronts.

We have already seen in the previous chapter that it was with the announcement of the Industrial Policy of 1948 that the need for industrial expansion became one of the most important objectives of our national Government.
With the Industrial Policy of 1948 in hand, the Government needed the legislative powers to regulate the production and expansion of industries, hence the Industries (Development and Regulation) Act 1951 and the Companies Act 1956 were passed. With these two instruments the Government was armed with the powers, through the licensing procedures to exercise control, for the proper expansion of industries and regulating production. The Industrial Policy of 1948, the Industries (Development and Regulation) Act 1951 provided the framework for licensing and regulation of industrial investments in the country during the successive five year plans. To support the move, the then Minister of Industry and Supply, while introducing the Bill in the Parliament on 6th April 1949, observed "... the objective of this Bill is to create a suitable legislative framework by virtue of which the Industrial Policy can be implemented. This Bill, I would say, constitutes a landmark in the industrial legislation of India. It makes the beginning of planning for the industrial development of this country."

True, the Industries (Development and Regulation) Act 1951 was "a landmark in the industrial legislation of India",

for it was through this legislation that the policy objectives of Industrial Policy could be given shape. Among the main objectives of the Industrial Policy Resolution of 1948, which the Industries (Development and Regulation) Act 1951 was entrusted to implement, were as follows:

(1) The Development and regulation of industrial investment and production according to plan priorities and targets;

(2) Protection and encouragement of small industries;

(3) Prevention of concentration of ownership of industries, and

(4) Balanced economic development of different regions of the country, so as to reduce disparities in the levels of development.

Among the powers conferred upon the Government in the IDRA 1951 to pursue the above objectives the following two were very important:

It further provided that the existing undertakings in the "schedule" had to be registered with the Government, and no "New Industrial undertakings" could be established nor any "substantial expansion" could be affected to existing plants without the prior procurement of a licence from the central Government.
Planning and Thrust for Industrialization:

(i) First Five Year Plan:

Consequent upon the setting up of the Planning Commission in 1950, the first five year plan was launched in 1951, giving top priority for the development of agriculture, including irrigation and power. This was in conformity with the long term objective of attaining self sustaining economic growth in the next few decades, which could not have been possible without a substantial increase in the production of food and raw materials needed for industry. The high priority accorded to agricultural investment in the State programme limited the investment which the State itself could undertake in industries; and therefore, progress in this field was to depend to a great extent on the efforts in the private sector.

The plan gave emphasis to the role of the IDRA in industrial planning of the private sector and for this purpose the Government was armed with instruments like the Control of Capital Issues, Industrial Licensing etc. With these instruments it was expected that it would be possible to regulate the investment of available capital whether it flows through new capital issues or is found out of the reserve funds. 14 With these instruments and the Government's

---

14. First Five Year Plan, Planning Commission, Govt. of India, New Delhi, 1951, p. 435.
financial and other assistance and incentives, it was hoped to develop an industrial climate on the stipulated plan priorities.  

In the Plan, a total investment of Rs. 707 crores was planned for the development and growth of industry, out of this Rs. 94 crores were for the public sector while the actual expenditure was only Rs. 57 crores. Similarly, an aggregate gross investment of Rs. 463 crores was earmarked for new projects, replacements and modernization in the private sector, but the actual investment fell short to Rs. 340 crores, Thus, there were short falls in the investment programmes. However, it was appreciable that the First Plan aimed to utilise the existing capacity to the full, the general index of industrial production recorded an increase of 39 per cent during the plan period, or a cumulative growth rate of 7 per cent. Similarly, in cotton textiles and power, investments far exceeded the targets. Since much of the investment was in existing units, there was no question of a more balanced regional allocation of industry.

A critical performance evaluation of the First Plan on the industrial front makes us to draw a conclusion that despite the fact that industrial development was accorded a secondary

15. First Five Year Plan, op. cit., p. 442.
priority during the plan, there had been a considerable progress and many new factories like the Sindri Fertilizer Factory; the Chitranjan Locomotives Factory; Indian Telephone Industries; the Integral Coach Factory; the Cable Factory and the Penicilline Factory were established; and several others like Machine Tools Factory, U.P. Cement Factory and Bihar Sulphur Phosphate Factory were completed.

(ii) Second Five Year Plan:

The planners gave a massive push to industrialization in the Second Plan and the basic strategy of the Second Plan was, therefore, stated clearly in the Mahalanobis Draft Plan frame. In this plan, the shift of emphasis was specially with reference to "the socialistic pattern of society", and one of the important implications of this was that where private enterprise could make little headway without assistance and support from Government (as was the case in several fields) "the public and semi-public character of the resources drawn upon has to be recognised". The private sector was given to play its part within the framework on the comprehensive plan accepted by the community. Private management, free pricing and private enterprise were the devices to further what was truly social needs; they can only be justified in terms of social results.16 Thus, on 1st April 1956, the Second Five

year plan was launched with the main emphasis on the industrial development. On 30th April 1956, the Government also announced its new Industrial Policy Resolution in line with the changed eco-climate of the Country. In the Industrial Policy Resolution 1956, it was very clearly stated that in order to realize the objective of the 'Socialistic Pattern of Society', it was essential to expand the public sector. This would provide the economic foundation for increasing opportunities for gainful employment and improving living standards and working conditions of the mass of the people. It would also reduce disparities in income and wealth, prevent private monopoly and concentration of economic power in the hands of a small number of individuals. Accordingly, the state must progressively assume a prominent and direct responsibility for setting up new industrial undertakings and for developing transport facilities.\textsuperscript{17} The Industrial Policy Resolution of 1956 has also encouraged state intervention in order to enforce a certain pattern of industrial development and a certain manner of utilization of real resources.\textsuperscript{18}

The Mahalanobis draft proposed concentration on the building up of heavy industry in order to achieve the four fold objectives of a high rate of growth — which was more in terms of investment than output or consumption; high

\textsuperscript{17} The Second Five Year Plan, Planning Commission, G.O.I., New Delhi, 1956, p. 23.

\textsuperscript{18} Rangnekar, D.K., op. cit., p. 21.
employment potential; minimum foreign exchange cost over a
period of time, and price stability. On the other hand, as
a result of this investment the extra demand of consumer
goods was suggested to be met in full by the expansion of
cottage industries which had low capital and high labour
requirements in relation to output.

