CHAPTER VII

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The present study is directed to evaluate the nature, content and components of the industrial policy for the development of the backward regions in India. At the outset, the need for industrialisation of backward areas stems from the lack of capacity of the agricultural sector to absorb the growing surplus labour force. In the first chapter, we have examined the per capita income differentials between different States of India. It is established that there is a distinct trend towards growing inequalities of per capita income between different States of India. With the passage of time these inequalities have not only remained constant, but have widened.

Industrial disparities which were evaluated in all the segments of the industrial sector reveal that the major proportion of newly created capacities have been cornered away by few States like Maharashtra, Gujarat, Tamil Nadu and West Bengal. The increasing concentration of industrial activities is confirmed by the coefficient of variation, whose value has increased over a period of time. It was established that relatively disparities are more severe in the medium and large scale segments of the industrial sector as compared to the small scale sector. The concentration of economic activity in the metropolitan centres is a natural corollary of the market forces, according to which entrepreneurs invariably prefer those locational sites which offer
economies of scale, external economies and economies of agglomeration. The natural outcome of the above phenomenon has been the clustering of economic activities at few established centres. As a result, there has been fast deterioration of the quality of urban life and increase in the cost of urban public services at crowded industrial centres on the one hand and depopulation of the underdeveloped regions on the other. In this connection what is of relevance is not the achievement of absolute equality in the level of development amongst different regions of the economy, but gradual reduction in the inequalities with the growth of the economy.

Before tracing the evolution of industrial policies for the development of backward regions, it was considered appropriate to briefly examine few important theories of location and regional development and to derive policy implications from them in framing the policies for the development of backward regions. This aspect was analysed in second chapter. The evolution of locational theories can be traced out in terms of the motives attached to the decision making entrepreneurs. In the earlier theories, minimisation of cost was the guiding force, while gradually the attention shifted to the maximisation of revenue and profit. Latest development in this field had been the emergence of 'satisficing' theories, which is a distinct and positive departure from the traditional theories of location. The major policy decisions emanating from these theories are that individual locational decisions are susceptible to policy directives without the loss of economic efficiency. A critical examination of some of the locational
theories testifies that there is no guarantee that freely selected sites by the entrepreneurs for industrial establishments will necessarily be optimum and more productive than the locational sites selected by the Government in the backward areas for industrial development.

At the macro level, regional growth theories could be classified as those predicting convergence or divergence of inter-regional per capita income differences. In between these two extremes fall many hybrid approaches. However, theoretical arguments and empirical findings are largely weighted in favour of the trends of divergence in the inter-regional differences in per capita incomes.

The policy implications of convergence theories are that Government should frame such policies which would facilitate factor mobility both at national and intra-regional level. From the divergence theories also the role of the developmental authorities in promoting growth centres and mitigating the 'backwash' effects becomes imminent. Other theories overwhelmingly support the role of Government and development authorities in reducing inter-regional growth differences.

In the second chapter, we also examined the basic arguments in favour and against of the Government intervention in regional affairs. The need for the Government intervention primarily stems from the failure of the market mechanism to equitably distribute the economic resources amongst different regions of the country.
Left to the free play of market mechanism, the economic system generates such forces which obstruct the process of equalisation of returns on factors of production. The Government intervention is also desired because of sharp divergences between social and private costs and returns. It is also argued that even if tendencies of divergences were in operation, the interim period of adjustment may be unnecessarily painful.

Ones the need for Government intervention in the regional affairs is established on theoretical grounds, the next pertinent inquiry related to the techniques of planning which should be deployed by the regional economists in correcting the regional imbalances. None of the techniques considered was found to be perfect and comprehensive enough as to claim superiority over others. As such these techniques were initially evolved and applied to macro planning and models, and afterwards sporadic attempts were made to extend them to the regional planning framework. Since each of the backward area is confronted with certain specific problems of its own, it would be more rewarding if a few of these techniques are supplemented with each other in solving the problems of backward regions. As the structure of Indian Planning is aggregative and sectoral in nature, the growth models do not take into account the regional dimensions of economic variables.

