Academic Script

Introduction

The period between 1951 and 1965 witnessed an increase in industrial production by 2.8 times, whereas the period 1966–80 saw an increase by only 1.8 times. The entire period of 1965–80 has turned out to be a low growth period. The rate of growth had fallen short of targets, especially during the post-third plan period. For example, 4th and the 5th plans stipulated the rates of growth at 8 per cent, as against this, the rates realized were just 4.7 per cent and 5.9 per cent respectively. The rates for the 1951–60, 1960– 70 and 1970–80 decades were: 6.9 per cent, 6.3 per cent, and 4.2 per cent respectively. For the period 1951–65 it was 7.7 per cent and for 1965–80, it was 4 per cent. The rate of growth was negative for the year 1966 and 1967 with 0.5 per cent and 0.4 per cent respectively.

The emphasis on industrial policies remained more or less same during this period except the interlude of two and a half years since mid-1977. During this period, rural development received priority. The objectives of industrialization differed to some extent, the factors such as the prevention of concentration of economic power in private sector, reduction in regional balances and promotion of small industry did receive more emphasis than before.

Stagnation in industrial growth that started in mid-sixties was due to combination of various adverse factors.

- To counter inflationary pressures, public investment had to be cutback and rupee had to be devalued.
- The economy suffered from successive droughts in the mid-sixties which fuelled inflation.
- Public sector investment mostly went into steel, fertilizers, and oil refineries rather than to infrastructure.
- The rise in the prices of international oil made a deep dent into foreign exchange.

- The under-investment in infrastructure led to shortage of coal, power, and rail transport. As a result, there was under-utilization of installed capacity in a wide range of industries, with a significant slowing down of the rate of growth both in public and private sectors.
- The concern with regional dispersion often led to an uneconomic choice of location and at times forced the fragmentation of production by encouraging proliferation of uneconomic scale of production at a single location.
- The licensing procedure made project implementation time-consuming. The restrictiveness with regard to industrial licensing did drive investment into channels not subjected to controls. However, it was worth observing that growth rate in the small industry sector showed a sharp spurt even while sluggishness afflicted large scale industries.

By the time of devaluation in June 1966, the government made some efforts to liberalize the import control regime, however, they were partial and halting. The exchange rate remained overvalued and import premium remained high. Indo-Pak war in 1965 and subsequent drought in the domestic economy increased the import premium. The suspension of foreign aid also added to the problem. In June 1966, the rupee was devalued by 57.5 per cent in terms of dollar (the official rate increased from 4.76% to 7.50%). Owing to the high domestic inflation, it has been estimated that it was about 30 per cent in real terms. The devaluation was accompanied by some relaxation of import licensing, tariff reductions and abolition of some export duties. However, the devaluation did not bring about desired results in improving conditions in the domestic economy.

Industries failed to respond and inflation continued to soar further.

By 1968 tight import licensing had been reinstated. Under this regime, the imports of nearly all consumer goods was effectively banned and the only imports allowed were intermediate materials, components and capital equipment provided ‘actual users’ could show that they were ‘essential’ and not 'domestically available'. The tariff duties came back to the pre-devaluation period. It remained about the same during the 1970s. It helped to transfer some of the import licensing rents to the government, and was irrelevant as protective instruments, except to the extent that they influenced the cost of imported intermediates and equipment that was not locally produced. This remained the situation until the end of 1970s, when the new phase of very slow partial liberalization commenced. Although, the import entitlement schemes were abolished with the devaluation, they were soon replaced in August 1966 by import replenishment schemes. Under the scheme, exporters were assigned import licenses of a value which were pre-specified percentage of *f.o.b*. export value. Besides, the government introduced several export incentive schemes.

The Monopolies Inquiry Commission (MIC) concluded that the industrial licensing system enabled big business houses to obtain disproportionately large share of licenses which led to pre-emption and foreclosure of capacity. Subsequently, the Industrial Licensing Policy Inquiry Committee (Dutt Committee) constituted in 1967, recommended that larger industrial houses should be given licenses only for setting up industry in core and heavy investment sectors, thereby necessitating reorientation of industrial licensing policy.

<u>In 1969, the Monopolies and Restrictive Trade Practices (MRTP)</u> Act was introduced to enable the government to effectively control concentration of economic power. The Dutt Committee had defined large business houses as those with assets of more than rupees 350 million. The MRTP Act 1969 defined large houses as those with assets of rupees 200 million and above. Large industries were designated as MRTP companies and were eligible to participate in industries that were not reserved for the Government or the small scale sector.