Of the total public outlay in the Second Plan, 17 per
cent was claimed by the industry as compared to only 8 per
cent in the First Plan. In absolute terms, the allocation
of large-scale industry was raised from Rs. 94 crores in the
public sector and Rs. 233 crores in the private sector in the
First Plan to Rs. 620 crores and Rs. 575* crores respectively.
Basic industries like Iron and Steel, coal, fertilizers,
Heavy Engineering and Heavy Electrical Equipment attracted the
lion's share of Rs. 870 crores in the public sector outlay or
86 per cent of the total investment in organised industry.
This exercise helped the public sector to strengthen and also
to create conditions conducive to a rapid growth of medium
and light industries in this sector.

It was estimated that the net output of factory estab-
ishment would increase by 64 per cent and that of capital
goods by 150 per cent. But measured by the index of industrial
production (1956 = 100) the actual increase was noticed to be

*Including Mining.
about 40 per cent in the aggregate, and for capital goods it was about 118 per cent; whereas for intermediate and producer goods, including mining and electricity, it was 60 per cent and for consumer goods it came to be 19 per cent. Similarly, it was noticed that the shortfalls were mainly concentrated in industries which were crucial for future growth and price stability e.g. industrial targets fell short in iron and steel; fertilizers, certain items of industrial machinery -- like paper and cement, plant and machinery, heavy castings and forgings - newsprint, chemical pulp, soda ash, caustic soda, and cement, and even for most cottage and village industries which were to supply the additional consumer goods. Interestingly, investment in most cases exceeded the targets, largely due to price increase and partly due to initial under-estimation of the requirements, whereas production remained static.

However, the shortage of foreign exchange that was felt after 1957, and many more specific reasons in each industry, were held responsible for the underfulfilment of production targets. Added to this was the criticism that the private sector was considered the residual element and was excluded from the mainstream of planning and allocation of resources when it was practiced, whereas the Industrial Policy Resolution 1956, stipulated clearly that there would be no overlapping between the private and public sectors but there

would be "a great deal of dovetailing". With these inconsistencies and constraints, the target setting was also not meaningful and it could essentially be said an arithmetical exercise, useful but not always meaningful. Despite all these, the private enthusiasm for industrial expansion, that was aroused in the later half of the First Plan, received a fresh stimulus during the second plan. And, through the widespread urge for industrialization and the material requisites of well being was a favourable development but neither at the fiscal and specific levels nor within the planning-cum-price mechanism, were there any means in operation for the direction of private investment in accordance with plan priorities.

The official attitude in general was, that so long a project was in the plan, every industry and every industrial licence granted had an equal priority with the only exception that the expansion of private steel and shipping was brought about primarily by massive financial assistance and assurance of demand, rather than by private incentives. Tax concessions like development rebate, tax holiday, extra depreciation etc. were available in identical measures to nearly all industries, instead of being granted or differentiated according to priorities. 20

In examining the Government's measures and especially the industrial licensing system, we would find that in its early years the licensing system suffered from a variety of deficiencies and it was probably the most important factor retarding the industrial growth. It was found that no relationship was maintained with the targets of plans and licensing; and that was probably the reason to explain why in certain industries more licences were issued than justified by the targets and in some others, licensing lagged behind the targets. For all this the major drawback in the licensing system was that the administrative machinery was not geared to operational tasks of industrial planning or to review the programmes in accordance with the changing economic situation. It was seen that whenever targets were announced applications for industrial licences piled up, particularly during the Second and Third Plans.

In the Second Plan, 5430 licences were issued, compared to 1580 licences in the First Plan. This was in sharp contrast to our real needs and consequently it created imbalances in the industrial structure with surplus capacities in certain industries and shortages in others. However, to develop an industrial base, it was proposed to invest Rs. 890 crores representing 18 per cent of the total plan outlay, but the actual amount invested far exceeded Rs. 1075 crores representing
24 per cent of the total outlay. Table I illustrates the various heads selected for the programme of development during the Second Plan.

Table I
Break up of investment in important sectors during Second Five Year Plan

(\text{Rs. in crores})

<table>
<thead>
<tr>
<th>Industry</th>
<th>Public sector*</th>
<th>Private sector</th>
<th>Total</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producer goods</td>
<td>463</td>
<td>296</td>
<td>759</td>
<td>69.37</td>
</tr>
<tr>
<td>Industrial Machinery</td>
<td>84</td>
<td>72</td>
<td>156</td>
<td>14.26</td>
</tr>
<tr>
<td>and Capital Goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>12</td>
<td>167</td>
<td>179</td>
<td>16.37</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>559</strong></td>
<td><strong>535</strong></td>
<td><strong>1094</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: First Five Year Plan, Government of India, New Delhi, pp. 434-451.

* Included new investment of NIDC.

Percentages are calculated by the author.

It was, however, a good augury that in a short span of five years in the Second Plan, three steel plants were established, and the avowed objective of attaining the stage of self sustained growth for industries was made possible.

Table II gives a birds eyeview and is an indicative reflection of the progress made during the plan period.
Table 2
Index of Industrial Production (1950-51 = 100)

<table>
<thead>
<tr>
<th>Group of Industries</th>
<th>1955-56</th>
<th>1960-61</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Index</td>
<td>139</td>
<td>194</td>
</tr>
<tr>
<td>Cotton Textiles</td>
<td>128</td>
<td>133</td>
</tr>
<tr>
<td>Iron and Steel</td>
<td>122</td>
<td>238</td>
</tr>
<tr>
<td>Machinery (all types)</td>
<td>192</td>
<td>503</td>
</tr>
<tr>
<td>Chemicals</td>
<td>179</td>
<td>288</td>
</tr>
</tbody>
</table>

Source: Third Five Year Plan, GOI, New Delhi, p. 39

Thus, it appeared that on the eve of the Third Plan, our national income (at 1960-61 prices) had gone up over the decade of planning by 42 per cent to Rs. 14,500 crores and per capita income by 16 per cent to Rs. 830. Industrial production was 94 per cent higher than in 1950-51 and the share of public sector industries in the net output of organised manufacturing sector industries had gone up from 1.5 per cent to 8.4 per cent and much of this increase had taken place in key industries like steel, coal mining and heavy chemicals. Besides the building up of a metallurgical and chemical base for future industrialization, considerable progress was witnessed in industries manufacturing consumer durables, in small industries and in the modernization and re-equipment of
older industries like cotton, jute and sugar, part of it from indigenously manufactured equipment.