In the third chapter we examined the objectives, strategies and instruments of industrial policy for the growth of backward regions both at the theoretical level as well as in the context of
the Indian economy. The evolution of such policies at all India level were also traced out.

At the policy objective level, a serious conflict appears between the efficiency and equity goals and theoretically various solutions ranging from linear programming to the 'trade-off' curves have been offered to resolve the conflict. In the Indian context, the goal conflict appears to be more intense because of the need for reducing regional disparities on the one hand, and for accelerating growth rate of income on the other.

Due to the specific conditions prevailing in a developing economy like India, the operational utility of these models is considerably reduced. However, right from the 'First Five Year Plan,' the efficiency goal aimed at maximising the growth rate of income and optimising the returns on investment has received primacy over the equity goal. In the Indian context it was recognised that the policy of 'pure equalisation' may not prove to be the best policy but the policy towards 'greater equalisation' is more rewarding and suited under the prevailing conditions.

Amongst the various strategies for the industrial development of backward regions, the following widely debated strategies were analysed: people vs place prosperity, 'growth pole', and the provision of essential infrastructures.

Theoretical arguments largely favour the policy of directing work to workers than the policy of moving workers to the place of
work. In India the policy has always been to create congenial conditions of investment opportunities in backward areas by reducing the cost of inputs and increasing the returns on investment. The policy of moving workers to work has never found favour with the Government.

The growth-centre approach has increasingly attracted the attention of the regional planners and its adoption will largely depend upon the goals of regional policy, i.e. as to whether the inter-regional or intra-regional reduction in disparities in industrial growth is the primary goal. In India, no sincere attempt has yet been made to incorporate growth-centre strategy in the policy for backward area development and whatever has been done in the form of 'industrial complexes' has not yielded the desired results. However, the approach offers a solution to those countries which desire to develop backward areas despite overall shortage of capital and economic resources.

The infrastructural strategy has been adopted by most of the developing nations including India as a tool of developing industries in backward areas. However, the strategy will prove to be more rewarding and effective if it is judiciously implemented with equal emphasis on social infrastructures and adequate provision of 'post-natal' facilities, otherwise there may not be productive utilisation of the investment made in the backward areas, including the capital expenditure on the construction of the industrial estates.

One of the basic issues concerning the growth of backward
areas is the identification of the regions that should be accorded preferential treatment by the developmental authorities. After discussing theoretical models related with the identification of backward areas, it was found that in India the identification of backward areas was comprehensively done in 1969, after the appointment of the Pandey Committee. As the optimisation of returns on investment, channelised to backward districts, also depends upon the judicious selection of backward districts, utmost care is required in selecting the indicators of development. By and large, the criteria selected by the Pandey Committee and the Planning Commission are comprehensive and exhaustive, except few which may not significantly be correlated with the degree of development of an area. It is considered desirable to identify the backward towns in the advanced districts for selective industrial growth. Due to the inadequacy of data on economic variables at the town level, it may be difficult to undertake the exercise, yet attempts may be made in this direction. There is also need for periodical review of the data so that the deletions and additions may be made in the list of the backward areas, earmarked for favourable treatment.

Once it is decided by the Government that the capital, industry and entrepreneurs should be induced to move to the backward areas, industrial development authorities may deploy various instruments to achieve the desired goal. In India, positive controls in the shape of capital subsidy, concessional finance, provision of readymade industrial sheds etc. have been widely used to induce the mobilisation of factors of production in the lagging regions. The scope of negative controls in a democratic society like India
is very much limited. Although the Indian Planning is aggregative and sectoral in character and is based on macro-economic models, yet it permits the entry of regional development in various forms. The growth of backward regions in Indian Planning has revolved around the principles of factor mobility, social equity and decentralised decision making. The purposive and meaningful policy for the growth of backward areas was evolved only during the Third Five Year Plan period. During the succeeding years, it gained in strength and momentum.