<u>The Industrial Licensing Policy of 1970</u> classified industries into four categories.

- First category, termed as 'Core sector', consisted of basic, critical and strategic industries.

- Second category termed as ‘Heavy Investment sector’ comprised projects involving investment more than rupees 50 million.
- The third category, the ‘Middle sector’ consisted of projects with investment in the range of rupees 10 million to rupees 50 million.
- The fourth category was ‘De-licensed sector’ in which investment was less than rupees 10 million and was exempted from licensing requirements.

The industrial licensing policy of 1970 confined the role of large business houses and foreign companies to the core, heavy and export- oriented sectors. With a view to prevent excessive concentration of industrial activity in the large industrial houses <u>the industrial policy statement was made in 1973</u>. It gave preference to small and medium enterprises over the large houses and foreign companies in setting up new capacity, particularly in the production of mass consumption goods. New undertakings up to $10 million by way of fixed assets were exempted from licensing requirements for substantial expansion of assets. This exemption was not allowed to MRTP companies, foreign companies and existing licensed or registered undertakings having fixed assets of $50 million and above. The Statement of 1977 Industrial Policy further emphasised decentralization of industrial sector with increased role for small scale, tiny and cottage industries. It also provided for close interaction between industrial and agricultural sectors. Highest priority was accorded to power generation and transmission. It expanded the list of items reserved for exclusive production in small scale sector from 180 to more than 500 items. For the first time, within the small scale sector, a tiny unit was defined as a unit with investment in machinery and equipment up to $0.1 million and situated in towns or villages with a population of less than 50,000 (as per 1971 census). Basic goods, capital goods, high technology industries important for development of small scale and agriculture sectors were clearly delineated for large sectors. It was also stated that foreign companies that diluted their foreign equity up to 40 per cent under Foreign Exchange Regulation Act (FERA) 1973 were to be treated at par with the Indian companies. The policy statement of 1977 also issued a list of industries where no foreign collaboration of financial or technical nature was allowed as indigenous technology was already available. Fully owned foreign companies were allowed only in high export-oriented sectors or sophisticated technology areas. For all approved foreign investments, companies were completely free to repatriate capital and remit profits, dividends, royalties, etc.

Further, in order to ensure balanced regional development, it was decided not to issue fresh licenses for setting up new industrial units within certain limits of large metropolitan cities (more than 1 million population) and urban areas (more than 0.5 million population).

After the devaluation of 1966, the rupee continued to depreciate throughout 1970s. It helped to reduce the current account deficit despite large increase in petroleum imports after the 1973 oil price hike. At the same time, fairly substantial foreign exchange reserves were also built up. This improved current account situation led to rapid expansion of imports, with which slow growing exports created large current account deficits in 1979 and 1980.

Besides import licensing, the government also used industrial licensing to regulate the growth of industrial capacity. There has been a partial industrial de-licensing in 1970s, essentially in the form of exemptions of certain industries from industrial licensing. Formally, eleven industries were decontrolled, including iron and steel casting and structural, cement and pulp. The government also made its intension clear that it would continue to attempt such a decontrol in regard to industries which did not make substantial demand on foreign exchange through importation of components and raw materials and also did not encroach on areas sought to be reserved for the small scale sector. The government eased the scope and restrictiveness of industrial licensing for the licensed industries by raising the exemption limit for industrial licensing units which sought to invest less than $2.5 million. The 1970s liberalization was largely a halting and ill-defined move towards more efficient system.

There has been a significant slow-down in the growth of heavy industries and slow and indifferent growth of other industries. The main factors that contributed to the stagnation of industrial sector in mid-1960s and -1970s were:

1) slow growth of agricultural incomes and their impact on constraining demand for industrial goods;

2) the slow-down in public investment after mid-1960s with its impact on infrastructural investment;

3)poor management of infrastructural sectors, leading to severe infrastructural constraints;

4) the industrial policy framework, including both domestic industrial policies and trade policies and their effect in creating a high cost industrial structure in the economy.

At the outset it appears that the growth of wage goods was not a retarding factor on growth of industrial sector.