(iii) Third Five Year Plan

The Third plan, while relying more on agriculture, gave industry the secondary importance and the principal objective relating to industry in this plan was "to expand the basic industries like steel, chemicals, fuel and power and establish machines building capability, so that the requirements for future industrialization could be met within a period of ten years or so mainly from the country's main resources.

With an outlay of ₹. 2993 crores envisaged for the development of industrial sector in the Third Plan (with heavy dependence on foreign exchange), it was envisaged that industrial production would increase by 70 per cent over the five years (at a compound rate of 11 per cent) against 30 per cent of national income as a whole; about 29 per cent of total investment (public and private) against 27 per cent in the second plan was allocated to industry and minerals. Out of total investment in industry, the investment in public sector was targeted to increase from 960 crores (including 90 crores in village and small industries), to ₹. 1245 crores (including ₹. 150 crores for village and small industries). In the private sector also the targeted increase was ₹. 850 crores to ₹. 1475 crores, of which ₹. 150 crores were for replacement and modernization.
(Table 3) and Rs. 275 crores for village and small industries.\textsuperscript{21}

From the Table 3 it is gathered that investment outlay for industrial development during the Third Plan in the Public Sector was Rs. 1,330 crores as against Rs. 1,125 crores in the private sector. However, the total investment outlay of Rs. 150 crores for replacements in private sector was short of the minimum requirement of the three industries viz., cotton textiles, jute textiles and wollen textiles.

**Table 3**

Break up of Investment and Foreign Exchange Component during III Plan

<table>
<thead>
<tr>
<th>New Investment</th>
<th>Public sector</th>
<th></th>
<th>Private sector</th>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestic</td>
<td>Foreign Exchange</td>
<td>Domestic</td>
<td>Foreign Exchange</td>
<td></td>
</tr>
<tr>
<td>Mineral Development</td>
<td>278</td>
<td>200</td>
<td>32</td>
<td>28</td>
<td>538</td>
</tr>
<tr>
<td>Industrial development</td>
<td>670</td>
<td>660</td>
<td>675</td>
<td>450</td>
<td>2,455</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>948</td>
<td>860</td>
<td>707</td>
<td>478</td>
<td>2,993</td>
</tr>
<tr>
<td>Replacements</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>50</td>
<td>150</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,143</td>
</tr>
</tbody>
</table>

Source: Third Five Year Plan, G.C.I., New Delhi, p. 459.

\textsuperscript{21} Chopra, P.N. (Ed.), op. cit., p. 511.
Among the major projects included in the public sector during Third Plan were in the fields of iron and steel, industrial machinery, fertilizers, electrical equipment, machine tools, basic chemicals and intermediaries, essential drugs and petroleum refining. Similarly, the private sector also made use of the available opportunities for setting up industries in the field reserved for it by the Industrial Policy Resolution. The production of consumer goods was sought to be increased substantially, particularly in the private sector and the development of those industries which would help the country to become self-sustaining, in steel, machine building, manufacture of producer goods etc., was emphasised and thereby it was envisaged to reduce dependence on external sources for these goods.

A critical evaluation of the Third Plan shows that the national income, at constant prices, grew at an annual rate of 3.6 per cent during the First Plan, 4 per cent during the Second Plan and 2.2\(^*\) per cent during the Third Plan.\(^{22}\) In the Third Plan, it was estimated that the index of industrial production would increase to 329 in 1965-66 as against 194 in 1960-61 i.e. showing a rise of about 70 per cent, whereas it was found that the growth of industrial output (with 1960 as base) was 8.2 per cent in the First Year, 9.6 per cent in the


\(^*\)It was due to a severe drought in the last year of the Plan that the shortfall was noticed.
second year, 9.2 per cent in the third year, 8.3 per cent in the fourth year and 5.3 per cent in the fifth year i.e. 1965-66. However, the index of industrial production went up from the level of 74 in 1951 to 187 in 1965 i.e. an increase of over 152 per cent at 1965 as base.

It was noticeable that during the Third Plan period, the goal of socialism and specifically the question about the distribution of economic power was much emphasized, and it was more during this plan that the "supplementary and complementary" nature of the public and private sectors was given greater emphasis. In regard to the distribution of economic power, the plan clearly laid down that the process of rapid economic development tended to enlarge opportunities for the already well established firms and units to expand their size and enter into new fields of enterprise, and although it was stipulated that technological considerations in several industries favour the setting up of large scale units; but it was realised that while helping development in accordance with the priorities of the plans, such developments would also create strains and tension in the social structure and would come in the way of diffusing economic opportunities. It was, therefore, that the plan put the position regarding concentration of

* It was due to a severe drought in the last year of the Plan that the shortfall was noticed.
economic power very lucidly thus - "... The tendency towards concentration of economic power has to be countered in a variety of ways - firstly, through the extension of the public sector into fields requiring the establishment of large scale units and heavy investments; secondly, through widening opportunities for new entrants and for medium and small-sized units, as well as for industries organised on cooperative lines, thirdly, through effective exercise of Government's powers of control and regulation and use of appropriate fiscal measures. The object, briefly, must not be merely to prevent concentration of economic power and the growth of monopolistic tendencies, but also to promote a pattern of industrial organization which will lead to high levels of productivity and give full scope within the framework of national planning to entrepreneurs, to medium and small scale enterprises and to cooperative organizations." 24

Thus, the implications of this approach regarding the policy towards the private sector were that "in licensing new industrial units and sanctioning the expansion of existing units, there must be considerable vigilance in permitting the growth of large existing businesses and, in the greatest measures possible, the entry of new firms should be facilitated and small and medium enterprises and cooperative organisations encouraged." 25 In line with this policy measure,

the public financial institutions and banks were also expected to "review their existing administrative policies and practices so as to ensure that their support to new entrants into industry and to medium and small enterprises as well as to cooperative undertakings is both speedy and adequate. They should also device suitable criteria for assessing progress in these directions."