An examination of the instruments used by the Government in developing the industries in backward areas, reveals that while at the inter-regional level the impact has been encouraging, at intra-regional level the results are not that promising.

In the fourth chapter, we have analysed the evolution of policies for the growth of backward regions in Gujarat State. While no attempt was made by the Central Government to identify backward talukas, the exercise has successfully been done at the State level. However, some of the indices selected by the State Government are not very much relevant to the level of development and these indices seem to be biased in favour of rural development.

In Gujarat State 'growth centres' have also been identified for concessional treatments to medium and large scale industries. The 'growth-centre' approach as adopted in Gujarat State is incompatible with the 'scattered development' approach basically pursued since the inception of the policy for backward area
development. The policy so far pursued hardly fulfils the philosophy underlying the growth-centre approach.

The efficacy of instruments of industrial growth in backward areas of Gujarat State were examined and it was found that the capital subsidy, concessional finance and ready made sheds have been basic instruments in diffusing growth in backward areas. These concessions and incentives have widely helped the growth of those backward districts, which have proximity to the big industrial cities, while the districts located far away from these industrial nucleus have not been benefited to a large extent. Major share of concessional finance and capital subsidy have been cornered away by few districts within the backward districts. While on the one hand the districts of Mehsana, Bhavnagar, Broach and Junagadh have industrially developed, on the other, the districts of Amreli, Banaskantha, Kutch and Sabarkantha have continued to remain industrially stagnant. The industrial estate programme has succeeded to some extent in generating growth inertia in the backward districts. However, there is a need for providing 'post-natal' facilities to the units in the industrial estates so that the constructed sheds and newly created industrial capacities are fully utilised.

One of the major findings in this chapter was that while there has been absolute increase in the productivity, employment and investment in all the segments of the industrial sector in the backward districts, relatively the position of these backward districts has remained constant. It seems that the factors other than policy instruments have been instrumental in augmenting the
absolute level of industrial aggregates. Another finding was that the industrial disparities within backward districts have substantially increased with the passage of time. Even the industrial structure of these backward districts has remained, by and large, constant over a period of time.

The correlation matrix worked out amongst various variables brings out the closed association between the variables of industrial growth and the institutional finance and industrial sheds in the medium and large scale segments of the industrial sector.

In the fifth chapter, we analysed the main characteristics of the sample units located in the backward districts. The field survey was based on a sample of 151 units located in ten backward districts of Gujarat.

The field survey revealed that recently industrial diversification is taking place in the backward districts. Most of the units attracted to the backward districts are of small size with low capital investment. The policy has not succeeded in attracting large sized firm in backward areas. Most of the units organised their own production and marketing and did not depend upon the outside agencies. The production linkages were found to be more in case of those units which were located in the industrial estates bordering the large industrial cities. The policy has also not been successful in motivating the local population of the backward areas to adopt industrial careers. The backward areas having proximity to the big cities have been more successful in attracting
the entrepreneurs than those areas which are not well connected with the metropolitan centres. As there is a limit to which the entrepreneurs can be drawn from outside the backward regions, there is a need for inducing the local population to set up industries in the backward districts. The establishment of regional linkages which is one of the cherished objectives of industrial policy for the growth of backward regions have not been established in the backward regions. These linkages differed between industry to industry and at different locational sites. This calls for the reorientation of the policy in selecting such sites and industries which offer maximum of backward and forward linkages.

The policy has received limited success in the provision of non-financial assistance except the provision of the readymade sheds and plots. Capital subsidy and concessional finance have proved to be major source of incentives to the entrepreneurs to move to the backward areas.

In general entrepreneurs are dissatisfied with the post-production assistance received from the developmental agencies.