<u>The slow growth of agricultural incomes</u> leading to slow generation of demand for consumer goods was another factor constraining the growth of consumer goods. The slow-down in the growth of commercial crops may have constrained the growth of agro-based industries only to a limited extent. The growth of agricultural income was slow and it was around 2.5 per cent per annum between 1956–57 and 1979–80. The growth of population was 2 per cent per annum—this provides the growth of per capita income less than 0.5 per cent per annum. But this growth was not sufficient to make any dent in the slow growth of agricultural incomes. This generated slow demand for consumer goods. This was the main constraint in industrial growth. This was coupled with the supply constraints emanating from the infrastructure sector, the regulatory framework and poor productivity performance.

<u>The slow-down in public investment</u> after the mid-1960s was a consequence of a number of factors.

- Two severe agricultural droughts in succession, with their adverse effect on the economy, were accompanied by a major decline in foreign aid.
- The failure of public saving to keep pace with the growing investment demands of the public sector.
- The relative conservative attitude of the government about deficit financing resulted in a marked slow-down in public investment.

The private investment also slowed down to some extent during the mid-1960s. The slow-down in private investment was marked in fixed capital formation than in the overall capital formation. As public investment slowed down, this led to a direct setback in the demand for certain heavy goods industries, for example, railway wagon producing industries. The boosting of public investment in specific sectors may have secured higher utilization of capacities in the short-run. Much more significant than the demand side impact of slow-down in public investment was its supply side impact. The cuts in public investment were distributed across sectors and it led to basic supply bottlenecks in the economy.

The under-investment in the infrastructure sectors was associated with evidence of growing inefficiency in these sectors. These inefficiencies cover the entire spectrum from formulation to project implementation and spread to operational stages. Time and cost overruns were common features. To some extent, inefficiencies in the operational stages arose because of failure in input supplying sectors, particularly supplies of coal to the power stations. The management of power sector was defective due to inefficiencies in the State Electricity Boards which were in the public sector. The impact of under- investment and inefficiency in the interdependent sub-sectors of infrastructure led to a marked deterioration in electricity generation and the freight traffic moved by the railways. These bottlenecks had an adverse effect on the industrial sector. The supply side constraints generated by infrastructure were compounded by an industrial policy framework which was directed towards regulation rather than development of industry. The industrial planning strategy based on ambitious public investment programme directed at developing heavy industries in the economy. The process was facilitated by policies of import substitution which led to export pessimism.

This phase continued with policies towards protecting infant industries which was desirable for a country like India. The process of import substitution was performed inefficiently. There was no phasing out of import substitution for any specific industries, the process of granting import substitution was not systematic. The setting up of indigenous capacity was considered as a sufficient condition for import substitution irrespective of cost and quality considerations. This resulted in high cost of industrial structure incapable of surviving without high protection. This totally discouraged foreign competition. The system provided no incentive for improving efficiency, reducing costs and raising quality. In the mid-sixties the industrial sector underwent significant diversification. There was an increasing tendency to rely upon various ad hoc criteria of controls. Delays were common. The government administration was bias towards regulation rather than promotion of private industry which was assigned the task of providing consumer goods.

Changes in policy emphasis from growth to distribution

The Fifth Plan corrected its course by initiating a program emphasizing growth with redistribution. It commenced on 1974 and extended till 1979.The main objective of this plan was to increase the level of employment, reduction in poverty and to attain self-sufficiency in agriculture.

The world economy was in a troublesome state when the fifth five-year plan was introduced. This had a negative impact on the Indian economy. Prices in the energy and food sector sky-rocketed and as a consequence inflation became inevitable. Therefore, the priority in the fifth five-year plan was given to the food and energy sector. In the later stages the increase in the supply of food grains (due to green revolution) and the export of minerals and oil reserve earned quite a good amount of foreign exchange to the Indian Economy.

Contents of the 5th Five Year Plan

The 5th Five Year Plan was laid out during a crisis period to overcome the impediments posed by the wavering economic condition. This Plan was designed in a way to meet the needs of the time. The main issues that were emphasized were:

- Reducing the discrepancy between the economic development at the regional, national, international level. It emphasized on putting the economic growth at par with each other.
- Improving the agricultural condition by implementing land reform measures.
- Improving the scope of self-employment through a well-integrated program.
- Reducing the rate of unemployment both in the urban and the rural sectors.
- Encouraging growth of the small scale industries.
- Enhancing the import substitution in the spheres including chemicals, paper, mineral and equipment industries.
- Applying policies pertaining to finance and credit in the industrial sector.
- Stressed on the importance of a labour intensive production technology in India.