In consequence to above policy measures, almost 3770 industrial licences were issued during the third plan period, but due to lack of proper phasing of licences, there were sudden pressures on the financial institutions for rupee funds and foreign exchange resources. The successful entrepreneurs, were in the process, noticed to have pre-empted industrial capacities and encouraged concentration of economic power. Subsequently, imbalances were found to be created in the industrial structure leaving surplus capacities in certain industries and shortages in others besides the incredible prosperity of non-essential industries. Despite having a clear cut policy on the diffusion of the economic power, the investment tended to be concentrated in a few industrial houses. During the period from 1959 to June 1966, the top 'Twenty Eight' industrial houses were to make over 20 per cent

of the total number of applications, involving an investment in fixed equipment of ₹ 15270 million representing 59 percent of the total. 27

**ANNUAL PLANS:**

Due to setbacks experienced by the economy at the end of the third plan, the fourth five year plan was postponed and a plan holiday was declared for three years 1965-66 to 1968-69. The fourth plan became operative only when the economy started gaining satisfactory recovery comparable to that at the end of the Third Plan. In order to overcome the difficulties brought about during the Third Plan due to wars with China and Pakistan, Food crisis, foreign exchange scarcity etc. the plan holiday envisaged the following financial allocation for industries during the three annual plans (Table 4)

**Table 4**

Financial Allocation for Industries during the Annual plans

(₹ in crores)

<table>
<thead>
<tr>
<th>Item</th>
<th>1966-67</th>
<th>1967-68</th>
<th>1968-69</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Percentage</td>
<td>Actual</td>
</tr>
<tr>
<td>Industries</td>
<td>639</td>
<td>28.8</td>
<td>562</td>
</tr>
<tr>
<td>Total</td>
<td>221</td>
<td>100.0</td>
<td>2205</td>
</tr>
</tbody>
</table>

Source: Fourth Five Year Plan - A Draft Outline.

From the above Table it emerges that the percentage share of industries in the total outlays in the Annual Plan period had been declining from 23.8 per cent in 1966-67, 25.5 per cent in 1967-68 and 24.8 per cent in 1968-69.

Between 1967-68 and 1968-69 the economy started experiencing the recovery and during this period agricultural production touched a record level of 100 millions tonnes of production. By the beginning of 1968, the recession of 1966-67 was overcome and an increase of 6 per cent in industrial production was witnessed in 1968-69. Similarly, on the price front stability was noticed. For example, in 1966-67, which was a drought year, the wholesale prices increased by 16 per cent, in 1967-68 the increase was 11 per cent and during 1968-69 they were relatively stable due to a substantial increase in foodgrains and also of industrial recovery. Table 5 reveals the achievements in some selected industries during the annual plans period.

Table 5
Achievements of Annual Plans

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Iron &amp; Steel</td>
<td>M. Tonnes</td>
<td>1.0</td>
<td>1.1</td>
<td>1.3</td>
</tr>
<tr>
<td>(a) Pig Iron</td>
<td>&quot;</td>
<td>6.6</td>
<td>6.3</td>
<td>7.5</td>
</tr>
<tr>
<td>(b) Ingot Steel</td>
<td>&quot;</td>
<td>4.4</td>
<td>4.1</td>
<td>5.5</td>
</tr>
<tr>
<td>2. Cement</td>
<td>&quot;</td>
<td>10.9</td>
<td>11.4</td>
<td>13.0</td>
</tr>
<tr>
<td>3. Sugar</td>
<td>Lakh tonnes</td>
<td>22.6</td>
<td>21.0</td>
<td>10.0</td>
</tr>
<tr>
<td>4. Paper &amp; Paper Board</td>
<td>1000 Tonnes</td>
<td>514.5</td>
<td>651.0</td>
<td>580.0</td>
</tr>
<tr>
<td>5. Fertilizers</td>
<td>&quot;</td>
<td>1155.0</td>
<td>1325.0</td>
<td>2200.0</td>
</tr>
</tbody>
</table>

Source: Fourth Five Year Plan - A Draft Outline.
Thus, the progress made during the three Annual Plans gives a satisfactory answer to opt for a five year planning. It was, therefore that these favourable trends augmented well for a fresh phase of stable growth; and in line with these objectives a total outlay of Rs. 24,882 crores was envisaged for the Fourth Five Year Plan. Of this Rs. 15,902 crores were earmarked for the public sector and Rs. 980 crores for the private sector. Out of the total outlay of Rs. 15,902 crores allocated for public sector, investment in new projects was earmarked to be Rs. 13,655 crores and the remaining Rs. 2,247 crores were left for current development outlay. In this way a total investment of Rs. 22,635 crores was estimated to be injected into the economy during the total stretch of the Fourth Plan period, of which nearly three-fourth was in the core sector viz., iron and steel non-ferrous metals, fertilizers, petroleum and petro-chemicals, coal and iron ore etc.

**FOURTH PLAN:** In reviewing the performance and position of the private sector, the Draft Plan made the following statement:

"The pace of new investment in the early years of the plan was slow, reflecting the uncertainties that marked the period of recession. With the subsequent service of the economy, there has been considerable interest as represented by the number of letters of intent and licences issued, assistance sanctioned by financial institutions, value of import
licences approved etc. However, in spite of these encouraging trends, a review of the position in respect of some of the more important industries shows that whilst the total capacity covered by letters of intent/licences, is substantially in excess of what is likely to be required, the progress in terms of implementation has been unsatisfactory.\textsuperscript{28}

A careful investigation and analysis of the above statement would reveal that the licensing system had been one of the most important factors in retarding the growth of industries. It is argued that the licensing system was responsible for creating imbalances in economy; and the administrative machinery is blamed to be not in tune with the operational tasks of industrial programming in accordance with changing economic situations in the country.

It was therefore that the Government proceeded systematically to introduce liberalisations in the industrial licensing system to cope with the changing economic situations. Consequently, several industries were freed from licensing and investment projects up to a specified limit were delicensed. As a result of these initiatives of the government a "core sector" was coined and it emerged by enclaving the industries of importance to the national economy, industries having direct

\textsuperscript{28} Draft Fifth Five Year Plan, Govt. of India, Planning Commission, Vol. II, New Delhi, p. 132.
linkage with such "core industries" and industries with long term prospects for exports - these were all considered as basic, critical and strategic for the growth of the economy.

In February 1970, the Government drastically revised its licensing policy in line with the recommendations of the Industrial Licensing Policy Inquiry Committee (popularly known as Dutt Committee). This revision was primarily necessitated with a view to circumscribing the role of the large business houses. It was therefore, that this policy revision brought about two major changes.