These units faced, some of them seriously, problems related with raw material, working capital and marketing of finished products. There is a need for providing post assistance to the entrepreneurs on the one hand, and gradual withdrawal of these concessions for promoting self reliance on the other. A proper equilibrium has to be maintained between these two conflicting manifestations of industrial dispersal policy.
In the Sixth chapter we have examined the cost, profitability and efficiency of the sample units as it reflects upon the efficacy of the industrial policy in promoting the efficient units. The raw material shared the bulk of the cost in most of industry groups. However, the proportion of transport cost in the total cost was relatively less in most of the industry groups.

The rate of profit of these units was reasonably high. However, it is interesting to find out that the rate of profit was higher in those districts which are relatively developed in the backward districts and which have closed linkages with the industrial metropolis. No significant variation was found in the level of profit as between the industries of different nature. The rate of profit of these units on self-acquired capital after deducting the capital subsidy was marginally higher which reflects upon the impact of capital subsidy on these units. Raw material and capital inputs are found to be most significant variables affecting the output of these units. The scope for augmenting the output through additional labour seems to be limited.

The elasticity of output with respect to capital subsidy was found to be insignificant, while with respect to financial incentives it was significant but the value of the coefficient was quite low. The major policy implications from the above results are that it may not be possible to expand the level of output by increasing the rate of present subsidy. As the returns to scale are constant, the efforts to expand the input base of these units will augment the output proportionately.
The study establishes that within the backward districts, the inequalities have widened and entrepreneurs have preferred to select those areas which are nearer to the industrial centres and have established linkages with outside economy in terms of supply of inputs and sale of output. These centres have also minimum of infrastructure facilities required for attracting and holding the entrepreneurs. The field study also confirms the above analysis in so far as the level of profit of the units established at suitably located centres is marginally higher than those units which have unfavourable locational sites. In an economy like India, where there is a shortage of economic resources and there is a need for optimising the returns on resources diverted to backward regions, the policy of growth centre is called for. There is a need for selecting such centres within backward districts which have minimum of economic and social infrastructures and which are receptive to the growth stimuli.

However, this does not mean that the areas which are most backward within backward districts should be ignored and neglected. These areas may be taken up for growth in the ensuing phases and may be selected for rural development programmes in the shape of construction of new roads, minor irrigation works, school, artisan workshops etc. It will enhance the future capacity to produce of these areas and will economically prepare them for industrial growth to be taken up in the next phase of development. A policy of clustered decentralisation seems to be more rational and suited under the prevailing conditions of economic scarcities. However, utmost care and planning is required in selecting the sites for
growth centres and the industries which are proposed to be encouraged at these centres.

As a corollary to the above approach is the requirement for increasing the rural urban linkages by selecting such cities and towns in the backward districts which provide the link between the rural and urban areas. The industrial growth of these areas will help in establishing the required link between the villages and small towns through increased commerce, sales of high value crops, daily commutation through cycle or bus, increased demand for agricultural and manufactured products etc. Once such linkages are established, it is bound to gain momentum with the new jobs and employment opportunities being created in the surrounding areas. These towns and cities in the backward areas shall produce radiating effects on surrounding villages and local land.

Another area in which industrial policy for the growth of backward regions is required reorientation is the blanket capital subsidy presently offered in the backward districts. There is an imperative need for 'selective capital subsidy' policy in terms of different industrial categories. After a careful area planning and identification of industries which are both employment-oriented and efficient in terms of income generation, the capital subsidy should be distributed. It would immensely help in the growth of such units in the backward areas which contribute maximum to the local economy in terms of employment and output.
There is also a vital need for coordinating the efforts of various ministries and development agencies both at all India and local level. At all India level, the efforts may be made to simultaneously plan for the creation of infrastructural facilities on the one hand, and the growth of industrial sector on the other. Isolated planning without proper co-ordination leads to the waste of efforts and energies. Similarly, once an area is selected for the industrial growth, there should be coordination between Central, State and local developmental agencies in providing integrated plan of development. Presently, due to the lack of such coordination, there is both duplication of efforts and unproductive waste of resources earmarked for the industrial growth of the backward regions.