Green revolution

At independence, about 75 per cent of the country's population was dependent on agriculture. Productivity in the agricultural sector was very low because of the use of old technology and the absence of required infrastructure for the vast majority of farmers. India’s agriculture vitally depends on the monsoon and if the monsoon fell short the farmers were in trouble unless they had access to irrigation facilities which very few had.
Therefore, a team of experts sponsored by the by the Ford Foundation was invited by the Government of India in the latter half of the second five-year plan to suggest ways and means to increase agricultural production and productivity. This necessity

arose out of the need to increase agricultural production in the face of continuing stagnation of production on the one hand, and rapidly increasing demand on the other. The team submitted its report entitled India’s food crisis and steps to meet it in April 1959. This report suggested intensive efforts for increasing agricultural production and productivity in selected regions of the country with stress on modern inputs, especially fertilisers, credit marketing facilities, etc. On the basis of the recommendations of this team, the government introduced an intensive development programme in seven districts selected from seven States in 1960 and this programme was named Intensive Area Development Programme (IADP). A district selected under IADP was required to possess qualities such as assured water supply, minimum hazards (like floods, drainage problem, acute soil conservation problem, etc.), well-developed village institutions and maximum potentialities for increasing agricultural production within a short span of time.

This programme was later extended to remaining states also by selecting one district from each state for intensive development. In October 1965, the net was widened and 114 districts (out of 325) were selected for intensive development and the programme labelled as Intensive Agricultural Areas Programme (IAAP).

The period of mid-1960s was very significant from the point of view of agriculture. New high-yielding varieties of wheat were developed in Mexico by Prof. Norman Borlaug and his associates and adopted by a number of countries. These high-yielding varieties of seeds required proper irrigation facilities and extensive use of fertilizers, pesticides and insecticides. This new 'agricultural strategy' was put into practice for the first time in India in the kharif season of 1966 and was termed High-Yielding Varieties Programme (HYVP). This programme depended crucially on regular and adequate irrigation, fertilizers, high-yielding varieties of seeds, pesticides and insecticides. The farmers who could benefit from HYV seeds required reliable irrigation facilities as well as the financial resources to purchase fertilizer and pesticide. The spread of Green Revolution technology enabled India to achieve self-sufficiency in food grains; we no longer dependent on

developed countries like America or any other developed nation, for meeting our nation's food requirement.
A good proportion of the rice and wheat produced during the green revolution was sold by the farmers in the market. As a result, the price of food grains declined relative to other items of consumption. It helped the government to procure sufficient amount of food grains to build a stock which could be used in times of food shortage.

Green Revolution was not free from risks such as:

1) It would increase disparity between big and the small farmers. Only big farmers could afford the required inputs, thereby reaping most of the benefits.
2) The HYV crops were also more prone to attack by pests.

Thus, by the late 1960s, Indian agricultural productivity had increased sufficiently to enable the country to be self-sufficient in food grains. On the negative side, some 65 per cent of the country's population continued to be employed in agriculture even as late as 1980's. Economists have found that as a nation becomes more prosperous, the proportion of GDP contributed by agriculture as well as the proportion of population working in the sector declines considerably. In India, between 1950 and 1990, the proportion of GDP contributed by agriculture declined significantly but not the population depending on it (67.5 per cent in 1950 to 64.9 per cent by 1990). The industrial sector and the service sector did not absorb the people working in the agricultural sector.

Summary

The entire period of 1965–80 has turned out to be a low growth period. There has been a significant slow-down in the growth of heavy industries and slow and indifferent growth of other industries. Industrial growth therefore was not only short of the targets, but also much lower than the earlier period. By the time of devaluation in June 1966, the government made some efforts to liberalize the import control regime, however, they were partial and halting. The reservation for small

industries is yet another obstacle to industrial growth. The restrictive policy towards imports of technology denied access to latest technology. This is combined with little recognition of the need for technological innovation, led widening technological gap in
The industrial sector and the service sector did not absorb the people working in the agricultural sector. India relative to the rest of the world. Therefore, the whole period of mid-sixties to till the end of 1970s is aptly called the years of stagnation in Indian industries. With the advent of 1980s, the industrial policy began to change.

The major policy initiatives in agriculture sector were land reforms and green revolution. These initiatives helped India to become self-sufficient in food grains production. The proportion of people depending on agriculture did not decline as expected.
Policy initiatives in the industrial sector raised its contribution to GDP.