First through the exemption limit for industrial licensing in terms of the size of investment was raised from Rs. 25 lakhs to Rs. one crore (a four fold jump), the large houses were still required to secure industrial licences regardless of the size of investment; second, the large houses were to be permitted to invest only in the specified "core sector" industries and in "heavy investment" industries. To further buttress the curb on the concentration of economic power and encourage economic and social justice, the Government established a Monopolies and Restrictive Trade Practices Commission in 1970 under MRTP Act 1969, which diluted the impact of the new wind of liberalism. Later, due to changes brought about, the Government again revised its licensing policy in 1973 to cope with the changing economic atmosphere in the country. It was
observed that though the revised policy sought to give the impression that it retained the basic features of the 1970 policy; but the revision materially diluted the effects of the policy introduced three years ago -- for instance, investment proposals of the large houses were to continue to be subject to licensing regardless of their size, and these houses were to be permitted to invest only in "core sector" industries; but 'wisely' the rigour of application of both these provisions had been substantially effected by the change made in the definition of "large houses" in the first instance, and secondly, by revising the list of "core industries" open to large houses. This was a very clear "back door liberalisation" for the large houses. The Government's contention, however, was that these revisions were necessitated because the Government desired to control the concentration of economic power without, of course, sacrificing the industrial growth.

The 1970 licensing policy accepted the same norm as was adopted by the Dutt Committee to identify the twenty larger individual houses i.e. to deem a business house as 'large' house if the total assets of the enterprise under its control added up to at least Rs. 35 crores; whereas in 1973 licensing policy this limit was lowered to Rs. 20 crores on the justification that the revised limit conformed to the limit adopted by the MRTP Act 1969. Conversely, it was evident that the
licensing policy of 1973 was designed to remove the hurdles placed in the way of growth of 'big business houses' as was revealed from the enlarged list of core industries to help the large houses expand in core sector. Large houses, however, ordinarily kept out from industries not included in the list except when the production was undertaken predominantly for exports. Therefore, a list of 19 industries was made open for the participation of large houses, and these industries were basic, critical and of strategic importance for the growth of the economy.

A critical evaluation of the Fourth Plan would thus, take us to derive a conclusion that while the targets, as envisaged in the plan, have not been fulfilled and there have been significant short falls in many industries; progress in others have been altogether unsatisfactory. In industry, the performance fell far short of even the modest targets set out in the Plan. On an average, for example, the growth rate in industry was around 5 per cent, which was below the targeted rate of 8 per cent envisaged in the Plan.29 There had been a substantial decrease of production in a number of industries like machine tools, electronics, automobiles, paper, aluminium, alloys and special steel etc.

FIFTH PLAN:

By the end of the Fourth Five Year Plan, the Government was convinced of its failures (which were visible right from its mid-term) and therefore while drafting the Fifth Five Year plan, the objectives and the targets were not chosen to be very ambitious. An overall growth rate of 5.5 per cent (GDP) was envisaged in the draft plan, whereas the revised final plan targeted it at 4.4 per cent. Out of a total outlay of Rs. 39,322 crores in the revised plan, Rs. 10,291 crores was envisaged for Industry and Minerals which was highest at 26.2 per cent of the total outlay -- Rs. 9,660 crores for public sector and Rs. 535 crores for the small scale and village industries, but the share of small and cottage industry accounted for 1.36 per cent of the total plan outlay. 30

According to the original draft, the Fifth Plan outlay was Rs. 37,250 crores for public sector and Rs. 16,161 crores for the private sector making a total of Rs. 53,411 crores. This was however, raised to Rs. 39,322 crores for public sector and to nearly Rs. 27,050 crores for the private sector due to inflationary turmoils. Thus, the share of public-private sectors worked out to be 58:42 - showing the growing emergence of the public sector.

A critical appraisal of the Fifth Plan, would reveal

that the government was quite conscious of the various compelling circumstances which were posing a threat to the steady implementation of the targets and it was therefore that the Government introduced many changes, and in March 1977 the major change brought about by the Janata Party coming into power and suspending the Fifth Plan by ending it in March 1978 labelling it a Congress Party Plan was unfortunate and led to the failures of the Plan. Another reason cited for the failure of the Fifth Plan was that at the time of its introduction in April 1974 the country was going through a galloping inflation and a virtual economic crisis. The end result of all these upheavals was that the achievement in many sectors was lower than the targeted level e.g. in sugarcane it was envisaged to achieve a targeted compound annual growth rate at 2.7 but the actual achieved during 1974-75 to 1977-78 was 2.2; in coal 9.4 was targeted while the actual was 6.9; petroleum at 14.5 was targeted and actual rate fell at 10.5; in fertilizers it was targeted to get a rate of 22.3 while the actual was 18.1; in mild steel the target was set at 12.4 while the actual growth rate was 12.1 p.a. for the same period. Another barometer of the Plan's failure was that as against the targeted growth rate of 8.1 per cent in the industrial sector, the actual annual industrial growth rate was 2.5 per cent during 1974-75 and 5.7 per cent during 1975-76.
On the licensing front, 21 industries were delicensed and permitted unlimited expansion beyond the licensed capacities to foreign companies and monopoly houses. In 30 other important industries, the Government brought major changes in liberalising the industrial licensing policy in October 1975. This liberalisation, facilitated 15 engineering industries for automatic growth of capacity at 5 per cent per annum or upto a ceiling of 25 per cent in the plan period. Further, in its desire to initiate recovery in industrial production and to promote balanced regional development, the Government encouraged the middle entrepreneurs and the large industrial houses and thereby did not carefully study its implications on the small scale sector. As a result of these liberal policy measures, 1027 industrial licences were issued in 1975 as against only 597 issued during 1973. Out of this, 296 were for new articles and 161 to carry on the old business. But discouragingly with all these incentives, the average industrial growth was of the order of 5.3 per cent during 1974-75 to 1977-78 which was much below the target of 8.1 per cent.

It was in view of the increasing disparities in the industrial sector and to remove the problem of unemployment and reduce the widening disparities in the rural and urban areas, that the Janata Government in its Industrial Policy announced on 23rd December 1977 gave more emphasis for the
growth of small scale and village industries. Consequently, it was noticed that a record number of small and large units were established, and the value and volume of production also expanded both in size and spectrum. The remarkable feature of industrial expansion was that due to the phenomenal growth of domestic skill formation, external assistance contributed to it very marginally. However, it is observed that despite the importance attached to balanced industrialisation, till 1974-75, India had witnessed unbalanced industrialisation as is evident from Table 6. While various reasons are forwarded for this state of affairs like some historical coincidences or the availability of the industrial raw materials at a place; or the proximity of infra-structural facilities like port, highways etc. tend to clustering of industries in particular regions; but once the process starts it has a tendency to perpetuate itself despite the Governmental efforts towards dispersal as the Indian experience has shown.

Evidently, nearly 50 per cent of the total factories are located in the four states of Maharashtra, West Bengal, Gujarat and Tamil Nadu. These four states account for 46.13 per cent of total productive capital, 53.44 per cent of total employment, 53.52 per cent of value added by manufacture and 57.59 per cent of output. Thus the fact remains that after
<table>
<thead>
<tr>
<th>S. No.</th>
<th>State</th>
<th>Factories</th>
<th>Productive capital</th>
<th>No. of Person</th>
<th>Output</th>
<th>Value added</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Number</td>
<td>Rs. in lacs</td>
<td>%</td>
<td>Employed</td>
<td>Rs. in lacs</td>
</tr>
<tr>
<td>1.</td>
<td>Maharashtra</td>
<td>3345</td>
<td>339500</td>
<td>19.87</td>
<td>968220</td>
<td>575395</td>
</tr>
<tr>
<td>2.</td>
<td>West Bengal</td>
<td>1524</td>
<td>197137</td>
<td>10.96</td>
<td>771100</td>
<td>249595</td>
</tr>
<tr>
<td>3.</td>
<td>Gujarat</td>
<td>1622</td>
<td>156774</td>
<td>8.00</td>
<td>430519</td>
<td>221462</td>
</tr>
<tr>
<td>4.</td>
<td>Tamil Nadu</td>
<td>1496</td>
<td>166080</td>
<td>8.20</td>
<td>462295</td>
<td>206900</td>
</tr>
<tr>
<td>5.</td>
<td>Bihar</td>
<td>666</td>
<td>134664</td>
<td>6.87</td>
<td>267424</td>
<td>143165</td>
</tr>
<tr>
<td>6.</td>
<td>Uttar Pradesh</td>
<td>1188</td>
<td>209540</td>
<td>10.69</td>
<td>414450</td>
<td>149921</td>
</tr>
<tr>
<td>7.</td>
<td>Madhya Pradesh</td>
<td>807</td>
<td>112404</td>
<td>5.73</td>
<td>212357</td>
<td>95244</td>
</tr>
<tr>
<td>8.</td>
<td>Karnataka</td>
<td>934</td>
<td>81953</td>
<td>4.18</td>
<td>239350</td>
<td>87521</td>
</tr>
<tr>
<td>9.</td>
<td>Andhra Pradesh</td>
<td>1069</td>
<td>104472</td>
<td>5.33</td>
<td>326526</td>
<td>108261</td>
</tr>
<tr>
<td></td>
<td>Total for above</td>
<td>12651</td>
<td>1457251</td>
<td>78.93</td>
<td>4092241</td>
<td>1837464</td>
</tr>
<tr>
<td></td>
<td>States</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other States</td>
<td>9410</td>
<td>412992</td>
<td>21.07</td>
<td>833488</td>
<td>338843</td>
</tr>
<tr>
<td></td>
<td>All India</td>
<td>16061</td>
<td>1960243</td>
<td>100.00</td>
<td>4925729</td>
<td>2176307</td>
</tr>
</tbody>
</table>

Source: Annual Survey of Industries, C.S.O., 1974-75.
a long period of our planning the unbalanced industrialisation continues.\footnote{31}

Further analysis of the table reveals that the nine states individually account for more than 5 per cent of the number of factories. These nine states together accounted for 73.77 per cent of the factories; 73.93 per cent of productive capital; 83.03 per cent of employment; 84.43 per cent of output and 85.46 per cent of the value added. Thus, we find that of these nine states four contribute about 50 per cent of the total in any individual characteristic and the remaining states are quite insignificant from the point of view of large scale industrialization.\footnote{32}

**SIXTH PLAN:**

Due to change of Government at the Centre and Janata Party assuming power in 1977 the Fifth Plan was terminated in 1978 and the draft sixth Five Year Plan 1973-83 was formulated. The plan gave more emphasis on employment and identified the potential in agriculture and allied activities, encouragement to household and small industries producing consumer goods for mass consumption etc. A total outlay of Rs. 1,41,377 crores was proposed in the draft plan, out of which Rs. 71,000 crores

\footnote{31. Annual Survey of Industries, C.S.O., Govt. of India, 1974-75.}
\footnote{32. Ibid.}
were allocated for public sector and Rs. 70,377 crores for private sector. The ratio of public sector to private sector was worked out to be 46:54.\textsuperscript{33} With the proposed investment, the overall projected rate of growth in the plan was expected to be 4.7 per cent per annum. A comparative study of the pattern of allocation reveals that the Sixth Plan followed more or less the pattern of the Fifth Plan with minor shift of emphasis. It was claimed that while making sectoral allocations, the highest priority had been given to the sectors which generate the maximum employment and which had an impact on the standard of living of the poorest like agriculture and allied activities, village, cottage and small scale industries etc.

The Plan was subjected to many weaknesses at the hands of the critics. It was criticised that while the Gandhian approach of the plan was based on decentralised production and to meet this end, village and small industries were provided Rs. 1410 crores, which was only 2 per cent of the total outlay as against 4 per cent provided in the second plan. This was in wide contrast of the trumpeteering about the vast expansion of village and small industries by the Janata Party. Among the many criticisms, it was also pointed out that the

\textsuperscript{33} Dutt, R. and Sundaram, K.P.M. Indian Economy, op. cit., p. 212.
institutional reforms needed for accelerating growth and checking concentration of economic power were either conspicuous by their absence or conceived in a half-hearted manner. Similarly the proposals for breaking the strangle hold of monopoly houses were very weak. The plan document did not make any radical suggestions for checking concentration of economic power.

Before the fruits of the Janata Party's ambitions plans and strategies could be reaped, the Congress (I) party replaced the Janata Government in January 1980, and decided to terminate the sixth plan of the Janata Government and formulated the new Sixth Plan for the period 1980-85.

In order to plug the loopholes in the pattern and nature of industrial development witnessed during the past years of planning -- like the failure to achieve the balanced regional development to the extent needed; the failure of the incentive schemes to attract industries to backward regions and failure to prevent the industrial concentration in the developed regions, and the developed states being able to get, to the maximum extent, the advantage of schemes, giving capital subsidies to the backward regions etc. The Sixth Plan (1980-85) included, among other things, the strategies of substantial increasing of manufacturing capacities in public/private sector encompassing a variety of industries to provide consumer goods and durables and to support agricultural and industrial growth
through supply of intermediate and capital goods, to develop backward regions, new strategies were needed to be devised; and a special attention for support of the growth of a wide range of economic activities, the capital goods industry in general and electronics industry in particular have to be developed and the overall strategy aiming at optimum utilisation of existing capacities and improvement of productivity in all areas was stressed.

The Sixth Plan, therefore, envisaged an average growth rate of 5 per cent during the plan period with a possibility of a higher growth of 5.3 per cent per annum. A total outlay of Rs. 17,210 crores was earmarked for the plan, out of which Rs. 97,500 crores were for the public sector and Rs. 74,710 crores for the private sector. However, at 1979-80 prices, the aggregate investment during plan period was estimated to be Rs. 1,53,710 crores of which the public sector outlay was Rs. 84,000 crores and Rs. 74,710 were to be invested in the private sector representing 53 per cent and 47 per cent respectively. Out of the total gross investments (at market prices) of Rs. 1,58,710 crores, manufacturing sector was allocated the highest investment of Rs. 45,515 crores, followed by agriculture sector Rs. 32,242 crores and Gas, electricity and water supply Rs. 23,554 crores. This apart, an outlay of Rs. 20,407 crores was envisaged for industry including coal and petroleum of which
a major portion amount to Rs. 19,013 crores was for the Central sector and the remaining Rs. 1,339 crores for State Sector. With these an average annual rate of growth of 3 per cent of industrial production was envisaged during the plan period.

A review of the progress of plan outlays in the public sector during the first four years of the plan revealed that a total sum of Rs. 79,880 crores i.e. nearly 82 per cent of total had been spent. However, it was observed that the outlays were progressively increased in every successive year of the Plan -- e.g. as against an allocation of Rs. 14,832 crores during 1980-81, the allocation for the year 1983-84 was stepped up to Rs. 25,480 crores i.e. 25 per cent leaving only 18 per cent of the resources for the last year. The following Table reveals the progress of Sixth Plan outlays.

Table 7

Table showing progress of VI Plan Outlay.

(As. in crores at 1979-80 prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>14,832</td>
<td>15.2</td>
</tr>
<tr>
<td>1981-82</td>
<td>18,211</td>
<td>18.7</td>
</tr>
<tr>
<td>1982-83</td>
<td>21,357</td>
<td>21.9</td>
</tr>
<tr>
<td>1983-84</td>
<td>25,480</td>
<td>26.1</td>
</tr>
<tr>
<td>(Total 1980-84)</td>
<td>79,880</td>
<td>81.9</td>
</tr>
<tr>
<td>Total Plan (1980-84)</td>
<td>97,500</td>
<td>100.0</td>
</tr>
</tbody>
</table>

From the above table it emerges that if the target of 5 per cent growth rate of the economy had to be achieved for the sixth plan, the remaining amount left for the last year was insufficient. Data on final progress of the plan are not available. The sectorwise progress of outlay in the four years shows that top most priority was given to energy sector. As against a provision of about 27 per cent during the entire plan period, the actual allocation was about 30 per cent of the total allocation during 1983-84. Petroleum was provided Rs. 4,300 crores for the entire plan period, actually received Rs. 6,779 crores, representing 8.5 per cent, during the first four years 1980-85. Similarly outlay on coal was also stepped up to about 3.7 per cent for the entire plan period; and also in other sectors, with a slight marginal adjustment, the pattern outlined in the plan document has been followed. The overall outlay during the four year period has been about 82 per cent of the total Plan outlay. Encouragingly, the overall review of the Sixth Plan, revealed that for the first time, the average annual rate of growth was expected to be achieved at around 5 per cent; while there were major short falls in the programme of poverty eradication and expansion of employment; the rise in price level could not be checked, and there were short falls in foodgrains production, output of coal, electric energy and steel.  

SEVENTH PLAN (1985-1990):

Despite the many odds, the basic strategy and the programmes implemented in the Sixth Plan have yielded good results and the growth rate over the first four years of the plan has been around 5 per cent per annum. The functioning of the infrastructure has also shown considerable improvement, and especially in the field of energy. Therefore, the guiding principles of the Seventh Plan continued to be growth, equity and social justice, self-reliance, improved efficiency and productivity.

Though the impetus for a large expansion in employment was realised to come from agriculture, the potential of the industrial sector cannot be minimised. The tendency has been to see industrialisation as a means for building economic strength and promoting self-reliance and removal of poverty. But as the agricultural constraint is loosened in the Seventh Plan, it should be possible to plan for higher rates of industrial growth. However, in order to economise on resources, the next phase of industrialisation has to be based on better utilisation and low-cost expansion of existing capacity. The emphasis has to be on the modernization and upgradation of our industrial technology and the induction of new technologies to raise output manifold. Albeit, agricultural and industrial growth will not be feasible without a sound and functioning
infrastructure, such as power, coal, transport and communications -- and it is expected that all investments would yield the expected results in terms of quality and quantity of service provided and the return earned.

In view of the fulfilment of strategies, the Seventh Plan objectives requires a growth rate of a little over 5 per cent. Over the five years, aggregate investment at 1984-85 prices may be of the order of Rs. 3,20,000 crores of which public investment would be about 1,50,000 crores. The public sector outlay in the Plan would be of Rs. 1,80,000 crores at 1984-85 prices. In order to achieve the overall growth rate of a little over 5 per cent, a growth of industrial output by about 7 per cent during the plan period is envisaged.

Among the various strategies and features of the Seventh Plan, the salient ones are:— the maximum possible generation of productive employment; alleviation of poverty and a reduction in inter-class, inter-regional and rural-urban disparities; reduction in infrastructural bottlenecks and shortages and improved capacity utilisation and productivity throughout the economy; efficiency, modernization and competition in industry and the integration of science and technology into the mainstream of development planning. A redeeming feature of the Seventh Plan is its emphasis on greater utilisation of the potential already created, rather than initiating
new projects. However, liberalisation of licensing policies permitting large industrial houses to enter hitherto banned areas under MRTP restrictions shall also result in pushing up capital-output ratio. It is, therefore, argued that the increasing trend towards computerisation, modernisation and dependence on large industrial houses will neutralize any effect that might be produced in an altered mix of investment pattern involving more labour-intensive techniques.

In case the capital-output ratio cannot be lowered, the Seventh Plan would find it difficult to realize a growth rate of 5 per cent per annum. However, with the various measures outlined in the plan document, it is expected that their successful implementation would lead to a lowering of capital-output ratio.

From the above analysis it is evident that since the beginning of the planning era, the industrial development of our country has been under strict and intensive regulations and controls of the Government. However, in order to keep the ball rolling and avoid the rigorous and ill effects resulting out of this intensive and strict vigil and controls on industries in the private sector, the Government has been wise enough to encourage and develop the public sector simultaneously. Therefore, investments in the public sector enterprises have
been subjected to planning in both the choice and the imple-
mentation and have taken a very substantial part of the planned
and estimated industrial development in the organised manufac-
turing sector. This can be judged from Table 8 given below:

**Table 8**

Total investment and its distribution between public and 
private sector

<table>
<thead>
<tr>
<th>Plan</th>
<th>Total investment</th>
<th>Public sector</th>
<th>Private sector</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(as %)</td>
<td>(as %)</td>
</tr>
<tr>
<td>First Plan</td>
<td>3,360</td>
<td>1,460 (43.45)</td>
<td>1,900 (56.55)</td>
</tr>
<tr>
<td>Second Plan</td>
<td>6,750</td>
<td>3,450 (51.11)</td>
<td>3,300 (48.89)</td>
</tr>
<tr>
<td>Third Plan</td>
<td>10,400</td>
<td>6,300 (60.58)</td>
<td>4,100 (39.42)</td>
</tr>
<tr>
<td>Annual Plans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1966-67 to 1968-69)</td>
<td>9,336</td>
<td>5,606 (60.05)</td>
<td>3,730 (39.95)</td>
</tr>
<tr>
<td>Fourth Plan</td>
<td>22,635</td>
<td>13,655 (60.32)</td>
<td>8,988 (39.68)</td>
</tr>
<tr>
<td>Fifth Plan</td>
<td>47,561</td>
<td>31,400 (66.02)</td>
<td>16,161 (33.98)</td>
</tr>
<tr>
<td>Sixth Plan (1980-85)</td>
<td>1,72,210</td>
<td>97,500 (56.62)</td>
<td>74,710 (43.38)</td>
</tr>
<tr>
<td>Seventh Plan (1985-90) (Targeted)</td>
<td>3,20,000</td>
<td>1,80,000 (56.25)</td>
<td>1,40,000 (43.75)</td>
</tr>
</tbody>
</table>

Compiled by the author from:

(b) The Economic Times, Annual No. 1975.
(c) Sixth Five Year Plan, G.O.I., 1980-85, p. 63.
(d) Datt, R & Sundharam, K.P.M., Indian Economy op.cit, p. 303.

Figures in parentheses are percentages of the total investments are calculated by the author.
Apart from the fact that a great proportion of total investment was directed towards the public sector, the state did not hesitate to direct the private sector's industrial investments by exercising physical controls operated primarily through an extensive licensing system combined with a detailed setting of targets in the formulation of Five Year Plans. This was to give special emphasis to promote the balanced regional development. Subsequently, in all the plans, development of a balanced economy in different parts of the country was stressed.

The importance of keeping the claims of underdeveloped regions in view licensing of industries in the private sector was mentioned and it was suggested that there should be even greater stress on this in future. It was also emphasised to examine the progress, programmes and production targets of a number of industries in the private sector with a view to securing the location of a new industry on a zonal basis. Since it was thought that a balanced industrialization could be achieved with the help of industrial licensing system, specific proposals for setting up of industrial development areas in backward regions and also the utilisation of large project for purpose of regional growth were taken into account. A factual analysis of the plan periods revealed that the dominance of the traditional entrepreneurial communities was to continue in Indian manufacturing industry — although the relative share of the private sector in the net domestic
product continued to decrease and the public sector assumed greater importance. This can be gauged from the fact that out of a final overall outlay of Rs. 3,750 crores in the First Plan, Rs. 1,960 crores were earmarked for public sector and even out of the original total investment of Rs. 3,360 crores, the share of public sector outlay was Rs. 1,460 crores representing over 43 per cent of the total, but gradually the share of public sector in the total plan outlay is increasing since Second Five Year Plan. In the Second Five Year Plan the overall actual outlay was Rs. 7,772 crores of which Rs. 4,672 crores were shared by the public sector and even of the original total investment of Rs. 6,750 crores, public sectors share was over 51 per cent at Rs. 3,450 crores. In the Third Plan also Rs. 8,577 crores were shared by the public sector out of a total outlay of Rs. 12,677 crores; and in the Fourth Plan out of a total outlay of Rs. 24,882 crores public sector shared Rs. 15,898 crores (revised) whereas in the Fifth Plan's revised total outlay of Rs. 66,353 crores, public sector shared Rs. 39,304 crores. In the Sixth Plan (1980-85) out of a total investment outlay of Rs.1,72,210 crores, Rs. 97,500 were earmarked for the public sector and Rs. 74,710 crores for the private sector. While the Seventh Five Year Plan (1985-1990) has targeted a total investment of Rs. 3,20,000 crores of which Rs. 1,80,000 crores are provided for the public sector and Rs. 1,40,000 crores for

the private sector representing over 56 per cent and nearly 44 per cent of the total respectively. With these trends it is expected to achieve about 7 per cent growth rate in the industrial output.

From the above it is gathered that the industrialization process got momentum after India gained independence, and the Government directed it under the Five Year Plans through the Industrial policies and exercised control on curbing the undue concentration through various legislations. The next chapter will therefore be devoted to spell out the need and evolution of industrial controls and regulations. The chapter would examine how licensing of industries under IDRA 1951 serves as a measure for industrial expansion in the country.